



SunGreen

Annual Report 2004

SunGreen

Sungreen International Holdings Limited

綠陽國際控股有限公司 *

(Incorporated in Bermuda with limited liability)

* For identification purpose only

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website at www.hkgem.com in order to obtain up-to-date information on GEM-listed issuers.

The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

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

CONTENTS

	<i>Page</i>
<i>Corporate Information</i>	2
<i>Financial Highlights</i>	3
<i>Chairman's Statement</i>	4
<i>Biographical Details of Directors and Senior Management</i>	6
<i>Management Discussion and Analysis</i>	9
<i>Directors' Report</i>	13
<i>Auditors' Report on the Financial Statements</i>	20
– <i>Income Statement</i>	21
– <i>Balance Sheet</i>	22
– <i>Notes to the Financial Statements</i>	23
<i>Auditors' Report on the Proforma Financial Statements</i>	28
– <i>Proforma Consolidated Income Statement</i>	29
– <i>Proforma Consolidated Balance Sheet</i>	30
– <i>Proforma Consolidated Statement</i>	
<i>of Changes in Equity</i>	32
– <i>Proforma Consolidated Cash Flow Statement</i>	33
– <i>Notes to the Proforma Financial Statements</i>	35
<i>Notice of Annual General Meeting</i>	59

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. ZHUO Ze Fan
Ms. LV Xia
Ms. XIE Yi Ping

NON-EXECUTIVE DIRECTOR

Mr. WU Jing Jin

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. ZHAO Shou Guo
Mr. YAM Tak Fai, Ronald
Mr. NG Tang

COMPLIANCE OFFICER

Mr. ZHUO Ze Fan

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Mr. CHENG Kin Man AICPA

AUDIT COMMITTEE

Mr. ZHAO Shou Guo
Mr. YAM Tak Fai, Ronald
Mr. NG Tang

AUTHORISED REPRESENTATIVES

Mr. ZHUO Ze Fan
Ms. LV Xia

STOCK CODE

8306

COMPANY WEBSITE

www.jc-sino.com

SPONSOR

Hantec Capital Limited

LEGAL ADVISERS

Michael Li & Co.

AUDITORS

Deloitte Touche Tohmatsu

PRINCIPAL BANKERS

Bank of China, Xi'an High-tech Development Zone Branch
Citic Industrial Bank, Xi'an Branch
Agricultural Bank of China,
Xi'an High-tech Development Zone Branch
Bank of Communications, Xi'an Branch,
Gao Xin Wu Road Sub-branch
China Everbright Bank, Xi'an Branch,
Dong Da Street Sub-branch

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Ground Floor, Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN BERMUDA

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 3407, China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

FINANCIAL HIGHLIGHTS

	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Revenue	116,155	88,739	60,178
Gross profit	43,823	35,034	25,951
Net profit	7,845	9,964	6,852
Shareholders' equity	12,770	41,499	42,732
Total assets	164,735	167,519	125,150
Total liabilities	151,965	126,020	82,418

	2004 <i>RMB</i>	2003 <i>RMB</i>	2002 <i>RMB</i>
Earnings per share, basic (cents)	9.81	12.46	8.56
Net asset value per share	0.16	0.52	0.53

CHAIRMAN'S STATEMENT

On behalf of the board of directors, I am pleased to present the annual results of Sungreen International Holdings Limited and its subsidiaries (collectively, the "Group") for the year ended 31 December 2004 for your consideration. This report represents the first annual results presented by the Company since its listing on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited on 28 February 2005. I greatly appreciate this opportunity to share the achievements with shareholders.

BUSINESS REVIEW

The results for 2004 were stimulating and encouraging. For the year ended 31 December 2004, the turnover of the Group amounted to approximately RMB116.2 million, representing an increase of approximately 31.0% from 2003. The Group's net profit for 2004 was approximately RMB7.8 million, representing a decrease of approximately 22.0%. The decrease in net profit was primarily attributable to the fact that the Group recognized a sum of RMB4.5 million of government grant in 2003 which was non-recurring in nature. Without taking into account of the government grant and the relevant effect of minority interest, the net profit of the Group in 2003 was approximately RMB7.0 million. Thus, the Group's net profit in 2004 was actually higher than 2003 by approximately 11.4%.

The Group is principally engaged in the research and development, manufacture, sale and distribution of a series of fertilizers in the PRC under the brand name of "Fuwanjia" (富萬稼). Currently, all of the Group's fertilizers are Fuwanjia Organic Potash Fertilizers which are organic potash fertilizers (有機鉀肥) produced by the Group with patented chemical formulae. The Group's outstanding results for 2004 were mainly attributable to the following factors:

1. With the State's policy to encourage the agricultural industry, certain provinces in the PRC had cancelled the taxation on agricultural products, resulting in the increase of income of farmers. As a result, the demand and usage of high-tech agricultural products (including the Group's Fuwanjia Organic Potash Fertilizers) increased accordingly.
2. The economy of the PRC continues to grow and people's living standards have been improving. Consumers are increasingly health conscious, the demand for green food, organic food and organic agriculture substantially increased. Thus, the market demand for the Group's organic potash fertilizer products has been increasing.
3. The reputation and goodwill of the brand name of Fuwanjia continue to increase in the mainland China and overseas. As such, the Group is able to stringently select or replace distributors which have wider network coverage to boost the sale of the Fuwanjia Organic Potash Fertilizers.
4. As the Group has been focusing on the research and development of the series of Fuwanjia products, the Group can continue to launch new organic fertilizers which are suitable for different regions and different types of crops, thereby improving the compatibility of products and widening the choices of farmers which, in turn, improving the turnover of the Group.
5. The Group emphasizes product quality and after-sale service. Results indicate that after using Fuwanjia Organic Potash Fertilizers, Fuwanjia products can effectively improve the quality of crops. As the product quality of the Group is recognized by the market, the number of returning users of Fuwanjia products increased rapidly.

CHAIRMAN'S STATEMENT

PROSPECTS

In 2005, with the reform of the Chinese economic structure and the continuous penetration of the policy to encourage the agricultural industry, the structure of agricultural industry and the income of farmers have been improved significantly. However, problems hindering the development of the agricultural industry gradually appear, including the continuous deterioration of the quality of soil resulting from the wide application of inorganic fertilizers, and the acidification of soil and the residues of agricultural chemicals on crops. Fuwanjia Organic Potash Fertilizers can undoubtedly provide solutions to the abovementioned problems through the improvement of quality of crops and removal of residues of agricultural chemicals, thereby substantially improving the economic value of crops and providing spacious room for the development of the Group.

APPRECIATION

With the support from every party, the Group achieved excellent results and was successfully listed on Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. I would like to take this opportunity to thank all our employees for their contribution to the Group's performance. I would also like to extend my gratitude to our shareholders for their support and confidence in the Group.

Zhuo Ze Fan

Chairman

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Zhuo Ze Fan (卓澤凡先生), aged 33, is the chairman of the board of Directors, executive Director, and general manager of the Company and the founder of the Group. Mr. Zhuo is responsible for strategic planning, overall management and business development of the Group. He has over eight years of experience in organic fertilisers since Xi'an Juchuan International Investments Ltd (西安巨川國際投資有限公司) commenced market study of the PRC fertiliser industry in late 1996. Mr. Zhuo has been overseeing the development process and the mass production of Fuwanjia Organic Potash Fertilisers. Mr. Zhuo established Shaanxi Fuwanjia Chemical Co. Ltd. (陝西富萬鉀化工有限責任公司) ("SF Chemical"), the predecessor company of Shaanxi Juchuan Fuwanjia Co., Ltd. (陝西巨川富萬鉀股份有限公司) ("Juchuan Fuwanjia"), since June 1998 as chairman and general manager. Under Mr. Zhuo's leadership, the Group completed various achievements, including national prizes of State Major High-tech Industrialised Project in 1999, Special Gold Prize of Ninth PRC Patented New-tech and New-product Exhibition in 2000, State Major New Product in 2001, the State Provisional Certificates (2002), (2003) and (2004). In 1999, Mr. Zhuo obtained a Master of Business Administration degree, which was jointly organised by North West University and Shaanxi MBA College.

Ms. Lv Xia (呂霞女士), aged 40, is an executive Director. Ms. Lv joined the Group as a deputy general manager in January 1999, and she is principally responsible for general administration of the Group. Being a qualified accountant in the PRC, Ms. Lv had approximately 19 years of experience working at finance department or acted as a deputy general manager of several companies before she joined the Group (and its predecessor company). In 2002, Ms. Lv obtained a Master of Business Administration degree, which was jointly organised by Xi'an Jiaotong University and Shaanxi MBA College.

