世纪阳光

Century Sunshine Group Holdings Limited

世 紀 陽 光 集 團 控 股 有 限 公 司

Stock Code : 509

2008 Annual Report


Magnesium
Metallic Resources
Agriculture
Fertilizer

ENHANCING STRENGTH ENHANCING GROWTH

Contents

Corporate Information

The directors (the "Directors" and individually a "Director") of Century Sunshine Group Holdings Limited (the "Company") up to the date of this report are as follows:

BOARD OF DIRECTORS

Executive Directors	Chi Wen Fu *(Chairman)* Shum Sai Chit Zhou Xing Dun
Non-Executive Directors	Wong May Yuk Chi Bi Fen
Independent Non-Executive Directors	Kwong Ping Man Chu Wai Wa, Fangus Liu Hoi Keung

COMPANY SECRETARY

Tang Ying Kit

COMMITTEES

Audit Committee	Kwong Ping Man *(Committee Chairman)* Chu Wai Wa, Fangus Liu Hoi Keung
Remuneration Committee	Kwong Ping Man *(Committee Chairman)* Chu Wai Wa, Fangus Liu Hoi Keung Shum Sai Chit

ENQUIRIES CONTACT

Ms. Anny Lee

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Company's website:	www.centurysunshine.com.hk

Information for Investors

LISTING INFORMATION

Listing	Main Board of The Stock Exchange of Hong Kong Limited
Stock code	509

KEY DATES

2 April 2009	Announcement of 2008 final results
11 May to 15 May 2009 (both days inclusive)	Closure of registrar of shareholders
15 May 2009	Annual general meeting
15 June 2009	Proposed payment of 2008 final dividend

SHARE INFORMATION

Company's shares of HK$0.02 each ("the Shares") in issue (31 December 2008)	2,219,420,000 Shares
Market capitalization (31 December 2008)	HK$375,081,980
Board lot size	5,000 Shares

EARNINGS PER SHARE FOR 2008

Basic	RMB1.23 cents
Diluted	RMB1.22 cents

DIVIDEND PER SHARE FOR 2008

Interim	NIL
Final (proposed)	HK0.3 cents

SHARE REGISTRAR & TRANSFER OFFICES

Principal:
Butterfield Fund Services (Cayman) Limited
Butterfield House
68 Fort Street
Grand Cayman
Cayman Islands

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

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Unit 3907 Floor 39 COSCO Tower
183 Queen's Road Central
Hong Kong

Chairman's Statement

On behalf of the board of Directors (the "Board") of the Company, I am pleased to present the annual results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2008 for your review and consideration.

REVIEW

A turbulent year in 2008

The Group experienced rapid market adjustment in 2008. During the second half of the year, particularly in the fourth-quarter, the drastic change in price was out of our expectation. The effect on the price of organic fertilizers market was relatively lenient when compared with the selling price of compound fertilizers, which dropped more than 15% in the fourth-quarter in general. Industry participants have been shifting their sales and purchase strategies from active to passive for the sake of minimizing inventory piled up pressure while increasing cash level. The situation has been ongoing up to the first quarter of 2009. It is expected that improvement can only be seen when the traditional fertilizing season comes, therefore constituting huge funding and operational pressure on fertilizer manufacturers directly.

Whilst the Group was hit by the adjustment on price of fertilizers during the second half of the year, its sales raised by 20% to RMB386,782,000 by reason of the increase in selling of compound fertilizers and raw materials. However, the increase in selling of compound fertilizers and raw materials has further narrowed the gross margin of the Group. Profit attributable to equity holders of the Company amounted to RMB27,273,000, representing a decrease of 57% when compared with that of 2007. Apart from the abovementioned negative impact due to the changes in market, the decline in the profit was also mainly attributable to a decrease in production capacity of organic fertilizers, inventories to impair, operating losses incurred in the sales of raw materials and losses in foreign exchange. Taking into account of the financial condition and future operation environment of the Group, the Board recommended a payment of a final dividend of HK0.3 cents per Share, representing approximately 21% of the basic earnings per Share for the year.

Expansion of compound fertilizers business

Since commencing its production in October 2007, Jiangsu plant, a joint venture of the Group, has been endeavored in expanding its sales network so as to boosting its sales. The Group believes that Jiangsu plant has an established sales network and excellent brand awareness in compound fertilizers market in the north of China. In order to further expand our market share thereof and strengthen our control over the operation of Jiangsu plant, the Group increased its equity interest in Jiangsu plant from the original 51% to 83.2% in October 2008. Whilst Jiangsu plant recorded losses in the fourth-quarter of 2008 due to the rapid deterioration of domestic fertilizers market, the Directors expect that such losses are only of temporary nature. When the raw material and fertilizer prices become stable, the situation will improve gradually during the peak fertilizing season.

Expansion into magnesium-related business

2008 also saw the Group making an effort to expand into new business area, thus created a parallel dual businesses model instead of focusing only on a single business. In addition to the existing agricultural-related products business, the Group had also expanded into metallic resources business. In September 2008, the Group acquired an enterprise based in Baishan (a city in Jilin Province, the PRC). The move marked its first step into the magnesium industry. Such magnesium project is currently in the process of establishment and commercial production was scheduled to commence in the fourth-quarter of 2009, with an annual production capacity of 10,000 tonnes of magnesium ingots. The enterprise will supply raw materials to magnesium-based product makers. The Directors believed that there would be tremendous opportunities ahead in the magnesium industry with sustainable growth in market demand. Moreover, the PRC magnesium industry should enjoy additional advantages on the fact that the PRC has large magnesium resources reserve and is one of the world's biggest producers of magnesium-based materials.

Acquisition of ore resources

The Group entered into a memorandum of understanding with an independent third party in December 2008 with the intention to acquire a certain serpentine mine resources in Jiangsu Province, the PRC. The exploitable serpentine resources in the subject serpentine mine was estimated to be not less than 60 million tonnes. Serpentine contains high degrees of silicon and magnesium, both being major auxiliary materials in steel making process as well as being leading materials in fertilizer manufacturing. Furthermore, in view of the rich magnesium contents of serpentine mine, the Group would also explore the feasibility of expanding the target operation into the area of magnesium business. The acquisition was still in progress with comprehensive due diligence and valuation exercises being conducted in the meantime. The transaction is expected to conclude by not later than the end of December 2009 provided that the conditions precedent will be fulfilled pursuant to the terms of the memorandum of understanding.

Yunxiao property

The first phase construction work of the Group's Yunxiao property which is located at Yunling Industrial Development Zone, Zhangzhou, Fujian Province, the PRC had been completed in 2007. Subsequently, in the first quarter of 2008, the Group had leased the property in the form of short term leases to local enterprises for workshop and storage purpose, with a view to generate revenue to the Group. The first phase of Yunxiao property has been deemed to be an investment property of the Group. This being the case, upon completion of the construction of the second phase of Yunxiao property in 2009, the Group intends to lease the entire property comprising the first and second phases of Yunxiao property to external parties.

A new milestone

The Group was listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited on 17 February 2004. With the GEM listing status, the Group managed to achieve business growth, established a better understanding with the investing community and reinforced mutual trust between investors and the Group. With investors' ongoing support, the Group has successfully been listed on the Main Board of The Stock Exchange of Hong Kong Limited on 1 August 2008. The move represented another major milestone in the corporate development of the Group. At the same time, in anticipation of a more diversified business model, a change of Company's name was approved in the end of 2008, by effect of which the Company's name had been changed to "Century Sunshine Group Holdings Limited (世紀陽光集團控股有限公司)". With the strength of its integrated business development, the Group is confident that investors will be bathed in a new beam of "Century Sunshine" and will enjoy greater returns from the Group's operation.

PROSPECTS

Expansion into new territories

It is the objective of the Group that through developing new businesses it may build a more established business foundation and diversify revenue streams. The Group wishes to mitigate risks arising from single business through the expansion of business territories. The Directors understand the market or investors' concern over new businesses expansion and its potential risks. The Group will therefore minimize risks as far as it is allowed by applying a range of measures, include assigning Company's Directors to directly involve in those businesses and report to the Board on a regular basis, recruitment of talents and professionals, enhancement of internal control system, strict supervision on utilization of capital and extensive consultation and communication, to ensure full protection and utilization of capital and strive for the best return.

Acquisition of ore resources

As everyone knows, provision of ore resources is limited. There are increasing needs of ore resources following the PRC's economic boom. In view of the demand and supply relation, the Directors strongly believe that engagement in upstream resources exploitation gives a promising business outlook. If the Group can successfully acquire the serpentine mine (as described above) with a more desirable price under the effect of financial crisis, it will provide a foundation for the Group's future development.

A challenging 2009

Challenges and opportunities will be abundant in the year 2009. The Directors are in a view that the fertilizer market in China will undergo consolidation in 2009, which will inevitably eliminate or cause mergers to take place among fertilizer manufacturers with incompetent management or funding pressure. In respect of the fertilizer prices, as price restrictions have been lifted for most fertilizers, fertilizer prices will move towards market-oriented and fertilizer manufacturers will have more flexibility in formulating their production and marketing strategies. Fertilizer manufacturers had been experiencing losses, however, as raw materials and inventories piled up after the sharp fluctuation in prices for raw materials and fertilizers last year, hence would probably have their production modes changed. The Group will adjust its production and marketing strategies in due course according to the market change.

Looking to the coming year, the Directors are equipped with confidence to confront and resolve the setbacks arising from the financial crisis. Meanwhile, we will grasp this opportunity to effectively accomplish our established development strategies, with the aim to strengthen the foothold of the Group and maximize shareholders' benefit.

Chi Wen Fu
Chairman

Hong Kong, 2 April 2009

Financial Summary

FINANCIAL SUMMARY FOR THE YEAR ENDED 31 DECEMBER

	2008	2007	2006	2005	2004
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					Restated
Revenue	**386,782**	322,102	312,695	191,003	93,921
Cost of sales	**(327,525)**	(201,298)	(152,410)	(93,412)	(41,301)
Gross profit	**59,257**	120,804	160,285	97,591	52,620
Other income and gains	**34,723**	17,828	12,258	528	343
Selling and marketing costs	**(7,770)**	(10,760)	(10,667)	(6,690)	(3,416)
Administrative expenses	**(45,556)**	(42,813)	(23,599)	(14,029)	(13,996)
Finance costs	**(8,260)**	(6,348)	(767)	(1,028)	(136)
Profit before income tax	**32,394**	78,711	137,510	76,372	35,415
Income tax expense	**(10,047)**	(15,916)	(9,802)	(4,997)	–
Profit for the year	**22,347**	62,795	127,708	71,375	35,415
Attributable to:					
Equity holders of the Company	**27,273**	63,953	127,708	71,375	35,461
Minority interests	**(4,926)**	(1,158)	–	–	(46)
Total assets	**1,127,145**	1,093,254	566,113	342,356	116,389
Total liabilities	**(175,856)**	(169,057)	(128,405)	(30,267)	(4,706)
Total equity	**951,289**	924,197	437,708	312,089	111,683

FINANCIAL RATIO AS AT 31 DECEMBER

	2008	2007	2006	2005	2004
Return on equity [1]	**2.9%**	6.9%	29%	23%	32%
Return on total assets [2]	**2.4%**	5.8%	23%	21%	30%
Gearing [3]	**12%**	12%	25%	7%	–
Interest cover [4]	**5x**	13x	101x	64x	261x
Liquidity [5]	**13x**	16x	23x	11x	20x

Notes:

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

Turnover

Profit attributable to Equity Holders

Shareholders' Equity

Margins

Management Discussion and Analysis

TURNOVER

The domestic fertilizers market underwent substantial consolidation due to the outbreak of financial crisis during the fourth-quarter of 2008, under which the confidence of producers, distributors and retailers towards the future has all been shaken. In the fourth-quarter, the sales of the Group, particularly the sales of compound fertilizers, experienced a significant drop while the selling price has also declined. Nevertheless, the total sales of the Group in 2008 amounted to RMB386,782,000, representing an increase of 20% over 2007, which was mainly derived from the sales of compound fertilizers and raw materials.

RMB'000	**2008**	2007	Change
Organic fertilizers	**176,594**	243,028	-27%
Compound fertilizers	**143,942**	67,805	+112%
Biological pesticides	**4,489**	11,269	-60%
Raw materials	**61,757**	–	–
	386,782	322,102	+20%

Organic fertilizers

The impact of financial crisis on organic fertilizers sector was relatively lenient, which was evidenced by no significant adjustment on the selling price and existence of sizeable demand. However, distributors would depend on overall market condition as well as funding requirement to align their sell and purchase strategies. As the Group's production output of organic fertilizers dropped, it directly cast adverse impact on the sales of organic fertilizers of the Group in 2008. In the fourth-quarter of 2008, the Group successfully expanded the production output of, as well as increased the sales in, microbial compound fertilizers, from which the effect arising from decrease in production output of organic fertilizers was partly set off. The sales of the Group's organic fertilizers in 2008, decreased by 27% when compared with the figure of last year, accounted for 46% of the total sales. The Group anticipated that, in a certain period of time, the production output of organic fertilizers will maintain at the same level as 2008 or slightly increase.

Compound fertilizers

It takes more than one year for the Group to penetrate into the compound fertilizers market in the north of China. With the ever-growing sales network and persistent increase in average sales orders from customers, the Group remarkably doubled its sales in compound fertilizers in 2008 and recorded RMB143,942,000, representing 37% of the total sales. Compound fertilizers sector was hit hard during the fourth-quarter of 2008. While the selling price decline significantly that caused the Group's compound fertilizers business recorded operating loss in the fourth-quarter, inventories also showed signs of impairment towards the end of 2008. Despite the aforesaid, the Group believes that there is still huge demand for fertilizers in the domestic market. As fertilizers are the necessity for agricultural production, such interim market consolidation would well behind one day, and with the strong support from the PRC government towards agricultural industry, the Group still believes in a prosperous business outlook for compound fertilizers.

Raw materials

Apart from principally engaged in the production and sales of compound fertilizers, the Group's Jiangsu plant also produced sulphuric acid, being one of the main raw materials used in the production of compound fertilizers. For the sake of increasing revenue and raising equipment utilzation, the Group sold the remaining sulphuric acid to the market. However, the Group anticipated that the sales of sulphuric acid will have fluctuation which depends on the sales of compound fertilizers. Selling of sulphuric acid have been contributing revenue to the Group, but following the financial crisis, the demand and price of sulphuric acid in the fourth-quarter of 2008 decreased sharply to the extent that out of the market expectation, making the Group's raw materials business recorded an overall operating loss in 2008. The sales of the Group's raw materials in 2008 amounted to RMB61,757,000, representing 16% of the total sales.