Ms. Xie Yi Ping (解益平女士), aged 41, is an executive Director and finance Director of the Company. Ms. Xie joined as a manager of finance department of SF Chemical, the predecessor company of Juchuan Fuwanjia, since November 1999, and she is principally responsible for the accounting and finance activities of the Group. Being a qualified accountant in the PRC, Ms. Xie had more than 20 years of experience working at finance department of several companies before she joined the Group. Ms. Xie graduated from Shaanxi University of Finance and Economics with a bachelor degree in accounting in 1997.

Non-executive Director

Mr. Wu Jing Jin (吳敬進先生), aged 45, is a non-executive Director. He is a senior economic analyst and currently working at Shenzhen Eastern Cyber Port Technology Development Ltd. (深圳市東方數碼港科技開發有限公司), the then shareholder of Juchuan Fuwanjia. Mr. Wu has approximately 15 years' experience in practicing corporate finance and another two years teaching experiences in the PRC. Mr. Wu obtained a Master of Business Administration degree from State University of New York in 1987. Mr. Wu joined the Group in July 2000.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Independent non-executive Directors

Mr. Zhao Shou Guo (趙守國先生), aged 41, is an independent non-executive Director. Mr. Zhao has been working at Northwest University since 1992, including six years in the Economic Administration Division and another six years in Enterprise Development Research Center. Mr. Zhao is also an independent non-executive directors of other five listed companies in the PRC. The names and principal activities of these five listed companies are Shaanxi Qinling Cement (Group) Co., Ltd. (陝西秦嶺水泥(集團)股份有限公司) which produces cement and related products, Xi'an Minsheng Group Co., Ltd., (西安民生集團股份有限公司) which carries on commercial retail activities, Xi'an Tourism (Group) Co., Ltd. (西安旅遊(集團)股份有限公司), which provides scenic spots, hotels and beverage services, Irico Display Devices Co., Ltd. (彩虹顯示器件股份有限公司) which produces display tube and related products and Tunefulhome Co., Ltd. (天地源股份有限公司) which develops real estate. Mr. Zhao graduated from Northwest University with a doctorate in economics in 1995. Mr. Zhao has 14 years of experience in research of economic science. Mr. Zhao joined the Group as an independent non-executive director of Juchuan Fuwanjia in July 2000.

Mr. Yam Tak Fai, Ronald (任德輝先生), aged 48, is a partner in RSM Nelson Wheeler, Certified Public Accountants in Hong Kong. Mr. Yam is a fellow member of The Chartered Association of Certified Accountants, Hong Kong Institute of Certified Public Accountants and The Taxation Institute of Hong Kong. Mr. Yam has 27 years' experience in accounting and auditing, and is currently a holder of the Practising Certificate issued by Hong Kong Institute of Certified Public Accountants. He commenced accounting practice in 1977, was later admitted as a partner in 1987 and became a partner of RSM Nelson Wheeler in January 1999. He joined the Group in February 2005.

Mr. Ng Tang (吳騰先生), aged 43, is an executive director of E-LIFE International Limited, the shares of which are listed on the Stock Exchange and the principal activities of which include, according to its latest published annual report, international air and sea freight forwarding (including provision of related global logistics services) and development of biotechnological genetic products and securities investment. Mr. Ng has over 12 years' experience in corporate management both in Hong Kong and the PRC. He graduated from East China University of Politics and Law. He joined the Group in February 2005.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. Chen Yi (陳以先生), aged 39, is the chief sales officer of the Group who is responsible for product sales and marketing. He had approximately 14 years' experience in sales and marketing, among which, more than six years in export business, another seven years in PRC sales and marketing business and management. He also worked as a floor manager for Metro Jinjiang Cash & Carry Co., Ltd. and marketing general manager of an advertisement company. Mr. Chen graduated from Tongji University with a bachelor degree of heating engineering in 1989, and has received various management training throughout this work experience, including consulting management training by Ernst & Young, a three-month management training by Singapore Chinese Chamber Institute of Business, Special FM Training by Metro Jinjiang Cash & Carry Co., Ltd. and senior marketing manager training by School of Economic & Management Tsinghua University. He joined the Group in January 2004.

Mr. Zheng Hai Feng (鄭海峰先生), aged 52, is the chief production officer responsible for production management of the Group. In 1973, Mr. Zheng graduated from Technical Reconnaissance Battalion of Lanzhou Military District of PRC People's Liberation Army with a bachelor degree in Russian. He joined the Group in June 1998 and has six years of experience in fertiliser industry. Prior to joining the Group, Mr. Zheng had approximately 27 years work experience, among which he spent approximately two years working as chairman of an agriculture company that was engaged in production and sale of fertilisers in the PRC. Mr. Zheng then spent another years in a PRC securities company as a deputy general manager responsible for the overall management and operation.

Mr. Liu Chang You (劉長有先生), aged 57, is the chief technology officer of the Company who is responsible for overall research and development of the Group. Mr. Liu joined the research and development of the Company in October 2000 and before that he had more than 30 years' experience in fertiliser industry, including two years in production workshop of nitrogen-phosphate compound fertilizers and another thirty years in nitrogenous fertiliser factory, in which factory Mr. Liu was promoted as a chief engineer and stayed at the post for seven years. Mr. Liu had numerous fertiliser related publications and received various honours in the industry on these publications. Mr. Liu graduated from Zhengzhou University with a major in chemical engineering in 1968.

Mr. Cheng Kin Man (鄭健民先生), aged 29, is the chief financial officer, qualified accountant and company secretary of the Company. He is responsible for the financial management and company secretarial matters of the Group. Mr. Cheng has over seven years of experience in the fields of accounting and corporate finance. Prior to working in the corporate finance field, Mr. Cheng has worked in an international accounting firm for approximately three years. Afterwards, he worked in the listing division of the Stock Exchange for approximately two years. Prior to joining the Company, Mr. Cheng worked for a corporate finance house for over two years. Mr. Cheng obtained a bachelor of business administration degree in finance from the Hong Kong University of Science and Technology in 1997. He is a qualified accountant and a member of The American Institute of Certified Public Accountants. Mr. Cheng holds the certificates of Certified Management Accountant and Certified in Financial Management from The Institute of Management Accountants and is a Chartered Financial Analyst. Mr. Cheng joined the Group in September 2004.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Turnover

Turnover of the Group for the year ended 31 December 2004 amounted to approximately RMB116.2 million, representing an increase of approximately 31.0% compared with the 2003 figure of approximately RMB88.7 million. The increase was mainly attributable to the rise in demand for the Group's products among farmers in different provinces of the PRC.

Gross profit

The Group's gross profit for 2004 amounted to approximately RMB43.8 million, representing an increase of approximately 25.1% from 2003. Gross profit margin during the year ended 31 December 2004 was approximately 37.7%, whilst the gross profit margin for 2003 was approximately 39.5%. The decrease was mainly due to the fact that the Group introduced two new specific use fertilizers for seeding use and for garlic use, and the operating efficiency in the production of these two new products has not attained to the optimal level.

Operating expenses

The Group's operating expenses primarily consist of selling and distribution costs, administrative expenses and other operating expenses. For the year ended 31 December 2004, the operating expenses of the Group amounted to approximately RMB29.1 million. Comparing with the operating expenses of approximately RMB19.7 million in 2003, the Group's operating expenses increased by approximately 47.7% in 2004.

Selling and distribution costs of the Group amounted to approximately RMB21.4 million during the year ended 31 December 2004, representing an increase of approximately 57.4% from the last year. The increase in selling and distribution costs was mainly due to the fact that (i) more exhibitions were participated by the Group during the year, and (ii) the Group increased the coverage of its promotion to various areas in the PRC in 2004.

Administrative expenses of the Group were approximately RMB7.7 million for the year ended 31 December 2004, representing an increase of approximately 26.2% from 2003. The increase in administrative expenses in 2004 was mainly because of (i) the increase in general provision of trade receivables, and (ii) the increase in depreciation expenses.

The Group's other operating expenses in 2004 amounted to approximately RMB1,000, while the other operating expenses of the Group was approximately RMB0.1 million in 2003. The amount of other operating expenses is not material to the Group.

Net profit for the year

Net profit for the year ended 31 December 2004 of the Group amounted to approximately RMB7.8 million, representing a decrease of approximately 22.0% from 2003. The decrease was primarily due to the absence of non-recurring government grants of RMB4.5 million during the year, which was recognized as income by the Group in 2003.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL RESOURCES AND LIQUIDITY

As at 31 December 2004, the Group had bank balances and cash of approximately RMB46.2 million (2003: RMB10.3 million).

As at 31 December 2004, the outstanding bank loan of the Group amounted to RMB60 million (2003: RMB80 million), comprising short-term bank borrowings repayable within one year of RMB40 million (2003: RMB70 million) and long-term bank borrowings repayable after one year of RMB20 million (2003: RMB10 million). As at 31 December 2004, the total asset value of the Group was approximately RMB164.7 million (2003: approximately RMB167.5 million) whereas the total liabilities was approximately RMB152.0 million (2003: RMB126.0 million). The gearing ratio of the Group, calculated as total liabilities over total assets, was approximately 92.3% (2003: 75.2%).

FOREIGN EXCHANGE EXPOSURE

Since most of the income and expense as well as assets and liabilities of the Group are denominated in Renminbi, the Directors consider the Group has no material foreign exchange exposure.

PLEDGE OF ASSETS

As at 31 December 2004, the Group has pledged its land and buildings of approximately RMB13,182,000 for the banking facilities granted by the banks to the Group. As at 31 December 2003, the Group did not have any charge or pledge on its assets.

CAPITAL COMMITMENTS

As at 31 December 2004, the Group had RMB34,530,000 (2003: RMB34,530,000) of capital expenditure authorised but not contracted for in respect of the development project of additional plant and machinery for the expansion in the production capacity. The site of the development project is at Houji Road, Yang Ling Agricultural High-Tech Demonstration Zone, Xi'an, Shaanxi Province, the PRC.

CONTINGENT LIABILITIES

As at 31 December 2004, the Group had contingent liabilities in respect of guarantee to general banking facilities of RMB10 million (2003: RMB14 million) granted to an independent third party.

ACQUISITION AND DISPOSAL OF SUBSIDIARIES

The Group did not have any material acquisition and disposal of subsidiaries in the year ended 31 December 2004.

SIGNIFICANT INVESTMENTS

The Group had no significant investments held in the year ended 31 December 2004.

MANAGEMENT DISCUSSION AND ANALYSIS

USE OF PROCEEDS FROM THE PLACING

The Company was successfully listed on GEM through the placing of 20 million new shares (the "Placing") on 28 February 2005. After deduction of relevant expenses, the net proceeds from the Placing amounted to approximately HK\$40 million. Details of the use of proceeds from the Placing are set out in the paragraph headed "Reasons for the Placing and use of proceeds" under the section headed "Statement of business objectives" of the prospectus dated 21 February 2005 of the Company (the "Prospectus").

DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2004.

EMPLOYEE INFORMATION

Number of Employees

A breakdown of the number of employees of the Group by function as at 31 December 2003 and 2004 is set out below:

	31 December 2004	31 December 2003
Administration and management	25	24
Finance and accounting	5	4
Production	27	27
Sales and marketing	47	44
Research and development	8	6
Total	112	105

Remuneration of Employees and Policies

The Group has maintained good relations with its staff and has not experienced any disruption of its operations due to labour disputes. The Group provides fringe benefits in accordance with the relevant laws and regulations of the PRC and Hong Kong including contributions to society security scheme of the PRC and the contributions to the Mandatory Provident Fund Scheme of Hong Kong. The Group remunerated its employees in accordance with their work performance and experience.

Total remuneration incurred for the year ended 31 December 2004 amounted to approximately RMB6.6 million (2003: approximately RMB3.8 million). The Directors received remuneration of RMB195,893 during the year ended 31 December 2004 (2003: RMB194,852).

MANAGEMENT DISCUSSION AND ANALYSIS

DISCLOSURE UNDER CHAPTER 17 OF THE GEM LISTING RULES

The Directors confirmed that they were not aware of any circumstances which would give rise to a disclosure requirement under Rules 17.15 to 17.21 of the GEM Listing Rules.

BUSINESS OBJECTIVES AND ACTUAL BUSINESS DEVELOPMENT

According to the GEM Listing Rules, the Company is required to prepare a comparison of its actual business development for the six months ended 31 December 2004 and the business objectives for the same period as set out in the Prospectus. However, since the Prospectus was issued after the balance sheet date on 21 February 2005, the Company will review its business objectives and strategies on an ongoing basis and prepare a report in the next period of review for the six months ended 30 June 2005.

DIRECTORS' REPORT

The directors present their first report together with the audited financial statements of the Company from 14 April 2004 (date of incorporation) to 31 December 2004 and the proforma financial statements of the Group for the year ended 31 December 2004.

GROUP REORGANISATION AND LISTING ON GEM OF THE STOCK EXCHANGE

The Company was incorporated and registered in Bermuda under the Companies Acts as an exempted company on 14 April 2004.

Pursuant to a group reorganisation (the "Group Reorganisation") to rationalise the group structure in preparation for the listing of the Company's shares on GEM of the Stock Exchange, the Company became the holding company of the companies now comprising the Group on 16 February 2005.

Details of the Group Reorganisation are set out in the Prospectus. Proforma financial statements of the Group, based on group structure following the Group Reorganisation, are set out on pages 29 to 58 of the annual report.

The shares of the Company have been listed on GEM of the Stock Exchange with effect from 28 February 2005 (the "Listing Date").

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. It did not trade in the period between its date of incorporation on 14 April 2004 and the date of the Group Reorganisation. Particulars of the companies which became the Company's subsidiaries on 16 February 2005 are set out in note 36 to the proforma financial statements.

PROFORMA RESULTS

The results of the Group for the year ended 31 December 2004 are set out in the proforma consolidated income statement on page 29 of the annual report.

The directors do not recommend the payment of a final dividend and propose that the profit for the year be retained.

RESERVES

Details of movements during the year in the reserves of the Group are set out in the proforma statements of changes in equity.

PROPERTY, PLANT AND EQUIPMENT

Details of movements during the year in the property, plant and equipment of the Group are set out in note 12 to the proforma financial statements.

SHARE CAPITAL

Details of movements during the period from 14 April 2004 (date of incorporation) to 31 December 2004 in the share capital of the Company are set out in note 7 to the financial statements.

DIRECTORS' REPORT

DISTRIBUTABLE RESERVES

As at 31 December 2004, the Company did not have any reserves available for distribution to shareholders.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

FINANCIAL SUMMARY

A summary of the proforma results of the Group is set out on page 3 of the annual report.

DIRECTORS

The directors who held office from 14 April 2004 (date of incorporation) and up to the date of this report were:

Executive directors:

Mr. Zhuo Ze Fan	(appointed on 26 April 2004)
Ms. Lv Xia	(appointed on 26 April 2004)
Ms. Xie Yi Ping	(appointed on 16 February 2005)

Non-executive director:

Mr. Wu Jing Jin	(appointed on 16 February 2005)
-----------------	---------------------------------

Independent non-executive directors:

Mr. Zhao Shou Guo	(appointed on 16 February 2005)
Mr. Yam Tak Fai, Ronald	(appointed on 16 February 2005)
Mr. Ng Tang	(appointed on 16 February 2005)

In accordance with Article 87 of the Company's bye-laws, Mr. Zhuo Ze Fan, Ms. Xie Yi Ping, Mr. Wu Jing Jin, Mr. Zhao Shou Guo, Mr. Yam Tak Fai, Ronald and Mr. Ng Tang will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

DIRECTORS' PROFILE

The directors' profile is set out on pages 6 and 7 of the annual report.

DIRECTORS' SERVICE AGREEMENTS

Each of the executive directors, Mr. Zhuo Ze Fan, Ms. Lv Xia and Ms. Xie Yi Ping, has entered into a director's service agreement with the Company, whereby each of them has accepted the appointment as executive director of the Company for a term of three years from 16 February 2005 which may be terminated by either party giving three months' prior written notice or otherwise in accordance with the terms of the service agreement.

DIRECTORS' REPORT

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed above and in notes 17, 18, 21 and 32 to the proforma financial statements, no director had a material interest, whether directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its fellow subsidiaries and subsidiaries was a party subsisted at the end of the year or at any time during the year.

SHARE OPTION SCHEME

As at 31 December 2004, the Group has not adopted any share option scheme and not granted any option.

A share option scheme (the "Scheme") was adopted by the written shareholders' resolution of the Company dated 16 February 2005. The principal terms of the Scheme were summarised in note 8 to the financial statements.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN THE SHARES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 31 December 2004, the Company had not received any notice of interests to be recorded under Section 352 of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong Special Administrative Region ("SFO") as the Company had not been listed on GEM of the Stock Exchange as at that date.

Upon listing of the shares of the Company (the "Shares") on 28 February 2005 and up to date of the annual report, the interests of each director and chief executive in the shares of the Company and its associated corporations (within the meaning of the SFO), as recorded in the register maintained by the Company under Section 352 of the SFO or as notified to the Company were as follows:

(a) Long positions in the Shares

Name of director	Personal interests	Family interests	Corporate interests	Other interests	Total number of shares	Percentage of shareholding
Zhuo Ze Fan	-	-	34,905,059 (Note)	-	34,905,059	43.63%

Note: These shares are held by Callaway Group Limited which is beneficially owned as to 87.07% by Mr. Zhuo Ze Fan, 4.60% by Ms. Cui Yan Wen and 8.33% by True Assist Limited. Callaway Group Limited holds 34,905,059 Shares on the Listing Date and up to the date of the annual report.