Magnesium

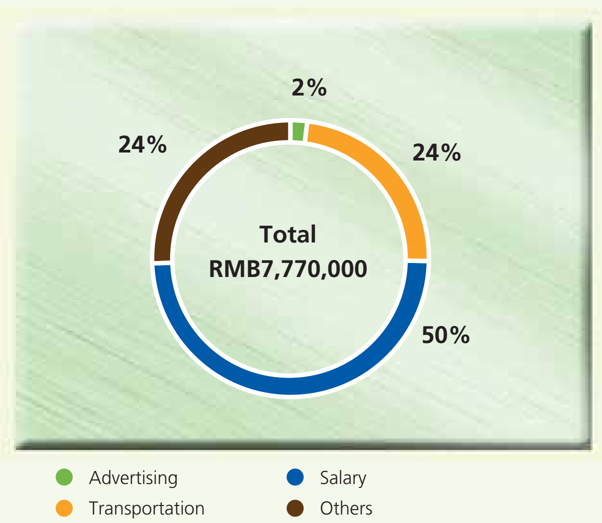
The Group tapped into the magnesium industry by acquiring a subsidiary in Jilin Province, the PRC in September 2008. Such magnesium project, which is still in developing stage, is expected to complete and put into production in the fourth-quarter of 2009, thus has not contributed any profit to the Group so far. The Group is eagerly looking forward to its magnesium business, mainly due to (i) the continuous increase in the market demand of magnesium products over the past few years shows a promising prospect of market acceptance; (ii) the PRC, being one of the countries that possess enormous amount of magnesium mineral resources, is having competitive edge over resources availability; and (iii) the PRC government has expressly proposed magnesium products as the focal point of development, therefore enabling magnesium to enjoy preferential treatment in terms of policies.

EXPENSES

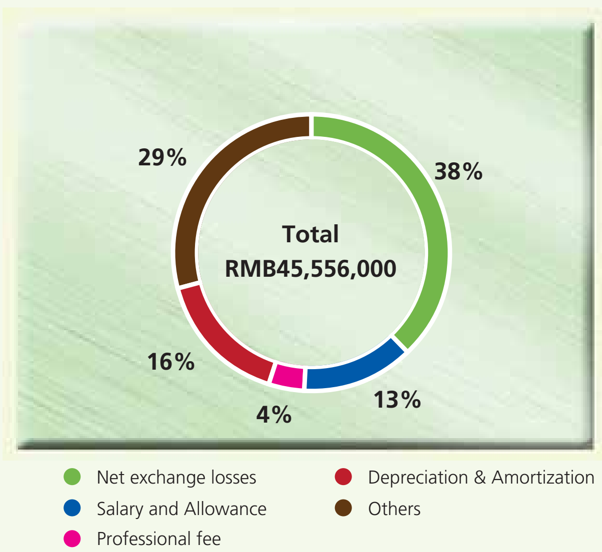
In 2008, selling and marketing costs amounted to approximately RMB7,770,000, representing a decrease of 28% from last year, which is mainly attributable to the drop in advertising expenses. Advertising, salary and transportation cost accounted for 2%, 50% and 24% of the selling and marketing costs respectively.

In 2008, administrative expenses amounted to RMB45,556,000, representing an increase of 6% from last year. Administrative expenses comprised of the net exchange losses of RMB17,087,000 due to the appreciation of Renminbi against the Group's assets denominated in foreign currencies, salary and allowance of RMB5,780,000, professional fees of RMB1,947,000 as well as depreciation and amortization of RMB7,341,000.

Selling & Marketing Costs



Administrative Expenses



MARGINS

The consolidated gross profit in 2008 amounted to RMB59,257,000, representing a decrease of 51% from last year and the consolidated gross profit margin dropped from 38% in last year to 15%. Taking into account the other revenue, including the investment gain and the fair value gain, the profit attributable to the equity holders of the Company for the year of 2008 would be RMB27,273,000, representing a decrease of 57% from last year and the net profit margin decreased to 7% from 20% in 2007.

LIQUIDITY, GEARING AND SOURCE OF FINANCE

The Group maintained a sound financial position with net cash of RMB479,881,000. As at 31 December 2008, cash and bank balances of the Group amounted to RMB591,937,000 (2007: RMB792,914,000).

As at 31 December 2008, the Group has long term borrowings of RMB112,056,000 (2007: RMB110,678,000) and the net current assets was approximately RMB724,655,000 (2007: RMB849,013,000). The Group's gearing ratio as measured by borrowings over net asset value was 12% in 2008 (2007: 12%).

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

EXCHANGE RATE RISK MANAGEMENT

The Group's exchange rate risk mainly arises from our assets denominated in foreign currency. There is no effective way in the market to hedge or reduce the exchange rate risk arising from the fluctuation of Renminbi. We seek to reduce the exchange rate risk by matching the sources of utilization of our funds. In 2008, the Group continued to increase its capital investment in the PRC. If Renminbi continues to appreciate, the Group's exchange rate risk will continue to arise. The Group will look for other alternatives to effectively minimize the exchange rate risk.

CREDIT RISK MANAGEMENT

Along with the significant increase in turnover in 2008, the Group was fully aware of the credit risk exposure of our customers. The Group strictly followed the "client account management procedures" which was established in 2004. The procedures required and ensured each client account was maintained and kept tracked periodically according to the previous transactions records and credit history of each customer. The Group specified and assigned to each customer a series of credit measures such as credit ratio, credit period, credit rating, credit terms, and guarantee. The client account management procedures were effective to control the credit risk of the Group. As at 31 December 2008, no bad debt of the Group was recorded.

PLEDGE OF ASSETS

As at 31 December 2008, the Group did not have any charges or pledges on its assets.

CAPITAL COMMITMENTS

As at 31 December 2008, the Group did not have any material capital commitments apart from those disclosed in note 32 to the financial statements.

SIGNIFICANT INVESTMENT

In September 2008, the Group acquired an enterprise based in Baishan (a city in Jilin Province, the PRC) with the aim to tap into the magnesium industry. The Group acquired 80% of interests in the entire issued share capital of Fullocean Group Limited at a consideration of RMB36,168,000. Fullocean Group Limited indirectly holds 60% equity interests in Baishan City Tianan Magnesium Resources Co., Ltd.

In October 2008, the Group increased its equity interest in Jiangsu Azureblue Technology Development Co., Limited, a non wholly-owned subsidiary of the Company from 51% to 83.2% at a consideration of RMB32,200,000. Jiangsu Azureblue Technology Development Co., Limited is engaged in the production and sales of compound fertilizers and raw materials in the PRC.

CONTINGENT LIABILITIES

As at 31 December 2008, the Group did not have any material contingent liabilities.

CAPITAL STRUCTURE

As at 31 December 2008, the issued share capital of the Company were HK$44,388,400, divided into 2,219,420,000 Shares of HK$0.02 each.

HUMAN RESOURCES

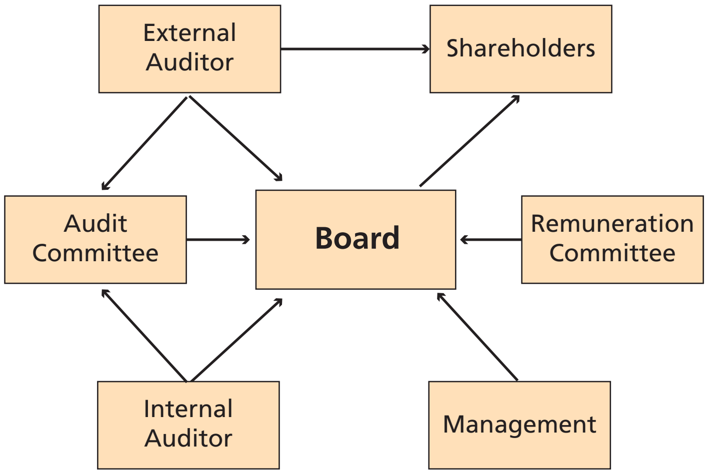
As at 31 December 2008, the Group employed approximately 600 employees (2007: approximately 640 employees). The Group determined their salaries by reference to individual performance, working experience and prevailing market conditions. Staff benefits include medical protection, regular contribution provident fund, discretionary bonus and employee share option scheme. The Group has not experienced any labour disputes or significant changes in its headcount which may undermine its normal operation. The Directors consider that the Group enjoys a good relationship with its staff.

Corporate Governance Report

The Company is committed in maintaining high standards of corporate governance and business integrity in all of its activities. The Board believes the commitment in robust corporate governance practices will translate into long-term value and providing satisfactory and sustainable returns to shareholders.

The Company has complied throughout the year of 2008 the Code Provision of the Code on Corporate Governance Practices (the "CCGP") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), with deviation from code provision A.2.1 of the CCGP in respect of the separate roles of chairman and chief executive officer, the details of which have been disclosed in the section headed "Chairman and Chief Executive Officer (The "CEO")".

THE BOARD



Role and Responsibilities of the Board

The Company is governed by the Board which is responsible for the strategic leadership and supervising the Group's material affair. The Board exercises a number of authorities which include:

- Formulation of the Group's long-term strategy
- Approving major acquisitions or disposal and capital investment
- Reviewing operational and financial performance
- Approving financial results and public announcements
- Reviewing the effectiveness of internal control
- Authorizing material borrowings
- Setting dividend policy
- Any issue or share repurchase of the Company's securities under general mandate
- Approving appointments to the Board and senior management
- Setting the Group's remuneration policy

To assist in fulfilling its duties and responsibilities, the Board established two committees namely the audit committee (the "Audit Committee") and the remuneration committee (the "Remuneration Committee").

Board Composition

The Board currently comprises eight Directors in which three are executive Directors; two are non-executive Directors and three are independent non-executive Directors. The composition of the Board as at the date of this report is set out in page 4 of the annual report and their biographical details are set out on pages 26 and 27 of this annual report.

Non-executive Directors from diverse background bring in valuable expertise and experience to the Company and serve the important functions of advising the management on strategy development.

Independent non-executive Directors ensure the Board accounts for the interest of all shareholders and subject matters are considered in an objective matter. The Board has received from each independent non-executive Director an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Board considers all of the independent non-executive Directors to be independent.

Except that Chi Wen Fu and Chi Bi Fen have a family relationship of brother and sister, there is no other relationship among the rest of the Directors.

Chairman and the CEO

Chi Wen Fu, the founder of the Group, currently holds both the roles of the Chairman and the CEO. This structure is not complied with the code provision of the CCGP. However, the Board is of the view that it is for the best interests of the Group to adopt a single leadership structure, as Mr. Chi possesses extensive experience and knowledge in the PRC market and he is playing significant role in establishing the strategic decision and the overall management of the Group. This structure is conducive to strong and consistent leadership, enabling the Company to make and implement decisions promptly and efficiently. The Board considers that there is no suitable professional or expertise in the market to fill the position of CEO at this stage. In light of the single leadership structure, sufficient safeguards are established to ensure that the management is accountable to the Board as a whole. The Chairman/CEO ensures that Board meetings are held regularly and when necessary. The Chairman/CEO ensures that Board members are provided with complete, adequate, accurate and timely information on a regular basis to enable them to be fully cognisant of the affairs of the Group. The Chairman/CEO ensures that all Directors have unrestricted access to the documents or information kept by the Group and professional advice when necessary.

Appointment and Re-election

The Directors are also responsible for the appointment of Directors. The Chairman in consultation with other Directors nominates for a new appointment as the Company's Director(s). The Board considers that the new Director(s) is expected to have expertise in relevant areas to make contribution to the Company.

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

A Director appointed by the Board is subject to election by shareholders at the first annual general meeting after his appointment in accordance with the articles of association of the Company. Mr. Chu Wai Wa, Fangus and Mr. Liu Hoi Keung were appointed to be the independent non-executive Directors by the Board in July 2008 and January 2009 respectively and they are subject to retire at the forthcoming annual general meeting of the Company, but being eligible, offers themselves for re-election.

All the existing non-executive Directors and independent non-executive Directors are appointed for an initial term of two years and the term of office shall continue after the expiration of the initial term until at least 3 months' prior written notice is given by either party or the Company to terminate the same. Non-executive Directors are not entitled to any emolument for their appointment as the Company's directors. Independent non-executive Directors are entitled to receive emolument of HK$30,000 per year during their appointment. Both non-executive Directors and independent non-executive Directors are reimbursed for reasonable expenses incurred during the performance of their duties to the Company and are eligible to be granted share options under the share option scheme of the Company.

Board Processes

The Board is accountable to the shareholders and lead the Group in an ethical, responsible and effective manner. The Board meets on a regular basis and as when necessary to address any specific significant matters that may arise.

The Board met twelve times in 2008. The attendance of individual Directors at meetings of the Board and its committees is set out in the following table.

	Meetings attended/held		
	Board	Audit Committee	Remuneration Committee
Executive Directors			
Chi Wen Fu	12/12	–	–
Shum Sai Chit	12/12	–	2/2
Zhou Xing Dun	11/12	–	–
Non-Executive Directors			
Wong May Yuk	4/12	–	–
Zou Li (retired on 28 April 2008)	1/12	–	–
Wu Wen Jing Benjamin (resigned on 1 January 2009)	5/12	–	1/2
Chi Bi Fen	9/12	–	–
Independent Non-Executive Directors			
Shen Yi Min (resigned on 26 September 2008)	5/12	3/3	2/2
Kwong Ping Man	11/12	3/3	2/2
To Yan Ming, Edmond (retired on 28 April 2008)	0/12	0/3	1/2
Chu Wai Wa, Fangus (appointed on 9 July 2008)	6/12	1/3	0/2
Liu Hoi Keung (appointed on 23 January 2009)	0/12	0/3	0/2

Agendas and the relevant materials are circulated with sufficient time to allow the Directors to study before the Board meetings. Board decisions are made by vote at Board meetings and supplemented by the written resolutions. Minutes of the Board meetings taken by the company secretary of the Company are available for inspection to all Directors. The minutes record the matters discussed by the Board, the decisions made and any concerns or dissenting views raised by the Directors.

When the Director has a conflict of interests in any transactions or proposals to be considered in the Board meeting, such Director is required to declare his/her interest and abstains from voting.

DELEGATION BY THE BOARD

The Board has delegated the authority and responsibility for implementing business strategies and management of the daily operations of the Group to the senior management. The Board is empowered to access any corporate information from senior management and the company secretary at all times. The Directors are kept informed on a timely basis of major changes that may affect the Group's businesses, including relevant rules and regulations. Directors are allowed to seek independent professional advice in performing their Directors' duties at the Company's expense, but no request was made by any Director for such independent professional advice in 2008.

The Board monitors and reviews performance of the management based on their several key performance indicators such as financial figures, investors' relation, corporate governance and internal control. The principal measures include review of management accounts, review of internal or external auditor reports, feedbacks from stakeholders.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules as the code of conduct of the Company regarding Directors' securities transactions. The Company made specific enquiry of all Directors and all Directors have confirmed in writing that they have complied with the required standard set out in the code of conduct during the year under review.

BOARD'S COMMITTEES

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

AUDIT COMMITTEE

All the members of the Audit Committee are independent non-executive Directors. All committee members possess appropriate qualifications such as accounting and financial management. The Audit Committee members are set out in page 4 of the annual report.

The Audit Committee met three times in 2008 to review with the senior management and external auditors the Group's significant internal controls and financial matters as set out in the Audit Committee's terms of reference. The work of the Audit Committee included review of the following matters:

- The Group's interim and annual financial statements with recommendation to the Board for approval
- The Group's compliance of the regulatory and statutory requirements
- The Group's internal control and risk management
- Significant accounting and audit issues
- The Group's connected transactions
- Overseeing and managing the relationship with external auditors

The Audit Committee has the power to conduct investigations into any matter within the scope of responsibility of the Audit Committee. The Audit Committee is authorized to obtain independent professional advice if it deems necessary in the discharge of its responsibilities. The Audit Committee has obtained written confirmation from the external auditors, SHINEWING (HK) CPA Limited (the "Auditors"), on their independence and objectivity as required under the Section 290 (revised) of the Code of Ethics for Professional Accountants issued by Hong Kong Institute of Certified Public Accountants prior to the commencement of the audit of the Company's financial statements for the year ended 31 December 2008.