(b) Short positions in the Shares

Nil.

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2004, the Company had not received any notice of interests to be recorded under Section 336 of the SFO as the Company had not been listed on GEM of the Stock Exchange as at that date.

Since the Listing Date and up to the date of the annual report, the register of substantial shareholders maintained by the Company under Section 336 of the SFO shows that the following companies had interests or long positions in the Shares.

Name of substantial shareholder	Number of shares	Percentage of shareholding (%)
Callaway Group Limited	34,905,059	43.63
Mr. Zhuo Ze Fan (<i>Note 1</i>)	34,905,059	43.63
Ms. Cui Yan Wen (<i>Note 1</i>)	34,905,059	43.63
Legend Profit Holdings Limited	11,948,657	14.94
Wonder Opportunity Limited (<i>Note 2</i>)	11,948,657	14.94
Mr. Wang Wen Ming (<i>Note 2</i>)	11,948,657	14.94
Ms. Chen Dong Jin (<i>Note 2</i>)	11,948,657	14.94
Stichting Shell Pensioenfond	6,000,000	7.50
Ms. An Yu	5,714,285	7.14
SW Kingsway Capital Holdings Limited (<i>Note 3</i>)	5,199,999	6.50
World Developments Limited (<i>Note 4</i>)	5,199,999	6.50
Innovative Assets Limited (<i>Note 5</i>)	5,199,999	6.50
Kingsway International Holdings Limited (<i>Note 6</i>)	5,199,999	6.50
Mr. Lam Ka Chung William (<i>Note 7</i>)	5,199,999	6.50
Ms. Lam Wong Yuk Sin Mary (<i>Note 7</i>)	5,199,999	6.50
Mr. Choi Koon Shum Jonathan (<i>Note 8</i>)	5,199,999	6.50
Ms. Kwan Wing Kum Janice (<i>Note 9</i>)	5,199,999	6.50

Notes:

- Callaway Group Limited is beneficially owned as to 87.07% by Mr. Zhuo Ze Fan, 4.60% by Ms. Cui Yan Wen and 8.33% by True Assist Limited. Mr. Zhuo Ze Fan is an executive Director and chairman of the Company and the spouse of Ms. Cui Yan Wen. True Assist Limited is beneficially owned as to 50% by Ms. Chen Dong Jin, 30% by Mr. Wang Wen Ming and 20% by Mr. Wu Jing Jin. Mr. Wang Wen Ming is the director of Best Era Assets Limited, an indirect wholly-owned subsidiary of the Company. Ms. Chen Dong Jin is the spouse of Mr. Wang Wen Ming. Mr. Wu Jing Jin is a non-executive director of the Company.
- Legend Profit Holdings Limited is beneficially owned by Wonder Opportunity Limited. Wonder Opportunity Limited is beneficially owned as to 59% by Mr. Wang Wen Ming, 30% by Mr. Wu Jing Jin and 11% by Mr. Zhang Xin Li.
- Bright Process Technology Limited and Kingsway SW Finance Limited are interested in 3,333,333 Shares and 1,866,666 Shares, respectively. Bright Process Technology Limited is owned by Festival Developments Limited, while Kingsway SW Finance Limited is owned by SW Kingsway Capital Group Limited. Both Festival Developments Limited and SW Kingsway Capital Group Limited are owned by SW Kingsway Capital Holdings Limited.

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY (Continued)

Notes (Continued):

4. World Developments Limited holds 74% of interest in SW Kingsway Capital Holdings Limited.
5. World Developments Limited is owned by Innovative Assets Limited.
6. Innovative Assets Limited is owned by Kingsway International Holdings Limited.
7. Mr. Lam Ka Chung William ("Mr. Lam") and his spouse, Ms. Lam Wong Yuk Sin Mary ("Mrs. Lam"), beneficially own or control 32,432,317 common shares (approximately 41%) of the issued share capital of Kingsway International Holdings Limited ("Kingsway International") and deemed (by virtue of the SFO) to be interested in the shares in, or debenture of, the subsidiaries of Kingsway International.

Of the above 32,432,317 common shares, 9,726,750 common shares are held directly by Mr. Lam, 10,515,060 common shares are held by Dynasty International Holdings Limited, 9,790,507 common shares are held directly by Mrs. Lam and 2,400,000 common shares are held by Abundant World Limited.

Dynasty International Holdings Limited is a wholly owned subsidiary of Global Fame Limited. Global Fame Limited is wholly owned by The WKC Lam Family Trust which is a discretionary trust with Mr. Lam and his two children as the beneficiaries. On 29 June 2004, Mrs. Lam was appointed as a trustee of The WKC Lam Family Trust, By virtue of the SFO, Mrs. Lam is deemed to be interested in the common shares of Kingsway International held by Dynasty International Holdings Limited.

Abundant World Limited is wholly owned by The Mary Lam Family Trust which is a discretionary trust with Mrs. Lam and her two children as the beneficiaries. Mr. Lam is a trustee of The Mary Lam Family Trust. By virtue of the SFO, Mr. Lam is deemed to be interested in the common shares of Kingsway International held by Abundant World Limited.

By virtue of the SFO, Mr. Lam is deemed to be interested in the common shares of Kingsway International which are held, owned, control or deemed to be interested in by Mrs. Lam.

8. Mr. Choi Koon Shum Jonathan ("Mr. Choi") beneficially owns or controls 36,929,651 shares (approximately 46%) of the issued share capital of Kingsway International and was deemed (by virtue of the SFO) to be interested in the shares in, or debenture of the subsidiaries of Kingsway International under the SFO.

Of the above 36,929,651 shares, 10,101,596 common shares of Kingsway International are held by Mr. Choi as personal interest and 12,750,000 and 14,078,055 common shares of Kingsway International are held by Sun Wah Capital Limited and Scarlet Red Limited respectively as corporate interest. In other words, Mr. Choi personally holds approximately 13% of Kingsway International and have corporate interest of approximately 16% and 17% of Kingsway International through Sun Wah Capital Limited and Scarlet Red Limited respectively.

9. Ms. Kwan Wing Kum Janice is the spouse of Mr. Choi.

DIRECTORS' REPORT

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers accounted for approximately 43% of the sales of the Group and the largest customer accounted for approximately 14% of the total sales of the Group.

The aggregate purchases attributable to the Group's five largest suppliers during the year accounted for approximately 95% of the total purchases of the Group and the largest supplier accounted for approximately 68% of the total purchases of the Group.

None of the directors, their associates or any shareholder (which to the knowledge of the directors owns more than 5% of the Company's issued share capital) had an interest in any of the five largest customers and suppliers of the Group.

CONNECTED TRANSACTIONS

Significant related party transactions entered into by the Group during the year ended 31 December 2004 are disclosed in note 32 to the proforma financial statements.

The Group entered into a tenancy agreement (the "Tenancy Agreement") with Xi'an Juchuan International Investments Ltd (西安巨川國際投資有限公司) ("Juchuan Investments") for a term of three years commencing on 1 March 2002 and expiring on 28 February 2005, and further renewed it up to 28 February 2007, for the site located at Levels 1 and 2, 23 Tuan Jie Nan Road, Xi'an High-Tech Development (West Zone), Xi'an City, Shaanxi Province, the PRC of a total floor area of 1,315 square meters. The annual rent and air-conditioning charges paid by the Group to Juchuan Investments under the Tenancy Agreement was RMB835,829 and RMB821,086 for each of the two years ended 31 December 2004. Assuming the rents would not change throughout the term of the Tenancy Agreement, the aggregate fee payable by the Group to Juchuan Investments pursuant to the Tenancy Agreement is expected to be approximately RMB840,000, RMB840,000 and RMB142,000 for each of the year ending 31 December 2005, 2006 and 2007.

The Tenancy Agreement constitutes a continuing connected transaction under the GEM Listing Rules for the Company. Since the consideration of the above continuing connected transaction represents less than 2.5% in each of the percentage ratios as set out in Rule 19.07 of the GEM Listing Rules, with reference to the figures for the year ended 31 December 2004 as disclosed in the annual report, the transaction will fall within Rule 20.31(2) of the GEM Listing Rules and will be exempted from disclosure and shareholders' approval requirements under the GEM Listing Rules.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Each of the directors and the management shareholders of the Company and their respective associates (as defined in the GEM Listing Rules) has confirmed that none of them had any business or interest in companies that competes or may compete with the business of the Group or any other conflict of interests with the interests of the Group.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

DIRECTORS' REPORT

SPONSOR'S INTERESTS

As at 31 December 2004, neither Hantec Capital Limited (the "Sponsor") nor its directors or employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interests in the securities of the Company, including options or rights to subscribe for such securities.

Pursuant to the sponsorship agreement dated 21 February 2005 entered into between the Company and the Sponsor, the Sponsor received and shall receive an annual fee for acting as the Company's retained sponsor for the period commencing from (and including) the date of commencement of dealings in the Shares on GEM and ending on (and including) the last day of the second full (and not part thereof) financial year after the Listing Date.

BOARD PRACTICES AND PROCEDURES

The Company has complied with Board Practices and Procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules throughout the year, except that the non-executive directors of the Company are not appointed for specific terms and are subject to re-election at the annual general meeting of the Company in accordance with the provisions of the Company's bye-laws.

AUDIT COMMITTEE

The Company established an audit committee on 16 February 2005 with written terms of reference in compliance with the GEM Listing Rules. The authority and duties of the audit committee are based on the guidelines set out in "A Guide for The Formation of An Audit Committee" published by the Hong Kong Institute of Certified Public Accountants.

The audit committee provides a link between the Board of Directors and the Company's auditors in matter coming within the scope of the Group audit. It also reviews and supervises the financial reporting process and internal control procedures of the Group. The audit committee comprises three independent non-executive directors, namely Mr. Zhao Shou Guo, Mr. Yam Tak Fai, Ronald and Mr. Ng Tang.

SUBSEQUENT EVENTS

Details of significant events which have been taken place subsequent to the balance sheet date are set out in note 35 to the proforma financial statements.

AUDITORS

Messrs. Deloitte Touche Tohmatsu were appointed as auditors of the Company at the time of its incorporation on 14 April 2004. A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint them.

On behalf of the Board

Sungreen International Holdings Limited

ZHUO Ze Fan

Chairman

Xi'an City, Shaanxi Province, the PRC, 29 March 2005

AUDITORS' REPORT ON THE FINANCIAL STATEMENTS

Deloitte.
德勤

TO THE MEMBERS OF SUNGREEN INTERNATIONAL HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 21 to 27 which have been prepared in accordance with International Financial Reporting Standards.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

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

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

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company as at 31 December 2004 and of its loss for the period from 14 April 2004 (date of incorporation) to 31 December 2004 and have been properly prepared in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

29 March 2005

INCOME STATEMENT

For the period from 14 April 2004 (date of incorporation) to 31 December 2004

	<i>Note</i>	<i>RMB</i>
Revenue		–
Administrative expenses		475,701
<hr/>		
Loss for the period	3	(475,701)
<hr/>		

BALANCE SHEET

At 31 December 2004

	<i>Notes</i>	<i>RMB</i>
CURRENT ASSET		
Prepayments		2,597,163
CURRENT LIABILITIES		
Other payables		1,329,628
Amount due to a fellow subsidiary	5	873,199
Amount due to a related company	6	870,037
		3,072,864
		(475,701)
CAPITAL AND RESERVES		
Share capital	7	-
Reserves		(475,701)
		(475,701)

The financial statements on pages 21 to 27 were approved by the Board of Directors on 29 March 2005 and are signed on its behalf by:

Zhuo Ze Fan
Director

Lv Xia
Director

NOTES TO THE FINANCIAL STATEMENTS

For the period from 14 April 2004 (date of incorporation) to 31 December 2004

1. GENERAL

The Company was incorporated and registered in Bermuda under the Companies Acts as an exempted company on 14 April 2004.

The Company was listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 28 February 2005.

The Company did not trade during the period from 14 April 2004 (date of incorporation) to 31 December 2004.

The financial statements have been prepared in Renminbi ("RMB"), being the reporting currency of the Company.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention and in accordance with International Financial Reporting Standards ("IFRS"). The principal accounting policies adopted are as follows:

Foreign currencies

Transactions in currencies other than RMB are translated at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on translation are dealt with in the income statement.

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

Deferred tax is the tax expected to be payable or recoverable 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 negative 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.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

NOTES TO THE FINANCIAL STATEMENTS

For the period from 14 April 2004 (date of incorporation) to 31 December 2004

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

3. LOSS FOR THE PERIOD

	<i>RMB</i>
Loss for the period has been arrived at after charging:	
Directors' remuneration	–
Other staff costs	212,729
Retirement benefit scheme contribution	2,120
	<hr/>
Total staff costs	214,849
Auditors' remunerations	140,980

4. TAXATION

No provision for Hong Kong Profits Tax has made as the Company did not have any assessable profit for the period.

5. AMOUNT DUE TO A FELLOW SUBSIDIARY

The amount due is unsecured, non-interest bearing and is repayable on demand.

6. AMOUNT DUE TO A RELATED COMPANY

Details of amount due to a related company are as follows:

Name of company	<i>RMB</i>
Sungreen Agro Limited	870,037

The amount was unsecured, non-interest bearing and was fully repaid prior to the listing of the shares of the Company on the GEM of the Stock Exchange. Mr. Zhuo Ze Fan, the director of the Company, has a beneficial interest in this related company.

NOTES TO THE FINANCIAL STATEMENTS

For the period from 14 April 2004 (date of incorporation) to 31 December 2004

7. SHARE CAPITAL

	Number of share	Amount
Shares of HK\$0.10 each		
Authorised:		
At the date of incorporation and at 31 December 2004	1,000,000	HK\$100,000
Issued and fully paid:		
At the date of incorporation	–	–
On 26 April 2004	1,000,000	–
At 31 December 2004	1,000,000	–
Shown in the financial statements as		–

The Company was incorporated on 14 April 2004 with an authorised share capital of HK\$100,000 (equivalent to RMB106,000) divided into 1,000,000 shares of HK\$0.10 each. On 26 April 2004, 1,000,000 shares of HK\$0.10 each were allotted and issued to Callaway Group Limited, all of which were issued and credited as nil paid.

Changes in the share capital of the Company subsequent to 31 December 2004 are set out in note 9 to the financial statements.

8. SHARE OPTION SCHEME

The Company's share option scheme (the "Share Option Scheme") was adopted pursuant to the resolutions of the shareholders passed on 16 February 2005 for the primary purpose of providing the people and the parties working for the interest of the Group with an opportunity to obtain equity interest in the Company, thus linking their interest with the interest of the Group and thereby providing them with incentives to work better for the interest of the Group and/or rewards for their contribution and support to the Group. The board of directors may, at its discretion, invite (i) employees of the Company (whether full-time or part-time) or any of its subsidiaries or associated companies; (ii) chief executive, directors (whether executive directors or non-executive directors or independent non-executive directors) of the Company or any of its subsidiaries or associated companies; (iii) any shareholder of any member of the Company or any of its subsidiaries or associate companies; (iv) suppliers of goods and/or services to the Company or any of its subsidiaries or associated companies; (v) any customers of the Company or any of its subsidiaries or associated companies; (vi) any person or entity that provides research, development or other technical support to the Company or any of its subsidiaries or associated companies; (vii) any adviser (technological, technical, financial, legal or otherwise) or consultants engaged by or worked for the Company or any of its subsidiaries or associated companies; and (viii) joint venture partner or counter-party to any business operation or business arrangements of the Group (together, the "Participants" and each a "Participant"), to take up options ("Options") to subscribe for shares at a price calculated in accordance with paragraph below. No performance target is required to be achieved before an Option can be exercised.

NOTES TO THE FINANCIAL STATEMENTS

For the period from 14 April 2004 (date of incorporation) to 31 December 2004

8. SHARE OPTION SCHEME (Continued)

HK\$1.00 is payable by the Participant to the Company on acceptance of the option offer as consideration for the grant.

At the time of adoption of the Share Option Scheme, the Company may seek approval of its shareholders in a general meeting to authorise the directors to grant options under the Share Option Scheme and any other share option schemes of the Company entitling the grantees to exercise up to an aggregate of 10%, being 8,000,000 shares (the "Scheme Mandate Limit") of the total number of shares in issue immediately following completion of the placing (excluding (a) any shares issued pursuant to the Share Option Scheme and any other Share Option Schemes of the Company; and (b) any pro rata entitlements to further shares issued in respect of these shares mentioned in (a) unless the Company obtains a fresh approval from the shareholders).

An Option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period of not more than 10 years to be notified by the board of directors to each grantee, which period shall commence on the date on which an offer of the grant of an option is accepted or deemed to be accepted in accordance with the terms of the Share Option Scheme and expire on the last day of such period as determined by the board.

The Share Option Scheme will remain valid and effective for a period of 10 years commencing on 16 February 2005, after which period no further Options will be granted but in respect of all Options which remain exercisable at the end of such period, the provisions of the Share Option Scheme shall remain in full force and effect.

No share option has been granted by the Company since the adoption of the Share Option Scheme.