The Audit Committee has been satisfied with the review of the audit scope, process and effectiveness, independence of the Auditors. The Audit Committee has reviewed and recommended to the Board for approval of the 2008 financial statements.

REMUNERATION COMMITTEE

The Remuneration Committee currently comprises of four members, the majority of whom are independent non-executive Directors. The Remuneration Committee members are set out in page 4 of the annual report.

The aim of the Remuneration Committee is to formulate transparent procedures for developing remuneration policies and packages for Directors and the senior management of the Group. Its duties include:

– Reviewing and recommending the remuneration packages of the Directors and senior management of the Group
– Reviewing the administration of the share option scheme of the Company
– Reviewing the appropriateness of compensation for Directors and the senior management of the Group

No Director is involved in determining his own remuneration. The Remuneration Committee met twice in 2008 to review the existing remuneration policy.

AUDITORS' REMUNERATION

The Company has appointed SHINEWING (HK) CPA Limited as the auditors of the Group. The Board is authorized in the extraordinary general meeting to determine the remuneration of the Auditors. During the year, the Auditors perform the work of statutory audit for the year of 2008 and also involve in non-audit assignment of giving a confirmation to International Finance Corporation ("IFC") in respect of the Group's compliance of certain financial covenants under the IFC loan.

The following principles are considered when determining the appointment of the Auditors in non-audit services:

- No management decision made by the auditors
- Independence of the auditors not to be impaired
- Quality of service
- Cost of service

The Audit Committee was satisfied that the non-audit services provided by the Auditors did not affect its independence. The remuneration of the Auditors for the year of 2008 and 2007 are as follows:

	Year 2008	**Year 2007**
Audit services	HK$1,040,000	HK$1,330,000
Non-audit services	HK$10,000	HK$35,000

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Directors are responsible for the preparation of the financial statements, which give a true and fair view of the affairs of the Company and in compliance with the requirement of the Hong Kong Company Ordinance and the applicable disclosure provisions of the Listing Rules. The Auditors are responsible to form an independent opinion, based on the audit, on the financial statements prepared by the Directors and report the opinion solely to the shareholders of the Company.

RISK MANAGEMENT

The Company improves its business and operational activities by identifying the areas of significant business risks via a regular review and taking appropriate measures to control and mitigate these risks. The Company reviews all significant control policies and procedures and highlights all significant matters to the Board and Audit Committee.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Company recognizes the importance of open communication and fair disclosure. It is the Company's policy to ensure that all shareholders are equally informed of all major corporate developments. All shareholders have proper notice of any general meeting of the Company at which the Directors and the committees member are available to give explanation on any query raised by the shareholders. Any enquiries by the shareholders requiring the Board's attention can be sent in writing to our company secretary of the Company at the Company's business address in Hong Kong.

As part of a regular program of investor relations, senior executives may hold briefings or road shows after the results announcement and attend conferences with institutional investors and analysts to engage in two-way communications on Company's objectives and developments. Company visits are regularly arranged for the investors or analysts or can be arranged upon specific request.

Directors' Report

The Directors submit their report together with the audited financial statements for the year ended 31 December 2008, which are set out on pages 30 to 82.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are production and sale of fertilizers, raw materials and biological pesticides. Particulars of the Company's subsidiaries are shown under note 19 to the financial statements.

An analysis of the Group's performance for the year by business segment is set out in note 7 to the financial statements. The Directors consider that the Group's operations are principally carried out in the PRC. Accordingly, no geographical segment results are presented.

RESULTS AND APPROPRIATION

The results of the Group for the year ended 31 December 2008 are set out in the consolidated income statement on page 30 of the annual report.

The Board recommends the payment of a final dividend for 2008 of HK0.3 cents per Share (2007: HK0.4 cents). Subject to the approval of the 2008 final dividends by the shareholders at the annual general meeting to be held on 15 May 2009, it is expected that those dividends will be paid on 15 June 2009 to the shareholders registered on 15 May 2009. The share registrar will be closed from 11 May 2009 to 15 May 2009, both days inclusive.

FIVE YEAR FINANCIAL SUMMARY

A financial summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 9 of the annual report.

PROPERTY PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in note 16 to the financial statements.

INVESTMENT PROPERTIES

Details of the investment properties of the Group are set out on in note 17 to the financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 28 to the financial statements.

RESERVES

Movement in the reserves of the Company and of the Group during the year are set out in note 30 to the financial statements.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31 December 2008 amounted to RMB624,715,000 (2007: RMB673,555,000).

PRE-EMPTIVE RIGHTS

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 ended 31 December 2008, neither the Company nor its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

DIRECTORS

The Directors during the year and up to the date of this report are:

Executive Directors	
Chi Wen Fu *(Chairman)*	
Shum Sai Chit	
Zhou Xing Dun	
Non-Executive Directors	
Wong May Yuk	
Zou Li	(retired on 28 April 2008)
Wu Wen Jing Benjamin	(resigned on 1 January 2009)
Chi Bi Fen	
Independent Non-Executive Directors	
Shen Yin Min	(resigned on 26 September 2008)
Kwong Ping Man	
To Yan Ming, Edmond	(retired on 28 April 2008)
Chu Wai Wa, Fangus	(appointed on 9 July 2008)
Liu Hoi Keung	(appointed on 23 January 2009)

In accordance with Article 86(3) of the Company's articles of association, Mr. Chu Wai Wa, Fangus and Mr. Liu Hoi Keung will retire at the forthcoming annual general meeting but, being eligible, offer themselves for re-election.

In accordance with Article 87 of the Company's articles of association, Mr. Kwong Ping Man will retire from office by rotation at the forthcoming annual general meeting of the Company and, being eligible, offer himself for re-election and Mr. Zhou Xing Dun will retire from office by rotation at the forthcoming annual general meeting of the Company but will not intend to offer himself for re-election.

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company, any of its subsidiaries or its parent company was a party and in which the Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

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 Listing Rules) had any interest in a business that competed or might compete with the business of the Group.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

The brief biographical details of the Directors and senior management are set out on pages 26 and 27 of the annual report.

SHARE OPTION SCHEME

On 31 January 2004, a share option scheme (the "GEM Board's Scheme") was approved by a written resolution of the shareholder of the Company. Under the GEM Board's 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 share options are exercisable only if the Directors or employees remain in service to the Group from the grant date of the share options up to the designated exercisable period.

The GEM Board's Scheme was conditionally terminated by the Board on 27 June 2008 which became effective upon the transfer of listing of the Company from GEM Board to Main Board on 1 August 2008. No further options may be offered or granted under the GEM Board's Scheme. The options granted under the GEM Board's Scheme before 1 August 2008 continue to be valid and exercisable in accordance with their terms of issue.

As at 31 December 2008, options to subscribe for a total of 58,275,000 option shares were still outstanding under the GEM Board's Scheme, which represents approximately 2.6% of the total issued share capital of the Company.

Details of the share options outstanding under the GEM Board's Scheme as at 31 December 2008 are as follows:

(A) Share options granted on 11 October 2004

		Held at 1 January 2008	Options exercised during the year	Options lapsed/ cancelled during the year	Held at 31 December 2008	Exercise price *HK$*	Exercisable in January 2009
(A)	**Employees**						
		31,275,000	–	–	31,275,000	0.126	31,275,000
(B)	**Directors**						
	Zhou Xing Dun	7,000,000	–	–	7,000,000	0.126	7,000,000
	Chi Bi Fen	7,500,000	–	–	7,500,000	0.126	7,500,000
		45,775,000	–	–	45,775,000		45,775,000

(B) Share options granted on 17 June 2005

		Held at 1 January 2008	Options exercised during the year	Options lapsed/ cancelled during the year	Held at 31 December 2008	Exercise price *HK$*	Exercisable between July 2008 and March 2009
(A)	**Employees**						
		11,500,000	–	–	11,500,000	0.294	11,500,000
(B)	**Directors**						
	Kwong Ping Man	1,000,000	–	–	1,000,000	0.294	1,000,000
		12,500,000	–	–	12,500,000		12,500,000

In order 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, the Company adopted a new share option scheme on 3 December 2008 (the "Main Board's Scheme"). The qualifying participants mainly include employees of the Group, Directors and contractors, suppliers or service providers of the Group who have contribution to the Group. The Main Board's Scheme, unless otherwise cancelled or amended, will remain in force for 10 years.

The subscription price is not less than the highest of (i) the closing price of the Shares 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 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$0.02. The maximum number of Shares in respect of which options may be granted under the Main Board's Scheme shall not, in aggregate, exceed 30% of the issued share capital of the Company from time to time. Upon acceptance of the offer for the grant of option, an amount of HK$1.00 is payable by the grantee to the Company.

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

During the year, no options were offered or granted under the Main Board's Scheme.

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

As at 31 December 2008, 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 Securities and Futures Ordinance (the "SFO")), as recorded in the register to be kept by the Company under Section 352 of Part XV of the SFO were as follows:

(i) Directors' interests in the Company

Long positions in Shares

	Number of Shares held			
Name of Director	**Personal interests**	**Corporate interests**	**Total**	**Percentage of issued share capital of the Company**
Chi Wen Fu	18,480,000	918,484,850 *(Note 1)*	936,964,850	42.22%
Zhou Xing Dun	3,000,000	–	3,000,000	0.14%
Wu Wen Jing, Benjamin	3,525,000	–	3,525,000	0.16%

Note:

1. These Shares are held by Alpha Sino International Limited ("Alpha Sino") and are deemed corporate interests by virtue of Mr. Chi's holding of 90% of the issued share capital of Alpha Sino which entitled him to exercise or control the exercise of one-third or more of the voting power at general meeting of Alpha Sino.

(ii) Directors' interests in associated corporations

Name of Director	Name of associated corporation	Number of shares held	Type of interest	Percentage of interest
Chi Wen Fu	Alpha Sino	9	Beneficial owner	90%
Shum Sai Chit	Alpha Sino	1	Beneficial owner	10%

Save as disclosed above, as at 31 December 2008, 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), as recorded in the register to be kept by the Company under Section 352 of Part XV of the SFO.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

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

INTERESTS AND SHORT POSITION OF SUBSTANTIAL SHAREHOLDERS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

So far as is known to any Director or chief executive of the Company, as at 31 December 2008, persons who had interests or short positions in the shares or underlying shares of equity derivatives of the Company as recorded in the register required to be kept under Section 336 of the SFO were as follows:

Name of shareholder	Nature	Number of Shares	Percentage of issued share capital of the Company
Chi Wen Fu	Long position	936,964,850 *(Note 1)*	42.22%
Alpha Sino	Long position	918,484,850 *(Note 2)*	41.38%

Notes:

1. Chi Wen Fu has interest in an aggregate of 936,964,850 Shares of which (a) 18,480,000 Shares are beneficially owned by him and registered in his name; and (b) 918,484,850 Shares are deemed corporate interests by virtue of his holding of 90% of the issued share capital of Alpha Sino which entitled him to exercise or control the exercise of one-third or more of the voting power at general meeting of Alpha Sino.

2. Pursuant to a share mortgage dated 13 November 2006, Alpha Sino, being the substantial shareholder of the Company, had mortgaged 244,578,000 Shares (representing approximately 12% of the then issued share capital of the Company on 13 November 2006) to IFC to secure repayment of the IFC Loan under a loan agreement dated 13 November 2006 entered into between the IFC as lender and (i) Green Land Bio-Products Company Limited; (ii) Century Sunshine (Nanping) Biology Engineering Company Limited; (iii) Century Sunshine (Jiangxi) Ecological Technology Limited; and (iv) Century Sunshine (Zhangzhou) Ecological Technology Limited, all being the subsidiaries of the Company.

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	34%
– five largest suppliers combined	58%
Sales	
– the largest customer	5%
– five largest customers combined	17%

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

CONNECTED TRANSACTION

On 3 October 2008, Century Sunshine (Shanghai) Management Co., Limited, a subsidiary of the Company, entered into a sale and purchase agreement with Lian Yun Port De Mei New Energy Technology Limited (連雲港德美新能源科技有限公司), pursuant to which Century Sunshine (Shanghai) Management Co., Limited acquired 32.2% of equity interests in Jiangsu Azureblue Technology Development Co., Limited, a subsidiary of the Company at the consideration of RMB32,200,000. Lian Yun Port De Mei New Energy Technology Limited is a substantial shareholder of Jiangsu Azureblue Technology Development Co., Limited and it was regarded as a connected person of the Company. Accordingly, the aforesaid transaction constituted a connected transaction of the Company. This connected transaction was completed in October 2008.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company, the percentage of the Company's share which are in the hands of the public exceeds 25% of the Company's total number of issued shares during the year and up to 31 March 2009.

AUDITOR

On 23 October 2008, PricewaterhouseCoopers resigned as auditors of the Company and SHINEWING (HK) CPA Limited was appointed as auditors of the Company on 3 December 2008 to fill the vacancy so arising. Save for disclosed, there have been no other changes in auditors of the Company in the past three years.

The financial statements for the year ended 31 December 2008 have been audited by SHINEWING (HK) CPA Limited who retire and, being eligible, will offer themselves for re-appointment.

By order of the Board
Shum Sai Chit
Executive Director

Hong Kong, 2 April 2009

Directors and Senior Management Profile

EXECUTIVE DIRECTORS

CHI Wen Fu (池文富): aged 46, 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.

SHUM Sai Chit (沈世捷): aged 51, 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 the managing director of Go Modern Limited which was principally engaged in the business of manufacturing of textile products and trading activities. Mr. Shum joined the Group in January 2002.

ZHOU Xing Dun (周性敦): aged 69, is the Chief Technology Officer of the Group mainly responsible for research and development of the Group's products. Currently, Professor Zhou is also responsible for the Group's overall production and sales in the PRC. 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. Professor Zhou has over 30 years of experience in the field of geology, ecology, fertilizer and environmental protection.

NON-EXECUTIVE DIRECTORS

WONG May Yuk (黃美玉): aged 66, is the Chairman of Go Modern Limited. Ms. Wong has over 30 years of 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.

CHI Bi Fen (池碧芬): aged 50, is the Vice-President of the Group. Before joining the Group in March 2000, Ms. Chi was a deputy general manager of an electrical equipment company for more than 17 years. She has a diploma in Accounting and Finance from Fujian Province Finance Middle Professional College (福建財經中等專業學校) in the PRC and obtained the intermediate level of speciality in Accounting in PRC. Ms. Chi has extensive experience in the field of accounting, taxation and finance in the PRC for more than 15 years.

INDEPENDENT NON-EXECUTIVE DIRECTORS

KWONG Ping Man (鄺炳文): aged 44, is the director of O'Park Corporate Services Limited, engaging corporate advisory services. Prior to joining this company, he served as the chief financial officer of various companies for almost 7 years. Mr. Kwong has over 15 years of experience in accounting, finance and administration. Mr. Kwong obtained a master's degree in Professional Accounting from the Hong Kong Polytechnic University. Mr. Kwong is a member of CPA Australia and an associate member of the Hong Kong Institute of Certified Public Accountants. Mr. Kwong is also an associate member of the Hong Kong Institute of Company Secretaries. Mr. Kwong is currently an independent non-executive director of Yueshou Environmental Holdings Limited (Stock Code: 1191) and Mitsumaru East Kit (Holdings) Limited (Stock Code: 2358).