9. POST BALANCE SHEET EVENTS

Pursuant to written resolutions of the shareholder of the Company passed on 16 February 2005:

- (a) the authorised share capital of the Company was increased from HK\$100,000 to HK\$50,000,000 by the creation of additional 4,990,000,000 shares of HK\$0.01 each to rank pari passu with the existing shares in all respects;
- (b) the directors were authorised to allot and issue, credited as fully paid, 6,300,000 shares to Callaway Group Limited and 3,700,000 shares to Legend Profit Holdings Limited and to credit as fully paid at par the 1,000,000 shares of HK\$0.10 each, which were allotted and issued nil paid to Callaway Group Limited on 26 April 2004 and were subsequently subdivided into 10,000,000 shares as consideration for the acquisition by the Company of the entire issued share capital of Sungreen Investment Limited;
- (c) The share premium of the company being credited as a result of the placing of the Company's shares, an amount of HK\$229,657 be capitalised and be applied in paying up in full at par 22,965,716 shares for allotment and issue to the shareholders whose names were on the register of members of the Company as at the close of business on 21 February 2005 and the shares to be allotted and issued pursuant to this resolution shall rank pari passu in all respects with the existing issued shares (the "Capitalisation Issue") as follows:

Name of Allottee	Number of shares issued
Callaway Group Limited	18,717,059
Legend Profit Holdings Limited	4,248,657

NOTES TO THE FINANCIAL STATEMENTS

For the period from 14 April 2004 (date of incorporation) to 31 December 2004

9. POST BALANCE SHEET EVENTS (Continued)

- (d) the placing of 20,000,000 new shares of HK\$0.01 each in the Company for HK\$2.50 per share (the "Placing Shares") was approved and the directors were authorised to allot and issue the Placing Shares upon the listing of the Company's shares on the GEM of the Stock Exchange; and
- (e) the directors were authorised to allot and issue a total of 17,034,284 shares to the convertible note holders (as to 5,714,285 shares to Ms. An Yu, as to 2,000,000 shares to Chung Fu (Hong Kong) Investment Limited, as to 1,866,666 shares to Future Finance Group Limited, as to 4,000,000 shares to Legend Profit Holdings Limited, as to 3,333,333 shares to Bright Process Technology Limited and as to 120,000 shares to Asia Trinity International Limited) upon the listing of the Company's shares on the GEM of the Stock Exchange.

AUDITORS' REPORT ON THE PROFORMA FINANCIAL STATEMENTS

Deloitte.
德勤

TO THE MEMBERS OF SUNGREEN INTERNATIONAL HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

We have audited the proforma financial statements on pages 29 to 58 which have been prepared in accordance with the accounting policies set out in note 2 to the proforma financial statements which comply with International Financial Reporting Standards except that the effects of the group reorganisation which took place after the balance sheet date have been accounted for using merger accounting as if the current group structure had been in existence at the balance sheet date.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of proforma financial statements which are properly prepared in accordance with the accounting policies set out in note 2 to the proforma financial statements. In preparing such proforma financial statements it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

It is our responsibility to form an independent opinion, based on our audit, on those proforma financial statements and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

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

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

OPINION

In our opinion the proforma financial statements for the year ended 31 December 2004 have been properly prepared in accordance with the accounting policies set out in note 2 to the proforma financial statements and the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

29 March 2005

PROFORMA CONSOLIDATED INCOME STATEMENT*For the year ended 31 December 2004*

	<i>Notes</i>	2004 RMB	2003 RMB
Revenue		116,155,151	88,738,964
Cost of sales		(72,332,206)	(53,704,787)
<hr/>			
Gross profit		43,822,945	35,034,177
Other operating income	4	1,314,539	5,619,862
Selling and distribution costs		(21,421,073)	(13,570,752)
Administrative expenses		(7,691,856)	(6,068,001)
Other operating expenses		(1,330)	(100,779)
<hr/>			
Profit from operations	5	16,023,225	20,914,507
Finance costs	6	(3,467,567)	(4,304,280)
<hr/>			
Profit before tax		12,555,658	16,610,227
Income tax expenses	8	-	(1,280,767)
<hr/>			
Profit after tax		12,555,658	15,329,460
Minority interests		(4,710,599)	(5,365,311)
<hr/>			
Net profit for the year		7,845,059	9,964,149
<hr/>			
Dividends	9	-	11,196,570
<hr/>			
Earnings per share, basic (cents)	10	9.81	12.46

PROFORMA CONSOLIDATED BALANCE SHEET

At 31 December 2004

	<i>Notes</i>	2004 RMB	2003 RMB
NON-CURRENT ASSETS			
Intangible assets	11	3,405,833	4,250,833
Property, plant and equipment	12	63,965,101	66,936,043
Other assets	13	–	7,300,000
		67,370,934	78,486,876
CURRENT ASSETS			
Inventories	14	8,404,815	9,974,938
Trade receivables	15	28,349,327	26,961,455
Other receivables and prepayments		13,837,072	7,157,707
Other investments	16	600,000	–
Deposit placed with a security company		–	2,000,000
Amount due from a related company	17	–	183,127
Amount due from a director	18	6,000	–
Loan receivables – due within one year	19	–	32,429,395
Bank balances and cash		46,166,867	10,325,796
		97,364,081	89,032,418
CURRENT LIABILITIES			
Trade payables	20	441,250	905,248
Other payables and accrued charges		6,750,727	4,220,779
Income tax payable		–	1,322,925
Amounts due to related companies	21	5,110,037	–
Dividend payable to the shareholders of a subsidiary		17,225,492	17,225,492
Bank borrowings – due within one year	23	40,000,000	70,000,000
Convertible notes – due within one year	24	28,598,800	–
		98,126,306	93,674,444
NET CURRENT LIABILITIES		(762,225)	(4,642,026)
		66,608,709	73,844,850

PROFORMA CONSOLIDATED BALANCE SHEET

At 31 December 2004

	<i>Notes</i>	2004 RMB	2003 RMB
CAPITAL AND RESERVES			
Share capital	25	8,268	32,500,000
Reserves		12,761,626	8,999,152
		12,769,894	41,499,152
MINORITY INTERESTS			
		27,056,297	22,345,698
NON-CURRENT LIABILITIES			
Amount due to a shareholder	22	6,782,518	–
Bank borrowings – due after one year	23	20,000,000	10,000,000
		26,782,518	10,000,000
		66,608,709	73,844,850

The proforma financial statements on pages 29 to 58 were approved and authorised for issue by the Board of Directors on 29 March 2005 and are signed on its behalf by:

Zhuo Ze Fan
Director

Lv Xia
Director

PROFORMA CONSOLIDATED STATEMENT OF CHANGES IN EQUITY*For the year ended 31 December 2004*

	Share capital RMB (Note 25)	Statutory surplus reserve RMB (Note 27(a))	Statutory public welfare fund RMB (Note 27(b))	Special reserve RMB (Note 27(c))	Accumulated profits RMB	Total RMB
At 1 January 2003	32,500,000	1,335,715	667,857	–	8,228,001	42,731,573
Net profit for the year	–	–	–	–	9,964,149	9,964,149
Appropriated from accumulated profits	–	1,071,857	535,928	–	(1,607,785)	–
Dividends	–	–	–	–	(11,196,570)	(11,196,570)
At 31 December 2003	32,500,000	2,407,572	1,203,785	–	5,387,795	41,499,152
Net profit for the year	–	–	–	–	7,845,059	7,845,059
Issued on incorporation	82,688	–	–	–	–	82,688
Arising in reorganisation	(74,420)	–	–	74,420	–	–
Distribution in reorganisation	(32,500,000)	–	–	–	(4,157,005)	(36,657,005)
Appropriated from accumulated profits	–	1,002,580	501,290	–	(1,503,870)	–
At 31 December 2004	8,268	3,410,152	1,705,075	74,420	7,571,979	12,769,894