CHU Wai Wa, Fangus (朱偉華): aged 41, is the director and chief financial officer of Excellent Management Limited, a regional technology company specializing in software application development and business process re-engineering. Mr. Chu has over 15 years of experience in accounting, finance and information technology. Mr. Chu received a master of science degree in Global Business from the Chinese University of Hong Kong. Mr. Chu is an associate member of Hong Kong Institute of Certified Public Accountants and a member of the Association of Chartered Certified Accountants.

Liu Hoi Keung (廖開強): aged 44, is the founder and managing director of Charterwood Capital Limited, a business and finance advisory company. Mr. Liu has over 20 years of experience in accounting, auditing, finance and management. Mr. Liu received a master of science degree in Electronic Commerce and Internet Computing from the University of Hong Kong. Mr. Liu is an associate member of Hong Kong Institute of Certified Public Accountants and a member of the Association of Chartered Certified Accountants.

COMPANY SECRETARY

TANG Ying Kit (鄧英傑): aged 35, 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.

SENIOR MANAGEMENT

REN Jian Fei (任建飛): aged 48, is the Chief Corporate Affairs Officer of the Group responsible for the overall corporate activities including public relations and communications management of the Group. Mr. Ren completed a postgraduate course at the Postgraduate School of Xiamen University (廈門大學) with a major in Business Administration. 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.

KOH Tze Chin, Kevin (許子晨): aged 52, is currently the director of Century Sunshine (Australia) Limited, a wholly-owned subsidiary of the Company. Mr. Koh is an Australian graduate. He had been the State General Manager of a public listed company in Malaysia. In 1991, he joined a Management Consulting Company in Perth as a Regional Manager. He started his own management consulting company in 2002. Mr. Koh joined the Group in 2006.

CHEN Li Wen (陳利文): aged 35, is the Finance Manager of the Group responsible for the accounting and finance matter of the Group. Ms. Chen is a graduate from Southwestern Jiaotong University in the PRC with a major in Business Administration and she possesses the title of accountant in the PRC. Ms. Chen served as the head of finance department at a corporation in Fujian province prior to joining the Group in March 2005.

CHEN Ru Mao (陳儒茂): aged 38, is the sales manager responsible for the Group's sales of fertilizer and bio-pesticide products. Mr. Chen is a graduate from Fuzhou University (福州大學). He possesses a degree in Bachelor of Engineering and the title of economist in the PRC. Before joining the Group in July 2004, Mr. Chen was a deputy factory manager at a large food processing factory.

Independent Auditor's Report

SHINEWING (HK) CPA Limited
16/F., United Centre
95 Queensway, Hong Kong

TO THE SHAREHOLDERS OF
CENTURY SUNSHINE GROUP HOLDINGS LIMITED
(FORMERLY KNOWN AS CENTURY SUNSHINE ECOLOGICAL TECHNOLOGY HOLDINGS LIMITED)
(incorporated in the Cayman Islands with limited liability)

We have audited the financial statements of Century Sunshine Group Holdings Limited (the "Company") and its subsidiaries (collectively referred as the "Group") set out on pages 30 to 82, which comprise the consolidated and Company balance sheets as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit 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. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2008 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Lo Wa Kei
Practising Certificate Number: P03427

Hong Kong
2 April 2009

Consolidated Income Statement

For the year ended 31 December 2008

	NOTES	2008 RMB'000	2007 RMB'000
Revenue	7	**386,782**	322,102
Cost of sales		**(327,525)**	(201,298)
Gross profit		**59,257**	120,804
Other income and gains	8	**30,196**	17,828
Selling and marketing costs		**(7,770)**	(10,760)
Administrative expenses		**(45,556)**	(42,813)
Discount on acquisition of subsidiaries	31	**4,527**	–
Finance costs	9	**(8,260)**	(6,348)
Profit before income tax	10	**32,394**	78,711
Income tax expense	12	**(10,047)**	(15,916)
Profit for the year		**22,347**	62,795
Attributable to:			
Equity holders of the Company		**27,273**	63,953
Minority interests		**(4,926)**	(1,158)
		22,347	62,795
Dividends	13	**5,948**	17,374
Earnings per share			
– basic	14	**RMB 1.23 cents**	RMB 2.82 cents
– diluted	14	**RMB 1.22 cents**	RMB 2.74 cents

Consolidated Balance Sheet

As at 31 December 2008

	NOTES	2008 RMB'000	2007 RMB'000
Non-current assets			
Land use rights	15	**40,671**	20,152
Property, plant and equipment	16	**154,212**	162,235
Investment properties	17	**77,407**	–
Intangible assets	18	**1,780**	3,475
Deposit for acquisition of subsidiaries	20	**48,400**	–
Deposit for acquisition of plant and machinery		**19,538**	–
		342,008	185,862
Current assets			
Inventories	21	**65,384**	36,752
Land use rights	15	**858**	435
Trade and other receivables	22	**63,357**	77,291
Investments held for trading	23	**63,601**	–
Cash and cash equivalents	24	**591,937**	792,914
		785,137	907,392
Current liabilities			
Trade and other payables	25	**53,742**	51,154
Income tax payable		**6,740**	7,225
		60,482	58,379
Net current assets		**724,655**	849,013
Total assets less current liabilities		**1,066,663**	1,034,875
Non-current liabilities			
Borrowings	26	**112,056**	110,678
Deferred tax liability	27	**3,318**	–
		115,374	110,678
Net assets		**951,289**	924,197
Capital and reserves			
Share capital	28	**46,426**	46,426
Share premium		**557,020**	557,020
Other reserves		**49,036**	51,572
Retained earnings			
– Proposed final dividend		**5,948**	8,345
– Others		**233,452**	211,772
Equity attributable to equity holders of the Company		**891,882**	875,135
Minority interests		**59,407**	49,062
Total equity		**951,289**	924,197

Chi Wen Fu
Director

Shum Sai Chit
Director

Balance Sheet

As at 31 December 2008

	NOTES	2008 RMB'000	2007 RMB'000
Non-current assets			
Property, plant and equipment	16	**700**	92
Investments in subsidiaries	19	**1,804**	1,803
		2,504	1,895
Current assets			
Trade and other receivables	22	**13,927**	294
Investments held for trading	23	**3,854**	–
Amounts due from subsidiaries	19	**390,574**	293,991
Dividend receivable		**216,081**	230,814
Cash and cash equivalents	24	**45,701**	194,712
		670,137	719,811
Current liability			
Trade and other payables	25	**1,500**	1,725
Net current assets		**668,637**	718,086
Total assets less current liabilities		**671,141**	719,981
Net assets		**671,141**	719,981
Capital and reserves			
Share capital	28	**46,426**	46,426
Share premium	30	**557,020**	557,020
Other reserves	30	**7,512**	6,781
Retained earnings	30		
– Proposed final dividend		**5,948**	8,345
– Others		**54,235**	101,409
Total equity		**671,141**	719,981

Chi Wen Fu
Director

Shum Sai Chit
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2008

	Attributable to equity holders of the Company											
	Share capital RMB'000	Share premium RMB'000	Capital redemption reserve (note 30(i)) RMB'000	Capital reserve (note 30(ii)) RMB'000	Statutory reserves (note 30(iii)) RMB'000	Employee compensation reserves RMB'000	Translation reserve RMB'000	Other reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Minority interests RMB'000	Total RMB'000
As at 1 January 2007	43,194	156,703	–	11,965	26,892	3,292	26	–	195,636	437,708	–	437,708
Exchange difference arising from translation of foreign operations	–	–	–	–	–	–	28	–	–	28	–	28
Profit (loss) for the year, representing recognised income and expense for the year	–	–	–	–	–	–	–	–	63,953	63,953	(1,158)	62,795
Appropriation of retained earnings	–	–	–	–	5,880	–	–	–	(5,880)	–	–	–
Issue of shares, net of issue expenses	4,900	441,840	–	–	–	–	–	–	–	446,740	–	446,740
Transfer of reserves upon exercise of share options	–	2,581	–	–	–	(2,581)	–	–	–	–	–	–
Share option scheme												
– value of employee services	–	–	–	–	–	1,792	–	–	–	1,792	–	1,792
– proceed from shares issued	614	8,166	–	–	–	–	–	–	–	8,780	–	8,780
Contribution from minority shareholders	–	–	–	–	–	–	–	–	–	–	50,220	50,220
Repurchase of shares	(2,282)	(52,270)	2,282	–	–	–	1,996	–	(2,282)	(52,556)	–	(52,556)
Dividend paid relating to 2006	–	–	–	–	–	–	–	–	(22,281)	(22,281)	–	(22,281)
Dividend paid relating to 2007	–	–	–	–	–	–	–	–	(9,029)	(9,029)	–	(9,029)
As at 31 December 2007	46,426	557,020	2,282	11,965	32,772	2,503	2,050	–	220,117	875,135	49,062	924,197

Consolidated Statement of Changes in Equity

For the year ended 31 December 2008

	Attributable to equity holders of the Company											
	Share capital RMB'000	Share premium RMB'000	Capital redemption reserve (note 30(i)) RMB'000	Capital reserve (note 30(ii)) RMB'000	Statutory reserves (note 30(iii)) RMB'000	Employee compensation reserves RMB'000	Translation reserve RMB'000	Other reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Minority interests RMB'000	Total RMB'000
As at 1 January 2008	46,426	557,020	2,282	11,965	32,772	2,503	2,050	–	220,117	875,135	49,062	924,197
Exchange difference arising from translation of foreign operations	–	–	–	–	–	–	118	–	–	118	–	118
Profit (loss) for the year, representing recognised income and expense for the year	–	–	–	–	–	–	–	–	27,273	27,273	(4,926)	22,347
Share option scheme – value of employee services	–	–	–	–	–	731	–	–	–	731	–	731
Acquisition of additional equity interests of a subsidiary	–	–	–	–	–	–	–	(3,385)	–	(3,385)	(28,815)	(32,200)
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	–	44,086	44,086
Dividend paid relating to 2007	–	–	–	–	–	–	–	–	(7,990)	(7,990)	–	(7,990)
As at 31 December 2008	46,426	557,020	2,282	11,965	32,772	3,234	2,168	(3,385)	239,400	891,882	59,407	951,289

Consolidated Cash Flow Statement

For the year ended 31 December 2008

	NOTE	2008 RMB'000	2007 RMB'000
OPERATING ACTIVITIES			
Profit before income tax		**32,394**	78,711
Adjustments for:			
Depreciation and amortisation		**23,405**	19,933
Finance costs		**8,260**	6,348
Share options granted to directors and employees		**731**	1,792
Loss on disposal of property, plant and equipment		**180**	–
Gain on disposal of investments held for trading		**(2,346)**	–
Gain on disposal of available-for-sale investments		**(17,267)**	–
Change in fair value of investments held for trading		**(1,247)**	–
Discount on acquisition of subsidiaries		**(4,527)**	–
Interest income		**(8,063)**	(17,828)
Allowance for inventories		**8,496**	–
Impairment of property, plant and equipment and intangible assets		**187**	5,763
Forfeiture of prepayment of machineries		**–**	4,775
Net exchange losses		**17,087**	11,960
Operating cash flows before movements in working capital		**57,290**	111,454
Increase in inventories		**(37,128)**	(31,320)
Decrease (increase) in trade and other receivables		**13,934**	(49,544)
Increase in trade and other payables		**2,588**	25,479
Cash generated from operations		**36,684**	56,069
Income tax paid		**(10,532)**	(16,272)
NET CASH GENERATED FROM OPERATING ACTIVITIES		**26,152**	39,797
INVESTING ACTIVITIES			
Purchase of investments held for trading		**(569,854)**	–
Purchase of property, plant and equipment		**(72,627)**	(50,885)
Deposit paid for acquisition of subsidiaries		**(48,400)**	–
Acquisition of additional equity interests of a subsidiary		**(32,200)**	–
Purchase of available-for-sale investments		**(30,849)**	–
Net cash outflow in respect of the acquisition of subsidiaries	31	**(10,658)**	–
Proceeds from disposal of investments held for trading		**511,846**	–
Proceeds from disposal of available-for-sale investments		**48,116**	–
Interest received		**8,063**	17,828
Proceeds from disposal of property, plant and equipment		**137**	–
Purchase of land use rights		**–**	(9,124)
Refund of deposits for acquisition of machineries		**–**	5,605
NET CASH USED IN INVESTING ACTIVITIES		**(196,426)**	(36,576)

	NOTE	2008 RMB'000	2007 RMB'000
FINANCING ACTIVITIES			
Dividends paid		**(7,990)**	(31,310)
Interest paid		**(6,882)**	(5,076)
Proceeds from placing of shares		**–**	446,740
Proceeds from shares issued pursuant to the employee share option scheme		**–**	8,780
Repurchase of shares		**–**	(52,556)
Contribution from minority shareholders		**–**	50,220
NET CASH (USED IN) GENERATED FROM FINANCING ACTIVITIES		**(14,872)**	416,798
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(185,146)**	420,019
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**792,914**	384,827
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**(15,831)**	(11,932)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	24	**591,937**	792,914

Notes to the Financial Statements

For the year ended 31 December 2008

1. GENERAL INFORMATION

Century Sunshine Group Holdings Limited (the "Company") and its subsidiaries (collectively referred as the "Group") are principally engaged in the production and sales of organic fertilizers, compound fertilizers, biological pesticides, raw materials and magnesium-related products.

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. On 17 February 2004, the Company's shares were listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and were withdrawn from the GEM Board on 31 July 2008. Since 1 August 2008, the Company's shares have been listing on the Main Board of the Stock Exchange. In the opinion of the directors, the ultimate holding company of the Company is Alpha Sino International Limited, a company incorporated in the British Virgin Islands.

The Company is an investment holding company. Particulars of the principal activities of its subsidiaries are set out in note 19. The registered office and principal place of business of the Company are disclosed in page 5 of the annual report.

The financial statements are presented in Renminbi ("RMB"), which is the same as the functional currency of the Company and its subsidiaries.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following amendments and interpretations ("INTs") (herein collectively referred to as "New HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("the HKICPA"), which are or have become effective. The adoption of the New HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

Hong Kong Accounting Standard 39 and HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC)-INT 11	HKFRS 2 – Group and Treasury Share Transactions
HK(IFRIC)-INT 12	Service Concession Arrangements
HK(IFRIC)-INT 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

The Group has not early applied the following new and revised standards, amendments and INTs that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs[1]
HKAS 1 & 32 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[2]
HKAS 1 (Revised)	Presentation of Financial Statements[2]
HKAS 23 (Revised)	Borrowing Costs[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
HKAS 39 (Amendment)	Eligible hedged items[3]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[2]
HKFRS 2 (Amendment)	Share-based Payment – Vesting Conditions and Cancellations[2]
HKFRS 3 (Revised)	Business Combinations[3]
HKFRS 7 (Amendments)	Financial Instruments Disclosures – Improving Disclosures about Financial Instruments[2]
HKFRS 8	Operating Segments[2]
HK(IFRIC)-Int 9 & HKAS 39 (Amendments)	Embedded Derivatives[6]
HK(IFRIC)-Int 13	Customer Loyalty Programmes[4]
HK(IFRIC)-Int 15	Agreements for the Construction of Real Estate[2]
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation[5]
HK(IFRIC)-Int 17	Distribution of non-cash Assets to Owners[3]
HK(IFRIC)-Int 18	Transfers of Assets from Customers[7]

1 Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009
2 Effective for annual periods beginning on or after 1 January 2009
3 Effective for annual periods beginning on or after 1 July 2009
4 Effective for annual periods beginning on or after 1 July 2008
5 Effective for annual periods beginning on or after 1 October 2008
6 Effective for annual periods ending or after 30 June 2009
7 Effective for transfer of assets from customers received on or after 1 July 2009

The application of HKFRS 3 (Revised) may affect the accounting for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary. The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared on the historical cost basis, except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

Basis of consolidation

The financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the consolidation. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

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 by the Company on the basis of dividends received and receivable.

Business combinations

The acquisition of businesses is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 Business Combinations are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Acquisition of additional interest in a subsidiary

When the Group increases its interest in an entity that is already controlled by the Group, goodwill arising on such acquisition represents the difference between the cost of additional interest acquired and the increase in the Group's share of the net carrying amount of the identifiable assets, liabilities and contingent liabilities acquired. The difference between the cost of additional interest acquired and the book value of the identifiable assets, liabilities and contingent liabilities attributable to the additional interest acquired is recognised as a reserve movement (other reserve). The difference represents the difference that arose since the original acquisition date that is attributable to the Group's increased interest in the subsidiary. On the subsequent disposal of the subsidiary, the reserve is transferred to retained earnings.

Excess of an acquirer's interest in the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over cost ("discount on acquisition")

A discount on acquisition arising on an acquisition of a subsidiary represents the excess of the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination. Discount on acquisition is recognised immediately in profit or loss.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

Revenue from sale of goods is recognised when the goods are delivered and title has passed.

Interest income from a financial asset excluding financial assets at fair value through profit or loss is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Property, plant and equipment

Property, plant and equipment, including buildings held for use in the production or supply of goods or services, or for administrative purposes, other than construction in progress, are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Freehold land is not depreciated. Depreciation is provided to write off the cost of items of property, plant and equipment other than construction in progress and freehold land over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line methods.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is recognised within the administrative expense in the consolidated income statement in the year in which the item is derecognised.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation. On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is charged so as to write off the cost of investment properties over their estimated useful lives of 20 years and after taking into account of their estimated residual value, using the straight-line method.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statement in the year in which the item is derecognised.

Prepaid lease payments

Payment for obtaining land use right is considered as prepaid operating lease payment. Land use rights are stated at cost less accumulated amortisation and any accumulated impairment losses, amortisation is charged to consolidated income statement over the period of the rights or the term of the respective enterprise to which the land use rights are granted, whichever is the shorter, using the straight-line method.

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownerships to the lessee. All other leases are classifies as operating leases.

The Group as lessor
Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease.

The Group as lessee
Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets

Intangible assets acquired in a business combination
Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

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.

Research and development costs
Expenditure on research activities is recognised as an expense in the year in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value, are included in profit or loss for the period.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. RMB) at the rates of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the translation reserve.

Borrowing costs

All borrowing costs are recognised as and included in finance costs in the consolidated income statement in the period in which they are incurred.

Government grants

Government grants are recognised as income over the periods necessary to match them with the related costs. Grants related to depreciable assets are presented as deferred income and are released to income over the useful lives of the assets. Grants related to expense item are recognised in the same period as those expenses are charged in the consolidated income statement and are deducted in reporting the related expense.

Retirement benefit costs

Payments to defined contribution retirement benefit plans are charged as an expense when employees have rendered service entitling them to the contributions.

Share-based payment transactions

Share options granted to employees
For grants of share options which are conditional upon satisfying specified vesting conditions, the fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (employee compensation reserve). The impact of the revision of the original estimates during the vesting period, if any, is recognised in profit or loss with a corresponding adjustment to employee compensation reserve.

For share options which are vested at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in employee compensation reserve will be transferred to retained earnings.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into investments held for trading, loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Interest income is recognised on an effective interest basis for debt instruments.

Financial assets at fair value through profit and loss ("FVTPL")

Financial assets at FVTPL represent investments held for trading.

A financial asset is classified as held for trading if:

– it has been acquired principally for the purpose of selling in the near future; or

– it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

– it is a derivative that is not designated and effective as a hedging instrument.

At each balance sheet date subsequent to initial recognition, financial assets at FVTPL are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Available-for-sale investments

Available-for-sale investments are non-derivatives that are either designated or not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments. In addition to equity investments, the Group has also designated certain debt securities as available-for-sale investments.

At each balance sheet date subsequent to initial recognition, available-for-sale investments are measured at fair value. Changes in fair value are recognised in equity, until the investments are disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss (see accounting policies in respect of impairment loss on financial assets below).

For available-for-sale equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less identified impairment losses at each balance sheet date subsequent to initial recognition (see accounting policy in respect of impairment loss on financial asset below).

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Impairment loss on financial assets

Financial assets, other than those at FVTPL are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all of the Group's financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or

- default or delinquency in interest or principal payments; or

- it is becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments as well as observable changes in national or local economic conditions that correlate with default on trade receivables.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivable, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment losses on available-for-sale investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in equity.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are generally classified into other financial liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Effective interest method
The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. Interest expense is recognised on an effective interest basis.

Other financial liabilities
Other financial liabilities are subsequently measured at amortised cost, using the effective interest method.

Equity instruments
Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition
Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in consolidated income statement.

For financial liabilities, they are removed from the Group's balance sheet when, and only when, they are extinguished (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expired). The difference between the carrying amount of the financial liability derecognised and the consideration received or receivable is recognised in consolidated income statement.

Impairment losses on assets

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Critical judgements in applying the entity's accounting policies

The followings are the critical judgements, apart from those involving estimations that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

(a) Land use rights

Despite the Group has paid the full purchase consideration, formal titles of certain of the Group's rights to the use of the land were not yet granted from the relevant government authorities. In the opinion of the directors, the absence of formal title to these land use rights does not impair the value of the relevant properties to the Group.

Key sources of estimation uncertainty

The followings are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

(a) Estimated impairment of investment properties, property, plant and equipment and intangible assets

The Group evaluates whether investment properties, property, plant and equipment and intangible assets have suffered any impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable, in accordance with the accounting policy stated in note 3. The recoverable amounts of cash-generating units represent the higher of the asset's fair value less costs to sell or its value-in-use. The calculations of fair value less costs to sell or value-in-use require the use of estimates.

(b) Estimated useful lives of investment properties, property, plant and equipment and intangible assets

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

(c) Fair value estimation of share options

The Group estimates the fair value of share options using the Black-Scholes valuation model which involves the use of estimates. Details of the significant inputs to the valuation model are disclosed in note 29.

(d) Estimated impairment of inventories

The management of the Group reviews the inventories listing on a product-by-product basis at each balance sheet date and makes impairment for slow moving inventory items amounting to approximately RMB8,496,000 (2007: Nil). The management estimates the net realisable value for such items based primarily on the latest invoice prices and current market conditions.

(e) Income tax

The Group is subject to income taxes in several jurisdictions. There are certain transactions and calculations for which the ultimate tax determination may be uncertain. The Group recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

5. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial assets				
Loans and receivables (including cash and cash equivalents)	**655,294**	870,205	**666,283**	719,811
Investments held for trading	**63,601**	–	**3,854**	–
Financial liabilities				
Amortised cost	**150,088**	161,832	**1,500**	1,725

b. Financial risk management objectives and polices

The Group's and the Company's major financial instruments include investments held for trading, trade and other receivables, deposits placed with a financial institution, cash and cash equivalents, trade and other payables and borrowings. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include foreign exchange risk, interest rate risk, credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The Group's and the Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's and the Company's financial performance.

(a) Foreign exchange risk

The Group and the Company mainly operates in the PRC and Hong Kong and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to Hong Kong dollars ("HK$") and Australian dollars ("AUD"). Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. The Group's and the Company's management do not expect the net foreign currency risk from these activities to be significant and hence, the Group and the Company do not presently hedge the foreign exchange risks. The Group and the Company periodically reviews liquid assets and liabilities held in currencies other than RMB and AUD to evaluate its foreign exchange risk exposure.

As at 31 December 2008, if RMB had weakened/strengthened by 5% (2007: 5%) against HK$ with all other variables held constant, post tax profit of the Group and the Company for the year would have been approximately RMB2,022,000 and RMB1,498,000 respectively (2007: RMB11,257,000 and RMB8,713,000 respectively) higher/lower, mainly as a result of foreign exchange gains/losses on translation of Hong Kong dollar-denominated cash and cash equivalents.

As at 31 December 2008, if RMB had weakened/strengthened by 5% against AUD with all other variables held constant, post tax profit of the Group and post tax loss of the Company for the year would have been approximately RMB835,000 and RMB786,000 respectively (2007: RMB1,103,000 and RMB1,022,000 respectively) higher/lower, mainly as a result of foreign exchange gains/losses on translation of Australian dollar-denominated cash and cash equivalents.

5. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and polices (Continued)

(b) Fair value interest rate risk

Interest income from bank deposits contributed approximately 36% of the Group's profit and 4% of the Company's loss for the year ended 31 December 2008. The Group and the Company obtain market returns from its bank balances by placing bank deposits in bank accounts which yield market interest rates. The Group and the Company have no other significant interest-bearing assets.

The Group's interest-rate risk arises from long-term borrowings. The Group's borrowings were issued at fixed rates, which expose the Group to fair value interest-rate risk.

If interest rates on borrowings as at 31 December 2008 and 31 December 2007 had been 10 basis points (0.1% per annum) higher/lower than the actual effective interest rate, the Group's profit would have been approximately RMB120,000 (2007: RMB120,000) higher/lower as a result of a decrease/increase in fair value of fixed rate borrowings.

As management considers the Group's and the Company's exposure to the above fair value interest rate risk is not significant, no interest-rate swaps or other hedging activities are undertaken by management during the year.

(c) Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2008 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the balance sheet.

The Group trades only with recognised, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis.

With respect to credit risk arising from the other financial assets of the Group which comprise cash and cash equivalents, the Group's exposure to credit risk arising from default of the counter parties is limited as the counter parties have good credit standing and the Group does not expect to incur significant loss for uncollected advances/deposits from these entities.

The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales of goods are made to customers with an appropriate credit history. The Group's bank deposits and deposits placed with a financial institution are placed in high quality financial institutions without significant exposure to credit risk.

The directors consider that there is no significant credit risk in respect of the Group's deposits placed with a financial institution as the financial institution has no record of default payment and the amount has been fully received subsequent to the balance sheet date.

The Group uses certain employees' bank accounts as collection channels for trade receivable settlement by certain customers in the rural area. As at 31 December 2008, the Group's cash and cash equivalents of RMB77,000 (2007: RMB163,000) were deposited in bank accounts held in the name of employees, which is subject to credit risk. The Group mitigates such risk by imposing control procedures to control the operations of these accounts. The Group does not hold any collateral as security.

5. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and polices (Continued)

(d) Liquidity risk

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

The table below analyses the Group's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

The Group

2008	**Weighted average interest rate**	**Less than 1 year RMB'000**	**Between 1 and 2 years RMB'000**	**Over 2 years RMB'000**	**Total undiscounted cash flows RMB'000**	**Carrying amount RMB'000**
Trade and other payables	**N/A**	**38,032**	**–**	**–**	**38,032**	**38,032**
Borrowings	**6.84%**	**6,456**	**6,456**	**139,368**	**152,280**	**112,056**
		44,488	**6,456**	**139,368**	**190,312**	**150,088**

2007	Weighted average interest rate	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Over 2 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
Trade and other payables	N/A	51,154	–	–	51,154	51,154
Borrowings	6.84%	6,456	6,456	145,824	158,736	110,678
		57,610	6,456	145,824	209,890	161,832

5. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and polices (Continued)

(d) Liquidity risk (Continued)

The Company

2008	Weighted average interest rate	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Over 2 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
Trade and other payables	N/A	1,500	–	–	1,500	1,500

2007	Weighted average interest rate	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Over 2 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
Trade and other payables	N/A	1,725	–	–	1,725	1,725

c. Fair value estimation

The carrying amounts of the Group's cash and cash equivalents, trade and other receivables, and financial liabilities including trade and other payables approximate their fair values due to their short maturities. The carrying values less any estimated credit adjustments for financial assets with a maturity of less than one year are a reasonable approximation of their fair values.

The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

6. CAPITAL RISK MANAGEMENT

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other shareholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total borrowings divided by total equity as shown in the balance sheet.

During the year ended 31 December 2008, the Group's strategy, which was unchanged from that of the year ended 31 December 2007, is to maintain a gearing ratio within 30%. The gearing ratios as at 31 December 2008 and 2007 were as follows:

	2008 **RMB'000**	2007 RMB'000
Total borrowings	**112,056**	110,678
Total equity	**951,289**	924,197
Gearing ratio	**12%**	12%

7. REVENUE AND SEGMENT INFORMATION

(a) Turnover

The Group is principally engaged in the production and sales of organic fertilizers, compound fertilizers, biological pesticides, raw materials and magnesium-related products. Turnover is as follows:

	2008 **RMB'000**	2007 RMB'000
Sales of organic fertilizers	**176,594**	243,028
Sales of compound fertilizers	**143,942**	67,805
Sales of biological pesticides	**4,489**	11,269
Sales of raw materials	**61,757**	–
	386,782	322,102

There is no turnover from the manufacturing and sales of magnesium-related products and the results of which is not significant during the years ended 31 December 2007 and 2008.

7. REVENUE AND SEGMENT INFORMATION (Continued)

(b) Segment information

Primary reporting format – business segments

As at 31 December 2008, the Group has the following main business segments:

(1) Manufacturing and sales of organic fertilizers;

(2) Manufacturing and sales of compound fertilizers;

(3) Manufacturing and sales of biological pesticides;

(4) Manufacturing and sales of raw materials; and

(5) Manufacturing and sales of magnesium-related products.