PROFORMA CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2004

	2004 RMB	2003 RMB
OPERATING ACTIVITIES		
Profit before tax	12,555,658	16,610,227
Adjustments for:		
Interest expense	3,467,567	4,304,280
Interest income	(1,114,539)	(1,119,862)
Depreciation and amortisation of property, plant and equipment	6,853,776	6,349,104
Amortisation of intangible assets	845,000	245,000
Loss on disposal of property, plant and equipment	–	100,779
(Reversal of allowances) allowances for bad and doubtful debts	(257,333)	375,790
(Reversal of allowances) allowances for inventories	(271,074)	400,000
Government grants	–	(4,500,000)
Operating cash flows before movements in working capital	22,079,055	22,765,318
Decrease in inventories	1,841,197	1,296,730
(Increase) decrease in trade receivables	(1,130,539)	491,775
Increase in other receivables and prepayments	(6,679,365)	(4,174,778)
Increase in amount due from a director	(6,000)	–
Decrease in amounts due from (to) related companies	5,293,164	60,929
Decrease in trade payables	(463,998)	(229,437)
Increase in other payables and accrued charges	2,529,948	488,330
Cash generated from operations	23,463,462	20,698,867
Income tax paid	(1,322,925)	–
Interest paid	(3,467,567)	(4,304,280)
NET CASH GENERATED FROM OPERATING ACTIVITIES	18,672,970	16,394,587
INVESTING ACTIVITIES		
Distribution in reorganisation	(36,657,005)	–
Purchase of property, plant and equipment	(3,882,834)	(31,549,999)
Advance of loan receivables	–	(26,290,000)
Purchase of other investments	(600,000)	–
Repayment of loan receivables	32,429,395	410,605
Recover (acquisition) of other assets	7,300,000	(1,300,000)
Decrease (increase) in deposit placed with a security company	2,000,000	–
Interest received	1,114,539	1,119,862
Proceeds from disposals of property, plant and equipment	–	3,207,928
Purchase of intangible assets	–	(3,600,000)
NET CASH GENERATED FROM (USED IN) INVESTING ACTIVITIES	1,704,095	(58,001,604)

PROFORMA CONSOLIDATED CASH FLOW STATEMENT*For the year ended 31 December 2004*

	2004 RMB	2003 RMB
FINANCING ACTIVITIES		
Issue of convertible notes	28,598,800	–
New bank borrowings raised	20,000,000	60,000,000
Advance from a shareholder	6,782,518	–
Issue of shares of subsidiaries to minority shareholders	82,688	–
Repayment of bank borrowings	(40,000,000)	(30,000,000)
NET CASH GENERATED FROM FINANCING ACTIVITIES	15,464,006	30,000,000
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	35,841,071	(11,607,017)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	10,325,796	21,932,813
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash	46,166,867	10,325,796

NOTES TO THE PROFORMA FINANCIAL STATEMENTS

For the year ended 31 December 2004

1. GROUP REORGANISATION AND BASIS OF PRESENTATION OF PROFORMA FINANCIAL STATEMENTS

The Company was incorporated and registered as an exempted company in Bermuda on 14 April 2004.

Pursuant to a group reorganisation (the "Group Reorganisation") to rationalise the group structure in preparation for the listing of the Company's shares on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the group (the "Group") formed after the completion of the Group Reorganisation on 16 February 2005.

The Group resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, these proforma financial statements of the Group have been prepared on the basis as if the Company had always been the holding company of the Group. The directors consider that this basis provides meaningful information for shareholders as regards the historical performance of the companies now comprising the Group.

Details of the Group Reorganisation are set out in the prospectus (the "Prospectus") issued by the Company dated 21 February 2005.

The shares of the Company were listed on the GEM of the Stock Exchange on 28 February 2005.

The Company did not trade during the period from 14 April 2004 (date of incorporation) to 31 December 2004. Its principal subsidiary is engaged in the manufacture and distribution of organic fertilizers.

The Group's principal operations are conducted in The People's Republic of China (the "PRC"). The proforma financial statements set out in this report have been prepared in Renminbi ("RMB"), being the reporting currency of the Group. The measurement currency of the Group is RMB in which the majority of the Group's transactions are denominated.

As at 31 December 2004, the ultimate holding company of the Company was Callaway Group Limited, a company incorporated in the British Virgin Islands.

2. SIGNIFICANT ACCOUNTING POLICIES

The proforma financial statements have been prepared under the historical cost convention and in accordance with the principal accounting policies set out below which conform with the International Financial Reporting Standards ("IFRS") published by the International Accounting Standard Board ("IASB") and the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules"), except for the Group Reorganisation took place after the balance sheet date has been accounted for using merger accounting. The principal accounting policies adopted are set out below:

Basis of consolidation

The proforma consolidated financial statements incorporate the financial statements of the Company and the companies which became the Company's subsidiaries on 16 February 2005 made up to 31 December 2004.

NOTES TO THE PROFORMA FINANCIAL STATEMENTS

For the year ended 31 December 2004

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

The proforma consolidated financial statements incorporate the effects of the Group Reorganisation completed on 16 February 2005 (as described in note 1 above). For the purposes of the proforma presentation, the reorganisation has been accounted for by using merger accounting as if the current group structure had been in existence at the balance sheet date.

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

All significant inter-company transactions and balances between group enterprises are eliminated on consolidation.

Financial assets

The principal financial assets are bank balances and cash, trade receivables, other receivables and prepayments, deposit placed with a security company and loan receivables. Trade receivables, other receivables and prepayments, deposit placed with a security company and loan receivables are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into. Financial liabilities include trade payables, other payables and accrued charges, dividend payable, amounts due to related companies and bank borrowings. Trade, other payables and accrued charges and dividend payable are stated at their nominal value. Bank borrowings are recorded at the proceeds received, net of direct issue costs.

Cash

Cash for the Group's cash flow statement includes cash and cash equivalents.

Turnover

Turnover represents the amounts received and receivable for goods sold, less returns and allowances, to third parties during the year.

Revenue recognition

Sale of goods is recognised when goods are delivered and title has passed.

Government grants in respect of specific costs to be incurred by the Group are recognised as income over the periods necessary to match them with the related costs and are reported separately as other operating income.

NOTES TO THE PROFORMA FINANCIAL STATEMENTS

For the year ended 31 December 2004

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Other grant from government authority is recognised when the conditions relating to the grant have been fulfilled.

Interest income is accrued on a time proportion basis by reference to the principal outstanding and at the interest rate applicable.

Investment income is accrued on a time proportion basis by reference to the investment amount outstanding and at the fixed return rate applicable.

Service income is recognised when services are provided.

Patent and technical know-how

Patent and technical know-how are measured initially at purchase cost less impairment losses and are amortised on a straight-line basis over their estimated useful lives.

Property, plant and equipment

Property, plant and equipment, other than properties under development, are stated at cost less accumulated depreciation and impairment losses.

Properties in the course of development for production, rental or administrative purposes, or for purpose not yet determined, are carried at cost, less any identified impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation and amortisation is provided to write off the cost of items of property, plant and equipment, other than properties under construction, over their estimated useful lives from the date on which they become fully operational, and after taking into account their estimated residual value, using the straight line method, at the following rates per annum:

Land and buildings	Over the term of the land use rights
Leasehold improvements	20%-33 $\frac{1}{3}$ %
Plant and machinery	10%
Furniture, fixtures and equipment	20%
Motor vehicles	12 $\frac{1}{2}$ %

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

NOTES TO THE PROFORMA FINANCIAL STATEMENTS

For the year ended 31 December 2004

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). If the recoverable amount of the 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, such 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.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, cost of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average cost method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Investments

Investments are recognised on a trade-date basis and are initially measured at cost, including transaction costs.

Investments other than held-to-maturity debt securities are classified as either held-for-trading or available-for-sale, and are measured at subsequent reporting dates at fair value. Where securities are held for trading purposes, gains and losses arising from changes in fair value are included in net profit or loss for the period. For available-for-sale investments, gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for the period.

Convertible notes

Convertible notes are separately disclosed and regarded as liabilities unless conversion actually occurs. The discount on redemption of convertible notes is recognised in the income statement so as to produce a constant periodic rate of credit on the remaining balances of the convertible notes for each accounting period. The costs incurred in connection with the issue of convertible notes are deferred and amortised on a straight line basis over the lives of the convertible notes from the date of issue of the notes to their final redemption date. If any of the notes are purchased and cancelled, redeemed or converted prior to the final redemption date, an appropriate portion of any remaining unamortised costs will be charged immediately to the income statement.

NOTES TO THE PROFORMA FINANCIAL STATEMENTS

For the year ended 31 December 2004

2. 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 net profit as reported in the income statement because it excludes items of income and expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable and deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable 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 negative 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 and associates, and interest in joint ventures, 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.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Foreign currencies

Transactions in currencies other than RMB are translated at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on translation are dealt with in the income statement.

NOTES TO THE PROFORMA FINANCIAL STATEMENTS

For the year ended 31 December 2004

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Research and development expenditure

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

Costs incurred on development projects are recognised as intangible assets only if all the following conditions are met:

- an asset is created that can be identified;
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred. Internally-generated intangible assets, if any, are amortised on a straight-line basis over their useful lives.

Operating leases

Rentals payable under operating leases are charged to the income statement on a straight line basis over the relevant lease term.

Retirement benefits costs

Payments to a state-managed retirement benefits scheme are charged as an expense as they fall due.

3. SEGMENT INFORMATION

As manufacture and sale of organic fertilizer products is the only reportable business segment of the Group and the operations of the Group are mainly carried out in the PRC, no segment information is presented.