The segment results for the year ended 31 December 2008 are as follows:

	Organic fertilizers RMB'000	Compound fertilizers RMB'000	Biological pesticides RMB'000	Raw materials RMB'000	Magnesium–related products RMB'000	Unallocated RMB'000	Group RMB'000
Total segment revenue	194,769	145,010	4,489	61,757	–	–	406,025
Inter–segment revenue	(18,175)	(1,068)	–	–	–	–	(19,243)
Revenue	176,594	143,942	4,489	61,757	–	–	386,782
Segment results	63,689	(3,320)	(3,106)	(14,687)	–	–	42,576
Finance costs							(8,260)
Unallocated income							30,196
Unallocated expenses							(36,645)
Discount on acquisition of subsidiaries	–	–	–	–	4,527	–	4,527
Profit before income tax							32,394
Income tax expense							(10,047)
Profit for the year							22,347

7. REVENUE AND SEGMENT INFORMATION (Continued)

(b) Segment information (Continued)

Primary reporting format – business segments (Continued)
The segment results for the year ended 31 December 2007 are as follows:

	Organic fertilizers RMB'000	Compound fertilizers RMB'000	Biological pesticides RMB'000	Raw materials RMB'000	Magnesium-related products RMB'000	Unallocated RMB'000	Group RMB'000
Total segment revenue	243,727	72,954	11,269	–	–	–	327,950
Inter-segment revenue	(699)	(5,149)	–	–	–	–	(5,848)
Revenue	243,028	67,805	11,269	–	–	–	322,102
Segment results	92,000	(618)	(1,796)	–	–	–	89,586
Finance costs							(6,348)
Unallocated income							17,828
Unallocated expenses							(22,355)
Profit before income tax							78,711
Income tax expense							(15,916)
Profit for the year							62,795

Other segment items included in the consolidated income statement are as follows:

	Year ended 31 December 2008						
	Organic fertilizers RMB'000	**Compound fertilizers RMB'000**	**Biological pesticides RMB'000**	**Raw materials RMB'000**	**Magnesium-related products RMB'000**	**Unallocated RMB'000**	**Group RMB'000**
Depreciation of property, plant and equipment and investment properties	**7,400**	**2,786**	**2,716**	**2,791**	**–**	**5,954**	**21,647**
Amortisation of land use rights and intangible assets	**1,124**	**194**	**400**	**–**	**–**	**40**	**1,758**
Impairment of property, plant and equipment and intangible assets	**150**	**–**	**37**	**–**	**–**	**–**	**187**
Loss on disposal of property, plant and equipment	**54**	**126**	**–**	**–**	**–**	**–**	**180**
Impairment of inventories	**–**	**8,496**	**–**	**–**	**–**	**–**	**8,496**
Gain on disposal of investments held for trading	**–**	**–**	**–**	**–**	**–**	**2,346**	**2,346**
Gain on disposal of available-for-sale investments	**–**	**–**	**–**	**–**	**–**	**17,267**	**17,267**
Change in fair value of investments held for trading	**–**	**–**	**–**	**–**	**–**	**1,247**	**1,247**

7. REVENUE AND SEGMENT INFORMATION (Continued)

(b) Segment information (Continued)

Primary reporting format – business segments (Continued)

	Year ended 31 December 2007						
	Organic fertilizers RMB'000	Compound fertilizers RMB'000	Biological pesticides RMB'000	Raw materials RMB'000	Magnesium-related products RMB'000	Unallocated RMB'000	Group RMB'000
Depreciation of property, plant and equipment	13,399	2,285	2,327	–	–	230	18,241
Amortisation of land use rights and intangible assets	1,201	91	400	–	–	–	1,692
Impairment of property, plant and equipment and intangible assets	5,763	–	–	–	–	–	5,763
Forfeiture of prepayment of machineries	–	–	–	–	–	4,775	4,775

Segment assets consist primarily of investment properties, property, plant and equipment, land use rights, intangible assets, inventories and trade and other receivables. Unallocated assets mainly comprise assets held for corporate use and cash and cash equivalents.

Segment liabilities comprise operating liabilities directly attributable to a segment. Unallocated liabilities mainly comprise corporate liabilities and borrowings.

Capital expenditure comprises additions to investment properties, property, plant and equipment, land use rights and intangible assets.

The segment assets and liabilities at 31 December 2008 and capital expenditure for the year then ended are as follows:

	Organic fertilizers RMB'000	**Compound fertilizers RMB'000**	**Biological pesticides RMB'000**	**Raw materials RMB'000**	**Magnesium-related products RMB'000**	**Unallocated RMB'000**	**Group RMB'000**
Segment assets	**60,648**	**101,714**	**16,759**	**36,458**	**87,558**	**824,008**	**1,127,145**
Segment liabilities	**12,531**	**25,764**	**2,287**	**2,880**	**–**	**132,394**	**175,856**
Capital expenditure	**20,305**	**13,097**	**279**	**21,558**	**41,050**	**17,389**	**113,678**

7. REVENUE AND SEGMENT INFORMATION (Continued)

(b) Segment information (Continued)

Primary reporting format – business segments (Continued)

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

	Organic fertilizers RMB'000	Compound fertilizers RMB'000	Biological pesticides RMB'000	Raw materials RMB'000	Magnesium-related products RMB'000	Unallocated RMB'000	Group RMB'000
Segment assets	163,800	115,414	20,064	–	–	793,976	1,093,254
Segment liabilities	24,190	22,615	2,470	–	–	119,782	169,057
Capital expenditure	28,451	40,994	68	–	–	4,753	74,266

Secondary reporting format – geographical segments

No geographical segment information is presented as all of the Group's business is carried out in the People's Republic of China (the "PRC")/Hong Kong.

8. OTHER INCOME AND GAINS

	2008 RMB'000	2007 RMB'000
Rental income	**1,273**	–
Interest income from bank deposits	**8,063**	17,828
Gain on disposal of available-for-sale investments	**17,267**	–
Gain on disposal of investments held for trading	**2,346**	–
Change in fair value of investments held for trading	**1,247**	–
	30,196	17,828

9. FINANCE COSTS

	2008 RMB'000	2007 RMB'000
Interest expenses:		
– bank borrowings wholly repayable within five years	8,260	235
– bank borrowings wholly repayable after five years	–	6,590
Less: Government grant	–	(477)
	8,260	6,348

Note:

Government grant represents those specifically for subsidising the interest incurred by the entities engaged in the production and sales of organic fertilizers and compound fertilizers in the PRC. They were determined at the sole discretion of the relevant PRC government authorities.

10. PROFIT BEFORE INCOME TAX

Profit before income tax has been arrived at after charging:

	2008 RMB'000	2007 RMB'000
Wages and salaries	13,886	12,327
Share options granted to directors and employees	731	1,792
Payment to defined contribution retirement plans (Note a)	550	129
Total staff costs (including directors' remuneration)	15,167	14,248
Auditor's remuneration	924	1,391
Depreciation and amortisation	23,405	19,933
Loss on disposal of property, plant and equipment	180	–
Impairment of property, plant and equipment and intangible assets	187	5,763
Cost of inventories	287,148	176,861
Allowance for inventories	8,496	–
Advertising costs	327	4,880
Net exchange losses	17,087	11,960
Legal and professional fees	1,947	1,474
Operating lease rentals in respect of land and buildings	1,620	1,586
Forfeiture of prepayment of machineries	–	4,775

10. PROFIT BEFORE INCOME TAX (Continued)

(a) As stipulated by rules and regulations in the PRC, the Group contributes to a state-sponsored retirement plan for its employees in the PRC, which is a defined contribution plan. The Group contributes approximately 14% of the employees' salary as specified by the local government, and the Group has no further obligations for the actual payment of pensions or post-retirement benefits beyond the annual contributions. The state-sponsored retirement plan is responsible for the entire pension obligations to retired employees.

The Group has arranged for its Hong Kong employees to join the Mandatory Provident Fund Scheme (the "MPF Scheme"), a defined contribution scheme managed by an independent trustee. Under the MPF Scheme, each of the Group and its Hong Kong employees makes monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation. Both the Group's and the employees' contributions are subject to a cap of HK$1,000 per month.

During the year ended 31 December 2008, the aggregate amount of the Group's contributions to the aforementioned pension schemes was approximately RMB550,000 (2007: RMB129,000). As at 31 December 2008, the Group was not entitled to any forfeited contributions to reduce the Group's future contributions (2007: Nil).

11. DIRECTORS' REMUNERATION AND INDIVIDUALS WITH HIGHEST EMOLUMENTS

(a) Directors' emoluments

The remuneration of each director for the year ended 31 December 2008 is set out below:

Name of director	Fees RMB'000	Salaries RMB'000	Discretionary bonuses RMB'000	Inducement fees RMB'000	Other benefits RMB'000	Employer's contribution to pension scheme RMB'000	Compensation for loss of office as director RMB'000	Total RMB'000
Executive directors								
Chi Wen Fu	–	859	–	–	–	11	–	870
Shum Sai Chit	–	431	–	–	–	11	–	442
Zhou Xing Dun	–	44	–	–	70	–	–	114
Non-executive directors								
Wong May Yuk	–	–	–	–	–	–	–	–
Chi Bi Fen	–	46	–	–	77	–	–	123
Wu Wen Jing, Benjamin [1]	–	–	–	–	–	–	–	–
Zou Li [2]	–	35	–	–	–	–	–	35
Independent non-executive directors								
Kwong Ping Man	26	–	–	–	24	–	–	50
To Yan Ming, Edmond [2]	15	–	–	–	–	–	–	15
Chu Wai Wa, Fangus [3]	6	–	–	–	–	–	–	6
Shen Yi Min [4]	26	–	–	–	–	–	–	26
	73	1,415	–	–	171	22	–	1,681

1 Resigned on 1 January 2009
2 Retired on 28 April 2008
3 Appointed on 9 July 2008
4 Resigned on 26 September 2008

11. DIRECTORS' REMUNERATION AND INDIVIDUALS WITH HIGHEST EMOLUMENTS (Continued)

(a) Directors' emoluments (Continued)

The remuneration of each director for the year ended 31 December 2007 is set out below:

Name of director	Fees RMB'000	Salaries RMB'000	Discretionary bonuses RMB'000	Inducement fees RMB'000	Other benefits RMB'000	Employer's contribution to pension scheme RMB'000	Compensation for loss of office as director RMB'000	Total RMB'000
Executive directors								
Chi Wen Fu	67	787	56	–	–	3	–	913
Shum Sai Chit	–	407	78	–	–	12	–	497
Zhou Xin Dun	–	64	3	–	70	–	–	137
Non-executive directors								
Wong May Yuk	–	–	–	–	–	–	–	–
Chi Bi Fen	–	36	3	–	75	–	–	114
Zou Li	–	36	3	–	–	–	–	39
Wu Wen Jin, Benjamin	–	–	–	–	81	–	–	81
Independent non-executive directors								
Cheung Sound Poon	19	–	–	–	51	–	–	70
Shen Yi Min	29	–	–	–	–	–	–	29
Kwong Ping Man	29	–	–	–	51	–	–	80
To Yan Ming, Edmond	2	–	–	–	–	–	–	2
Total	146	1,330	143	–	328	15	–	1,962

Notes:

(i) Other benefits represent benefits from share option scheme.

(ii) During the year, no options were granted to the directors of the Company under the share option scheme approved on 31 January 2004 which was terminated upon the transfer of listing of the Company from GEM Board to Main Board on 1 August 2008 (2007: Nil).

(iii) None of the directors of the Company waived or agreed to waive any emoluments paid by the Group during the year (2007: Nil).

(iv) Discretionary bonuses were determined by the management on individual performance basis.

11. DIRECTORS' REMUNERATION AND INDIVIDUALS WITH HIGHEST EMOLUMENTS (Continued)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included two (2007: three) directors of the Company whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2007: two) individuals during the year are as follows:

	2008 RMB'000	2007 RMB'000
Basic salaries, share options, other allowances and benefits in kind	927	1,134
Payment to defined contribution retirement plans	28	22
	955	1,156

(c) During the year, no emoluments were paid by the Group to any of the directors of the Company and the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office (2007: Nil).

12. INCOME TAX EXPENSE

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

	2008 RMB'000	2007 RMB'000
Current income tax		
– PRC Enterprise Income Tax (the "PRC EIT")	10,047	15,916

(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 (2007: Nil).

(b) The PRC Enterprise Income Tax (The "PRC EIT")

The subsidiaries established in the PRC are subject to the PRC EIT at rate of 25%. Green Land Bio-Products Co., Ltd. ("Green Land"), Century Sunshine (Nan Ping) Biology Engineering Co., Ltd. ("Nan Ping") and Century Sunshine (Jiangxi) Ecological Technology Limited ("Jiangxi") are wholly foreign owned enterprises engaged in the production and sale of organic fertilizers and compound fertilizers with operating periods of more than ten years, and in accordance with the relevant income tax regulations of the PRC, are fully exempted from the PRC EIT for two years starting from the first year of profitable operations after offsetting prior year tax losses, followed by a 50% reduction in the PRC EIT for the next three years (the "Tax Concession"). The first profitable years after offsetting prior year tax losses of Greenland, Nan Ping and Jiangxi were 2003, 2004 and 2005 respectively. 世紀陽光（福建）農業科技發展有限公司, Jiangsu Azureblue Technology Development Company Limited, Century Sunshine (Zhangzhou) Ecological Technology Limited, Excellent Pesticide (Nanchang) Limited and Baishan City Tianan Magnesium Resources Company Limited were loss making during the years ended 31 December 2007 and 2008.

12. INCOME TAX EXPENSE (Continued)

(b) The PRC Enterprise Income Tax (The "PRC EIT") (Continued)

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. Under the New Law and Implementation Regulations, the Enterprise Income tax rate of the Group's subsidiaries in the PRC was reduced from 33% to 25% from 1 January 2008 onwards.

(c) Overseas income tax

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

Century Sunshine (Australia) Limited is incorporated in Australia and was loss making during the two years ended 31 December 2007 and 2008.

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using a tax rate of 25%, the standard income tax rate of the PRC enterprises, as follows:

	2008 RMB'000	2007 RMB'000
Profit before income tax	**32,394**	78,711
Tax charge at domestic income tax rate of 25% (2007: 33%)	**8,099**	25,975
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(2,957)**	(3,512)
Effect of tax exemption	**(5,247)**	(16,127)
Tax effect of income not taxable for tax purpose	**(7,993)**	(1,002)
Tax effect of expenses not deductible for tax purpose	**11,812**	4,940
Utilisation of previously unrecognised tax losses	**(163)**	(77)
Tax effect of estimated tax losses not recognised	**6,496**	5,719
Income tax expense	**10,047**	15,916

As at 31 December 2008, the Group has unrecognised tax losses of approximately RMB43,475,000 (2007: RMB18,143,000), which can be carried forward to offset future taxable profit. Tax losses of RMB40,848,000 (2007: RMB15,881,000) will expire after five years from the year of assessment they relate to while tax losses of RMB2,627,000 (2007: RMB2,262,000) can be carried forward indefinitely. The deferred tax benefit of such tax losses has not been recognised as it is not considered probable that future taxable profit will be available to utilise the unused tax losses.

According to the New Law, starting from 1 January 2008, 10% withholding income tax will be imposed on dividends relating to profits earned by the companies established in the PRC in the calendar year 2008 onwards to their foreign shareholders. For investors incorporated in Hong Kong which hold at least 25% of equity interest of those PRC companies, a preferential rate of 5% will be applied. The Group has applied the preferential rate of 5% as all the Group's subsidiaries in the PRC are directly held by an investment holding company incorporated in Hong Kong. No deferred tax has been provided for in respect of the temporary differences attributable to such profits as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

13. DIVIDENDS

Dividends paid during the year ended 31 December 2008 were RMB7,990,000 (HK$0.004 per ordinary share) (2007: RMB31,310,000, HK$0.014 per ordinary share). The Directors recommend the payment of a final dividend of HK$0.003 per ordinary share, totaling RMB5,948,000. Such proposed dividend is to be approved by the shareholders at the annual general meeting of the Company to be held on 15 May 2009. These financial statements do not reflect this dividend payable.

	2008	2007
Interim dividend paid of Nil (2007: HK$0.004) per ordinary share	–	9,029
Proposed final dividend of HK$0.003 (2007: HK$0.004) per ordinary share	5,948	8,345
	5,948	17,374

14. EARNINGS PER SHARE

Basic

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

	2008	2007
Profit attributable to equity holders of the Company (RMB'000)	27,273	63,953
Weighted average number of ordinary shares in issue (thousands)	2,219,420	2,265,387
Basic earnings per share (RMB per share)	1.23 cents	2.82 cents

Diluted

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

	2008	2007
Profit attributable to equity holders of the Company (RMB'000)	27,273	63,953
Weighted average number of ordinary shares in issue (thousands)	2,219,420	2,265,387
Adjustment for share options (thousands)	25,108	65,454
Weighted average number of ordinary shares for diluted earnings per share (thousands)	2,244,528	2,330,841
Diluted earnings per share (RMB per share)	1.22 cents	2.74 cents

15. LAND USE RIGHTS

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

	2008 RMB'000	2007 RMB'000
In the PRC, held on:		
Medium-term leases	**41,529**	20,587
Current assets	**858**	435
Non-current assets	**40,671**	20,152
	41,529	20,587

As at 31 December 2007, land use rights of the Group with an amount of approximately RMB7,372,000 which is in the process of obtaining the land use rights of the aforementioned parcel of land. Such land use rights has been subsequently transferred to investment properties during the year ended 31 December 2008.

16. PROPERTY, PLANT AND EQUIPMENT

(a) The Group

	Freehold land (Note(i)) RMB'000	Buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Furniture and office equipment RMB'000	Motor vehicles RMB'000	Construction-in-progress RMB'000	Total RMB'000
COST								
As at 1 January 2007	–	27,575	13,736	41,456	407	2,206	72,479	157,859
Additions	2,987	7,289	3,967	23,490	432	692	26,285	65,142
Cancellation of contracts relating to acquisition of machinery (Note (iii))	–	–	–	–	–	–	(10,380)	(10,380)
Transfers	–	75,201	–	–	–	–	(75,201)	–
As at 31 December 2007 and 1 January 2008	2,987	110,065	17,703	64,946	839	2,898	13,183	212,621
Additions	–	4,074	2	15,289	1,211	1,194	50,857	72,627
Additions through acquisition of subsidiaries (Note 31)	–	–	–	65	40	687	11,699	12,491
Transfers	–	5,029	–	28,989	3,104	–	(37,122)	–
Transfer to investment properties (Note 17)	–	(78,743)	–	–	–	–	–	(78,743)
Disposals	–	–	–	(47)	–	(437)	–	(484)
Exchange alignment	(781)	(381)	(12)	–	(10)	–	–	(1,184)
As at 31 December 2008	**2,206**	**40,044**	**17,693**	**109,242**	**5,184**	**4,342**	**38,617**	**217,328**

16. PROPERTY, PLANT AND EQUIPMENT (Continued)

(a) The Group (Continued)

	Freehold land (Note(i)) RMB'000	Buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Furniture and office equipment RMB'000	Motor vehicles RMB'000	Construction-in-progress RMB'000	Total RMB'000
ACCUMULATED DEPRECIATION AND IMPAIRMENT								
As at 1 January 2007	–	6,331	5,675	14,435	168	408	–	27,017
Charge for the year	–	3,810	3,942	9,910	103	476	–	18,241
Impairment (Note (ii))	–	4,500	–	–	–	–	628	5,128
As at 31 December 2007 and 1 January 2008	–	14,641	9,617	24,345	271	884	628	50,386
Charge for the year	–	3,130	2,781	10,413	509	795	–	17,628
Transfer to investment properties (Note 17)	–	(4,685)	–	–	–	–	–	(4,685)
Eliminated on disposals	–	–	–	(7)	–	(160)	–	(167)
Exchange alignment	–	(40)	(3)	–	(3)	–	–	(46)
As at 31 December 2008	**–**	**13,046**	**12,395**	**34,751**	**777**	**1,519**	**628**	**63,116**
NET CARRYING VALUES								
As at 31 December 2008	**2,206**	**26,998**	**5,298**	**74,491**	**4,407**	**2,823**	**37,989**	**154,212**
As at 31 December 2007	2,987	95,424	8,086	40,601	568	2,014	12,555	162,235

Notes:

(i) Freehold land is held outside Hong Kong.

(ii) The Group has a production premise in Yunxiao, Fujian Province ("Yunxiao property"). The construction of phase one of the Yunxiao property was completed in March 2007 and the relevant assessment on environment was carried out by Fujian Environmental Company in April 2007. In June 2007, an assessment report was issued by Fujian Environmental Company in which it concluded that although the Yunxiao property complied with the requirements on environmental restrictions on air pollution and noise pollution, it is inconsistent with the master planning and planning on environmental function of the Yunling Industrial Development Zone. As a result, the Group cannot apply for the production permit for the Yunxiao property for the time being. During the year ended 31 December 2008, the Group leased the Yunxiao property to other companies as production and warehousing facility. Yunxiao property has been reclassified as investment properties from the date of change in use accordingly. The Group engaged an independent qualified valuer to perform a valuation on the recoverable amount of the Yunxiao property as at 31 December 2007. Based on the result of management's assessment by making reference to the valuation report issued by the independent qualified valuer, an impairment provision for the Yunxiao property of RMB5,128,000 was made during the year ended 31 December 2007.

16. PROPERTY, PLANT AND EQUIPMENT (Continued)

(a) The Group (Continued)

(iii) During the year ended 31 December 2007, pursuant to the suspension of the operations of the Yunxiao property (see Note (ii)), the Group cancelled certain contracts relating to the acquisition of machineries made during the year ended 31 December 2006, which amounted to RMB10,380,000. According to termination agreements entered into between the Group and the respective vendors, prepayments for these machineries amounted to RMB4,775,000, which was recorded as construction-in-progress as at 31 December 2006, were forfeited and charged to the consolidated income statement. The remaining balance of RMB5,605,000 was refunded to the Group during the year ended 31 December 2007.

(iv) No interest was capitalised and included in construction-in-progress as at 31 December 2007 and 2008. An analysis of construction-in-progress is as follows:

	2008	2007
	RMB'000	RMB'000
Buildings	**31,352**	8,234
Plant and machinery	**6,637**	4,321
	37,989	12,555

16. PROPERTY, PLANT AND EQUIPMENT (Continued)

(b) The Company

	Leasehold improvements RMB'000	Motor vehicles RMB'000	Total RMB'000
COST			
As at 1 January 2007, 31 December 2007 and 1 January 2008	276	–	276
Additions	–	793	793
As at 31 December 2008	**276**	**793**	**1,069**
ACCUMULATED DEPRECIATION			
As at 1 January 2007	46	–	46
Charge for the year	138	–	138
As at 31 December 2007 and 1 January 2008	184	–	184
Charge for the year	92	93	185
As at 31 December 2008	**276**	**93**	**369**
NET CARRYING VALUES			
As at 31 December 2008	**–**	**700**	**700**
As at 31 December 2007	92	–	92

The above property, plant and equipment of the Group and the Company are depreciated on a straight-line basis at the following rates per annum:

– Buildings	5 to 10 years
– Leasehold improvements	2 to 5 years
– Plant and machinery	5 years
– Furniture and office equipment	5 years
– Motor vehicles	5 years

17. INVESTMENT PROPERTIES

	RMB'000
COST	
As at 1 January 2007, 31 December 2007 and 1 January 2008	–
Transfer from property, plant and equipment (Note 16)	74,058
Transfer from land use rights (Note 15)	7,368
As at 31 December 2008	**81,426**
ACCUMULATED DEPRECIATION	
As at 1 January 2007, 31 December 2007 and 1 January 2008	–
Charge for the year	4,019
As at 31 December 2008	**4,019**
NET CARRYING VALUES	
As at 31 December 2008	**77,407**
As at 31 December 2007	–

Investment properties represent the land use rights and buildings related to phase one of the Yunxiao property. Such parcels of land amounted to RMB7,220,000 as at 31 December 2008 is in the process of obtaining the land use rights. Since the comparable market transactions are infrequent and the alternative reliable estimate of property is not reliably determinable on a continuing basis, the Group's investment properties held for earning rentals or for capital appreciation purposes are measured using the cost model.

The above investment properties are depreciated on a straight-line basis at the following rates per annum:

Leasehold land and buildings under medium term lease	Over the shorter of the term of the lease and 50 years
Buildings	5%

The Group engaged an independent qualified valuer to perform a valuation on the recoverable amount of the investment properties as at 31 December 2008. The valuation, which conforms to International Valuation Standards, was arrived at by using the depreciated replacement cost approach to access the recoverable amount of these properties. Based on the result of management's assessment by making reference to the valuation report issued by the independent qualified valuer, there is no impairment on the carrying amount of the Group's investment properties as at 31 December 2008.

During the year ended 31 December 2008, rental income of RMB1,273,000 was generated from the above investment properties. The Group's interests in investment properties were held in the PRC under medium-term lease.

18. INTANGIBLE ASSETS

	Goodwill	Technical know-how	Development costs	Total
	RMB'000	RMB'000	RMB'000	RMB'000
COST				
As at 1 January 2007, 31 December 2007, 1 January 2008 and 31 December 2008	37	3,000	7,398	10,435
ACCUMULATED AMORTISATION AND IMPAIRMENT				
As at 1 January 2007	–	1,800	3,017	4,817
Amortised during the year	–	400	1,108	1,508
Impairment	–	–	635	635
As at 31 December 2007 and 1 January 2008	–	2,200	4,760	6,960
Amortised during the year	–	400	1,108	1,508
Impairment	37	–	150	187
As at 31 December 2008	**37**	**2,600**	**6,018**	**8,655**
NET CARRYING VALUES				
As at 31 December 2008	**–**	**400**	**1,380**	**1,780**
As at 31 December 2007	37	800	2,638	3,475

The goodwill was recognised on acquisition of a subsidiary. As a result of the subsidiary's loss for the year, the directors consider that the above goodwill of RMB37,000 did not bring economic benefits to the Group and as such impairment is provided in the year ended 31 December 2008 on the full carrying amount of the goodwill.

19. INVESTMENTS IN AND AMOUNTS DUE FROM SUBSIDIARIES

(a) Investments in subsidiaries

	The Company	
	2008	2007
	RMB'000	RMB'000
Investments, at cost:		
Unlisted share capital	**1,804**	1,803

19. INVESTMENTS IN AND AMOUNTS DUE FROM SUBSIDIARIES (Continued)

(a) Investments in subsidiaries (Continued)

The following is a list of the principal subsidiaries as at 31 December 2008:

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share and debt securities	Percentage of effective equity interest attributable to the Group
American Excellent Pesticide Limited	British Virgin Islands, limited liability company	Investment holding in Hong Kong	100 ordinary shares of US$1.00 each	100% (Note 1)
Baishan City Tianan Magnesium Resources Company Limited	The PRC, limited liability company	Manufacturing and sale of magnesium-related products in the PRC	Registered and paid up capital HK$70,500,000	48%
Bright Stone Group Limited	British Virgin Islands, limited liability company	Investment holding in Hong Kong	100 ordinary shares of US$1.00 each	100% (Note 1)
Capital Idea Investments Limited	British Virgin Islands, limited liability company	Investment holding in Hong Kong	1 ordinary share of US$1.00 each	100% (Note 1)
Century Sunshine (Australia) Limited	Australia, limited liability company	Inactive in Australia	1 ordinary share of AUD1.00 each	100%
Century Sunshine Ecological Technology Limited	Hong Kong, limited liability company	Investment holding in Hong Kong	1,000 ordinary shares of HK$1.00 each	100%
Century Sunshine (Jiangxi) Ecological Technology Limited	The PRC, limited liability company	Manufacturing and sale of organic fertilizers in the PRC	Registered and paid up capital HK$31,800,000	100%
Century Sunshine (Nan Ping) Biology Engineering Co., Limited	The PRC, limited liability company	Manufacturing and sale of organic fertilizers in the PRC	Registered and paid up capital HK$7,000,000	100%
Century Sunshine (Shanghai) Management Co., Limited	The PRC, limited liability company	Investment holding in the PRC	Registered and paid up capital USD9,800,000	100%

19. INVESTMENTS IN AND AMOUNTS DUE FROM SUBSIDIARIES (Continued)

(a) Investments in subsidiaries (Continued)

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share and debt securities	Percentage of effective equity interest attributable to the Group
Century Sunshine (Zhangzhou) Ecological Technology Limited	The PRC, limited liability company	Manufacturing and sale of organic fertilizers in the PRC	Registered and paid up capital HK$30,000,000	100%
China Magnesium Limited	Hong Kong, limited liability company	Investment holding in Hong Kong	100 ordinary shares of HK$1 each	48%
Excellent Pesticide (Nanchang) Limited	The PRC, limited liability company	Manufacturing and sale of biological pesticides in the PRC	Registered and paid up capital HK$1,180,000	100%
Fullocean Group Limited	British Virgin Islands, limited liability company	Investment holding in Hong Kong	10 ordinary share of US$1.00 each	80%
Green Land Bio-Products Co., Limited	The PRC, limited liability company	Manufacturing and sale of organic fertilizers in the PRC	Registered and paid up capital HK$10,500,000	100%
Jiangsu Azureblue Technology Development Co., Limited	The PRC, limited liability company	Manufacturing and sale of compound fertilizers and raw materials in the PRC	Registered and paid up capital HK$100,000,000	83.2% (Note 2)
New Bright Group Limited	British Virgin Islands, limited liability company	Investment holding in Hong Kong	20 ordinary shares of US1.00 each	100% (Note 1)
世紀陽光(福建)農業科技發展有限公司	The PRC, limited liability company	Research and development and sale of organic fertilizers and biological pesticides in the PRC	Registered and paid up capital HK$30,107,000	100%
福州美地國際貿有限公司	The PRC, limited liability company	Trading of compound fertilizers in the PRC	Registered and paid up capital HK$3,050,000	60%

19. INVESTMENTS IN AND AMOUNTS DUE FROM SUBSIDIARIES (Continued)

(a) Investments in subsidiaries (Continued)

Notes:

1. Shares held directly by the Company.

2. On 16 October 2008, the Group acquired additional 32.2% of the equity interests in Jiangsu Azureblue Technology Development Co., Limited from the minority shareholders at a consideration of RMB32,200,000. As the consideration exceeds the Group's acquisition of the additional interest in the net assets amount of Jiangsu Azureblue Technology Development Co., Limited by approximately RMB3,385,000, such amount has been recognised and taken to other reserve for the year ended 31 December 2008.

3. None of the subsidiaries had any debt securities issued outstanding as at the end of the year or at any time during the year.

(b) Amounts due from subsidiaries

The amounts due from subsidiaries are unsecured, non-interest bearing and repayable on demand.

20. DEPOSIT PAID FOR ACQUISITION OF SUBSIDIARIES

On 19 December 2008, Bright Stone Group Limited, a wholly-owned subsidiary of the Company entered into a memorandum of understanding ("MOU") with an independent third party to purchase the entire equity interest in and the shareholder's loan of Gold Strategy Investments Limited ("Gold Strategy"). The principal activities of Gold Strategy and its subsidiaries ("Gold Strategy Group") are serpentine related business. The principal assets of Gold Strategy Group are expected to comprise a natural serpentine mine in the Donghai County of Jiangsu Province, the PRC. A refundable earnest money of HK$55,000,000 (equivalent to RMB 48,400,000) has been paid at the signing of the MOU for the acquisition. Details of the transaction has been set out in the Company's announcement dated 22 December 2008. The said acquisition was not yet been completed as at 31 December 2008.

21. INVENTORIES

	2008 **RMB'000**	2007 RMB'000
Raw materials	**25,432**	23,479
Work in progress	**616**	1,136
Finished goods	**39,336**	12,137
	65,384	36,752

22. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade receivables	**36,433**	55,486	**–**	–
Prepayments and deposits	**11,701**	21,015	**514**	294
Other receivables	**1,810**	790	**–**	–
Deposits placed with a financial institution	**13,413**	–	**13,413**	–
	63,357	77,291	**13,927**	294

The carrying amounts of trade and other receivables are denominated in RMB.

At 31 December 2008, the ageing analysis of the trade receivables of the Group was as follows:

	2008	2007
	RMB'000	RMB'000
0 to 30 days	**23,065**	44,015
31 to 60 days	**8,586**	9,424
61 to 90 days	**1,017**	1,869
Over 90 days	**3,765**	178
	36,433	55,486

The Group allows a credit period normally up to 180 days (2007: up to 180 days) to its trade customers.

Trade receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default. Trade receivables that were past due but not impaired related to a number of customers that have a good track record with the Group. Based on past experience, the management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

Trade receivables that are not past due or less than three months past due are not considered impaired. As at 31 December 2008, no trade receivable (2007: RMB178,000) was past due up for 3 months but are not impaired.

During the year, the Group entered into an investment management contract with Sunshine Asset Management (HK) Limited ("Sunshine Asset") to manage its investments, the deposits placed with a financial institution as at 31 December 2008 represent deposits placed with Sunshine Asset. Sunshine Asset is a company in which Mr. Chi Wen Fu and Mr. Shum Sai Chit were directors. Mr. Chi Wen Fu resigned as director of Sunshine Asset on 18 June 2008 and Mr. Shum Sai Chit resigned as director of Sunshine Asset on 8 August 2008.

23. INVESTMENTS HELD FOR TRADING

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Listed equity securities in Hong Kong, at fair value	**3,854**	–	**3,854**	–
Unlisted funds in the PRC, at fair value	**59,747**	–	**–**	–
	63,601	–	**3,854**	–

Included in investments held for trading as at 31 December 2008 was an amount of RMB3,854,000 placed with Sunshine Asset.

As at 31 December 2008, the fair value of the unlisted funds in the PRC is determined based on the price from the bank quoted for similar investments at the balance sheet date.

24. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash at bank and on hand	**119,352**	283,774	**36,117**	194,712
Short-term bank deposits	**472,585**	509,140	**9,584**	–
	591,937	792,914	**45,701**	194,712

The effective interest rate on short-term bank deposits was ranging from 2.9% to 4.1% (2007: 1.9%); these deposits have an average maturity of 25 days (2007: 37 days).

The maximum exposure to credit risk as at 31 December 2008 is the fair value of cash and cash equivalents.

Cash and cash equivalents were denominated in the following currencies:

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
RMB	**534,781**	581,415	**10**	12
HK$	**40,434**	189,432	**29,959**	174,259
Others	**16,722**	22,067	**15,732**	20,441
	591,937	792,914	**45,701**	194,712

The remittance of cash and cash equivalents denominated in RMB out of the PRC is subject to the foreign exchange control restrictions imposed by the government of the PRC.

25. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade payables	**17,296**	10,179	**–**	–
Accruals and other payables	**36,446**	40,975	**1,500**	1,725
	53,742	51,154	**1,500**	1,725

At 31 December 2008, the ageing analysis of trade payables of the Group was as follows:

	2008	2007
	RMB'000	RMB'000
0 to 30 days	**9,984**	8,185
31 to 60 days	**1,695**	1,748
61 to 90 days	**1,807**	139
Over 90 days	**3,810**	107
	17,296	10,179

26. BORROWINGS

	2008	2007
	RMB'000	RMB'000
Borrowings:		
More than one year but not exceeding five years	**112,056**	–
More than five years	**–**	110,678
	112,056	110,678

The Group entered into a loan arrangement with International Finance Corporation ("IFC") in November 2006. Pursuant to the loan arrangement, IFC had granted a loan of RMB120,000,000 to certain subsidiaries of the Company. The loan bears interest at 5.38% per annum and is due for repayment in one instalment in November 2013. The loan granted by IFC was secured by (i) corporate guarantee given by the Company; and (ii) pledges of 244,578,000 shares in the Company, as adjusted for the effect of the Share Subdivision, owned by Alpha Sino International Limited ("Alpha Sino"), the controlling shareholder. Pursuant to the loan agreement, the Group is required to place bank deposits of RMB32,000,000, RMB64,000,000 and RMB88,000,000 to IFC as at 31 December 2010, 31 December 2011 and 31 December 2012, respectively. As at 31 December 2007 and 2008, such deposits were not yet placed to IFC. In addition, Mr. Chi Wen Fu, a Director and controlling shareholder of the Company (through his 90% interest in Alpha Sino), has given an undertaking to IFC to maintain a minimum level of shareholding in the Company. The Company and the Group are required to comply with certain covenants, including, among other things, certain financial covenants, under the loan arrangement.

26. BORROWINGS (Continued)

The borrowings are denominated in RMB, and have a maturity of more than 2 and less than 5 years. The effective interest rate at 31 December 2008 was 5.94% (2007: 6.84%).

The carrying amounts and fair value of the other borrowings are as follows:

	Carrying amount		Fair value	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Borrowings	**112,056**	110,678	**117,249**	106,338

As at 31 December 2008, the Group has no undrawn borrowing facilities (2007: Nil).

27. DEFERRED TAX LIABILITY

The components of deferred tax liability recognised in the balance sheet and the movements during the year are as follows:

	Land use rights	
	2008	2007
	RMB'000	RMB'000
As at 1 January	**–**	–
Acquisition of subsidiaries (Note 31)	**3,318**	–
As at 31 December	**3,318**	–

28. SHARE CAPITAL

	Notes	Number of shares	Share capital
		'000	RMB'000
Authorised:			
As at 31 December 2007 and 2008:			
Ordinary shares of HK$0.02 each		5,000,000	100,000
Issued and fully paid:			
At 1 January 2007		2,047,025	43,194
Issue of new shares	(a)	250,000	4,900
Employee share option scheme			
– proceeds from shares issued	(b)	31,500	614
Repurchase of shares	(c)	(109,105)	(2,282)
As at 31 December 2007, 1 January 2008 and 31 December 2008		2,219,420	46,426

28. SHARE CAPITAL (Continued)

Note:

(a) On 23 February 2007, 250,000,000 ordinary shares of HK$0.02 each were issued at HK$1.88 each by way of a placing, resulting in net cash proceeds of approximately RMB446,740,000 (equivalent to HK$455,858,000). The excess over the par value of the shares were credited to the share premium account.

(b) During the year ended 31 December 2007, 30,000,000 ordinary shares of HK$0.02 each were issued at HK$0.294 each and 1,500,000 ordinary shares of HK$0.02 each were issued at HK$0.126 each pursuant to the employee share option scheme.

(c) During the year ended 31 December 2007, the Company repurchased an aggregate of 109,105,000 shares on the Stock Exchange at the average price of HK$0.502 per share from 12 November 2007 to 20 November 2007 under the general mandate granted by the shareholders of the Company in the annual general meeting of the Company held on 30 April 2007, for purpose of enhancing its earnings per share.

All shares issued rank pari passu in all respect with the existing shares.

All the repurchased shares were cancelled during the year ended 31 December 2007. Accordingly, the issued share capital of the Company was reduced by the par value of the repurchased shares and the premiums paid on these shares upon the repurchase were charged against the share premium account. An amount equivalent to the par value of the shares cancelled was transferred from the Company's retained earnings to the capital redemption reserve.

29. SHARE OPTIONS

On 31 January 2004, the Share Option Scheme (the "Scheme") was approved by the shareholders of the Company. Under the Scheme, the Company may grant share 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 share options are exercisable only if the Directors or employees remain in service to the Group from the grant date of the share options up to the designated exercisable period.

The Scheme was terminated upon the transfer of listing of the Company from GEM Board to Main Board on 1 August 2008 and no further options may be offered or granted under the Scheme. The options granted before 1 August 2008 continued to be valid and exercisable in accordance with their terms of issue.

On 3 December 2008, a new share option scheme (the "New Scheme") was approved by the shareholders of the Company. Under the New Scheme, the Company may grant options to the directors or employees of the Group, consultant or adviser, distributor, contractor, supplier, service provider, agent, customer and business partner of the Group (the "Eligible Participant") to subscribe for shares in the Company.

Options may be granted on such terms and conditions in relation to their vesting, exercise or otherwise as the directors may determine in its absolute discretion, provided that such terms and conditions shall not be inconsistent with any other terms and conditions of the New Scheme.

The subscription price is not less than the highest of (i) the closing price of the shares on Main Board 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 Main Board as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of offer of the option; and (iii) the nominal value of a share. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

The share options are exercisable only if the Eligible Participants remain in the service of the Group from the grant date of the share options up to the designated exercise date.

29. SHARE OPTIONS (Continued)

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

	2008		2007	
	Average exercise price in HK$ per share	Options (thousands)	Average exercise price in HK$ per share	Options (thousands)
As at 1 January	0.162	58,275	0.206	89,775
Exercised	–	–	0.286	(31,500)
As at 31 December	0.162	58,275	0.162	58,275

All the outstanding options as at 31 December 2008 were not yet exercisable at that date. Options exercised in 2007 resulted in 30,000,000 shares being issued at HK$0.294 each and 1,500,000 shares being issued at HK$0.126 each.

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

	Exercise price HK$	Share options	
Expiry date	per share	2008	2007
31 January 2009	0.126	45,775,000	45,775,000
31 March 2009	0.294	12,500,000	12,500,000
		58,275,000	58,275,000

During the year, no share options were granted to directors and employees. The fair value of options granted during the year ended 31 December 2005 determined using the Black-Scholes valuation model was RMB7,889,000. The significant inputs into the model were share price of HK$0.294, at the grant date, exercise price shown above, standard deviation of expected share price returns of 40%, annual risk-free interest rate of 3.8%, expected life of options of approximately 1 to 4 years and dividend pay out ratio of zero. The volatility measured at the standards deviation of expected share price returns is based on statistical analysis of daily share prices from the date of listing of the Company's shares (17 February 2004) or from date of the previous grant through to the current grant date.

30. RESERVES

The Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

The Company

	Share capital RMB'000	Share premium RMB'000	Capital redemption reserve RMB'000	Employee compensation reserves RMB'000	Translation reserves RMB'000	Retained earnings RMB'000	Total RMB'000
As at 1 January 2007	43,194	156,703	–	3,292	–	24,716	227,905
Profit for the year representing total recognised income for the year	–	–	–	–	–	118,630	118,630
Issue of shares	4,900	441,840	–	–	–	–	446,740
Transfer of reserves upon exercise of share options	–	2,581	–	(2,581)	–	–	–
Share option scheme							
– value of employee services	–	–	–	1,792	–	–	1,792
– proceed from shares issued	614	8,166	–	–	–	–	8,780
Repurchase of shares	(2,282)	(52,270)	2,282	–	1,996	(2,282)	(52,556)
Dividend paid relating to 2006	–	–	–	–	–	(22,281)	(22,281)
Dividend paid relating to 2007	–	–	–	–	–	(9,029)	(9,029)
As at 31 December 2007 and as at 1 January 2008	46,426	557,020	2,282	2,503	1,996	109,754	719,981
Loss for the year representing total recognised expenses for the year	–	–	–	–	–	(41,581)	(41,581)
Share option scheme							
– value of employee services	–	–	–	731	–	–	731
Dividend paid relating to 2007	–	–	–	–	–	(7,990)	(7,990)
As at 31 December 2008	**46,426**	**557,020**	**2,282**	**3,234**	**1,996**	**60,183**	**671,141**

30. RESERVES (Continued)

(i) Capital redemption reserve represents the nominal value of the shares of the Company which was transferred from the Company's retained earnings upon repurchase and cancellation of shares by the Company.

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

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

31. ACQUISITION OF SUBSIDIARIES

On 30 December 2008, the Group acquired 80% of the equity interests in Fullocean Group Limited ("Fullocean Group") at a consolidation of RMB36,168,000. The acquisition has been accounted for using the purchase method.

The net assets acquired in the transaction and the discount on acquisition of subsidiaries arising are as follows:

	Acquiree's carrying value before combination RMB'000	**Fair value adjustments** RMB'000	**Fair value** RMB'000
Assets (liabilities) acquired:			
Construction in progress	12,491	–	12,491
Land use rights	15,290	13,270	28,560
Deposits for acquisition of plant and machinery	19,538	–	19,538
Investments held for trading	2,000	–	2,000
Cash and cash equivalents	25,510	–	25,510
Deferred tax liability	–	(3,318)	(3,318)
	74,829	9,952	84,781
Minority interests			(44,086)
Net assets acquired			40,695
Discount on acquisition of subsidiaries			(4,527)
			36,168
Satisfied by:			
Cash consideration paid			36,168
An analysis of the net cash outflow of cash and cash equivalents in respect of the acquisition of subsidiaries are as follows:			
Cash consideration paid			(36,168)
Cash and cash equivalents acquired			25,510
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries			(10,658)

31. ACQUISITION OF SUBSIDIARIES (Continued)

Fullocean Group did not contribute revenue and profit to the Group from 30 December 2008 (date of acquisition) to 31 December 2008.

If the above transaction had been completed on 1 January 2008, there would have no significant impact on total Group's turnover and profit for the year ended 31 December 2008 as the revenue and results of Fullocean Group is not significant during that year.

There was no acquisition of subsidiaries during the year ended 31 December 2007.

32. COMMITMENTS

(a) Capital commitments

Capital expenditure at the balance sheet date is as follows:

	The Group	
	2008	2007
	RMB'000	RMB'000
In respect of the acquisition of property, plant and equipment		
Contracted but not provided in the financial statements	**69,111**	6,108

The company has no capital commitment as at 31 December 2007 and 2008.

(b) Operating lease commitments

As lessee

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

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

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within one year	**1,493**	1,046	**891**	316
In the second to fifth years inclusive	**646**	1,189	**445**	–
Over five years	**290**	1,327	**–**	–
	2,429	3,562	**1,336**	316

32. COMMITMENTS (Continued)

(c) Other commitments

As at the balance sheet date, the Group had entered into certain agreements relating to legal and professional fee paid for a proposed acquisition of Gold Strategy. The future minimum payments committed by the Group in respect of the agreements are as follows:

	The Group and the Company	
	2008	2007
	RMB'000	RMB'000
Within one year	**630**	–

33. RELATED-PARTY TRANSACTIONS

The following transactions were carried out with related parties:

(a) Key management compensation

	2008	2007
	RMB'000	RMB'000
Directors (Note 11)	**1,681**	1,962
Other key management personnel:		
Salaries and other short-term employee benefits	**729**	1,625
Share-based payments	**–**	219
	729	1,844
	2,410	3,806

Key management compensation include an amount of RMB107,000 (2007: RMB260,000) paid to Mr. Chi Wen Qiang, a brother of Mr. Chi Wen Fu (a director and controlling shareholder of the Company), and Ms. Chi Bi Fen and Ms. Chi Bi Bing, sister of Mr. Chi Wen Fu.

(b) Mr. Chi Wen Fu has given an undertaking to a principal bank of the Group to maintain a minimum level of shareholding in the Company.

34. MAJOR NON-CASH TRANSACTIONS

As at 31 December 2007, the Group has interest payable of RMB1,076,000 (2008: RMB1,076,000) and has construction payable of RMB10,342,000 (2008: Nil), which were included in trade and other payables.

35. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with current year's presentation.