4. OTHER OPERATING INCOME

	2004 RMB	2003 RMB
Bank interest income	86,196	209,862
Interest income from loan receivables	665,614	261,804
Interest income from other assets	60,000	360,000
Other interest income	302,729	288,196
Government grants (<i>Note</i>)	200,000	4,500,000
	1,314,539	5,619,862

Note: The grants from the government recognised by the Group are grant for encouraging the development of high-technology organic fertilizer products in the PRC.

NOTES TO THE PROFORMA FINANCIAL STATEMENTS

For the year ended 31 December 2004

5. PROFIT FROM OPERATIONS

	2004 RMB	2003 RMB
Profit from operations has been arrived at after charging (crediting):		
Directors' remuneration (<i>Note 7</i>)	195,893	194,852
Other staff costs	6,321,267	3,483,199
Retirement benefit schemes contributions (excluding those of directors)	73,682	95,613
Total staff costs	6,590,842	3,773,664
<i>Less:</i> Staff cost included in the research and development costs	<i>(191,375)</i>	<i>(185,568)</i>
	6,399,467	3,588,096
Amortisation of intangible assets (charged to administrative expenses)	845,000	245,000
Auditors' remuneration	494,000	70,000
Cost of inventories recognised in the income statement	72,332,206	53,704,787
Depreciation and amortisation of property, plant and equipment	6,853,776	6,349,104
<i>Less:</i> Depreciation and amortisation included in the research and development costs	<i>(213,666)</i>	<i>(158,045)</i>
	6,640,110	6,191,059
Loss on disposal of property, plant and equipment	–	100,779
Research and development expenditure	942,148	695,053
(Reversal of) allowances for bad and doubtful debts	<i>(257,333)</i>	375,790
(Reversal of) allowances for inventories	<i>(271,074)</i>	400,000

6. FINANCE COSTS

	2004 RMB	2003 RMB
Interest on bank borrowings wholly repayable within five years	3,467,567	4,304,280

NOTES TO THE PROFORMA FINANCIAL STATEMENTS

For the year ended 31 December 2004

7. DIRECTORS' AND EMPLOYEES' REMUNERATION

The emoluments of each of the directors for the year are all below HK\$1,000,000 (equivalent to approximately RMB1,060,000) and are as follows:

	2004 RMB	2003 RMB
Directors' fees:	–	–
Other emoluments:		
Basic salaries and allowances	188,000	188,000
Bonus	–	–
Retirement benefits scheme contributions	7,893	6,852
	195,893	194,852

The amounts disclosed above include other emoluments of RMB20,000 payable to an independent non-executive director during the year (2003: RMB21,713).

	2004 RMB	2003 RMB
Executive director		
Mr. Zhuo Ze Fan	54,231	53,313
Ms. Lv Xia	65,031	64,113
Ms. Xie Yi Ping	56,631	55,713
	175,893	173,139
Independent non-executive director		
Mr. Zhao Shou Guo	20,000	21,713
	195,893	194,852

The five highest paid individuals included three (2003: three) directors during the year ended 31 December 2004, details of whose emoluments are included above. The emoluments of the remaining two (2003: two) individuals, which fall within the band of nil to HK\$1,000,000 (equivalent to approximately RMB1,060,000) for the year ended 31 December 2004 are as follows:

	2004 RMB	2003 RMB
Basic salaries and allowances	278,729	132,000
Bonus	–	–
Retirement benefits scheme contributions	15,534	1,358
	294,263	133,358

NOTES TO THE PROFORMA FINANCIAL STATEMENTS

For the year ended 31 December 2004

7. DIRECTORS' AND EMPLOYEES' REMUNERATIONS (Continued)

During the year, no emoluments were paid by the Group to any of the directors or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during the year.

In addition, the number of staff (excluding directors of the Company) of the Group at the respective balance sheet dates are as follows:

	2004	2003
Number of staff	112	105

8. INCOME TAX EXPENSES

The amount represents provision for PRC corporate income tax on the Group's estimated assessable profit during the year.

Shaanxi Juchuan Fuwanjia Co., Ltd. ("Juchuan Fuwanjia"), a subsidiary of the Company, is regarded by the Xi'an Municipal Bureau of Science and Technology as a high technology enterprise located at the Xi'an National Hi-tech Industrial Development Zone. Pursuant to relevant laws and regulations in the PRC, Juchuan Fuwanjia is exempted from income tax for the two years starting from their first production year followed by an income tax rate of 15% in the remaining years of operation. Therefore, as confirmed with the local tax bureau, Juchuan Fuwanjia was exempted from income tax for the first two years since its production commenced in 2000 and is subject to an income tax payable of 15% thereafter. Since the production period for 2000 was not more than six months, the commencement of exemption from income tax was extended to 2001.

On 26 March 2004, Juchuan Fuwanjia was reorganised into a PRC sino-foreign equity joint venture company and was entitled to an exemption from PRC income tax for two years starting from its first profit-making year, followed by a 50% reduction for the next three years.

No provision of Hong Kong Profits Tax had been made for the year as the Company and its subsidiaries have no assessable profits arising in or deriving from Hong Kong.

NOTES TO THE PROFORMA FINANCIAL STATEMENTS

For the year ended 31 December 2004

8. INCOME TAX EXPENSES (Continued)

The charge for the year can be reconciled to the profit as shown in the proforma consolidated income statement as follows:

	2004 RMB	2003 RMB
Profit before tax	12,555,658	16,610,227
Tax at the income tax rate of 15% (2003: 15%)	1,883,349	2,491,534
Tax effect of profit of subsidiary in the PRC under tax holiday	(2,018,828)	–
Tax effect of income that are not taxable in determining taxable profit	(23)	(756,000)
Tax effect of expenses that are not deductible in determining taxable profit	135,502	113,199
Others	–	(567,966)
Tax expense for the year	–	1,280,767

There was no significant unprovided deferred taxation for the year or at the respective balance sheet dates.

9. DIVIDENDS

No dividend has been declared by the Company since the date of incorporation.

During the year ended 31 December 2003, Juchuan Fuwanjia declared dividends of RMB17,225,492 to its then shareholders including the amount of RMB6,028,922 which were payable to the minority shareholders of Juchuan Fuwanjia.

The rates of dividends and the number of shares ranking for dividends were not presented as such information was not meaningful having regard to the purpose of this report.

10. EARNINGS PER SHARE

The calculation of the basic earnings per share for the year is based on the net profit for year and on the basis of 80,000,000 (2003: 80,000,000) shares of the Company in issue on 21 February 2005.

NOTES TO THE PROFORMA FINANCIAL STATEMENTS

For the year ended 31 December 2004

11. INTANGIBLE ASSETS

	Technical know-how RMB	Patent RMB	Total RMB
COST			
At 1 January 2004 and at 31 December 2004	3,600,000	1,250,000	4,850,000
AMORTISATION			
At 1 January 2004	120,000	479,167	599,167
Charge for the year	720,000	125,000	845,000
At 31 December 2004	840,000	604,167	1,444,167
NET BOOK VALUES			
At 31 December 2004	2,760,000	645,833	3,405,833
At 31 December 2003	3,480,000	770,833	4,250,833

Technical know-how and patent are amortised over 5 years and 10 years, respectively, on a straight-line basis.

NOTES TO THE PROFORMA FINANCIAL STATEMENTS

For the year ended 31 December 2004

12. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Leasehold improvements	Plant and machinery	Furniture fixtures and equipment	Motor vehicles	Properties under development	Total
	RMB	RMB	RMB	RMB	RMB	RMB	RMB
COST							
At 1 January 2004	19,256,260	7,547,382	28,431,172	1,772,079	3,413,464	24,980,000	85,400,357
Additions	-	662,383	153,275	429,272	-	2,637,904	3,882,834
Reclassification	16,000	-	46,536	(62,536)	-	-	-
Transfers	-	467,064	1,470,970	-	-	(1,938,034)	-
At 31 December 2004	19,272,260	8,676,829	30,101,953	2,138,815	3,413,464	25,679,870	89,283,191
DEPRECIATION AND AMORTISATION							
At 1 January 2004	3,853,863	4,733,222	8,111,867	591,492	1,173,870	-	18,464,314
Reclassification	(543)	-	34,752	(34,209)	-	-	-
Provided for the year	1,162,479	2,276,923	2,671,434	329,228	413,712	-	6,853,776
At 31 December 2004	5,015,799	7,010,145	10,818,053	886,511	1,587,582	-	25,318,090
NET BOOK VALUES							
At 31 December 2004	14,256,461	1,666,684	19,283,900	1,252,304	1,825,882	25,679,870	63,965,101
At 31 December 2003	15,402,397	2,814,160	20,319,305	1,180,587	2,239,594	24,980,000	66,936,043

The land, buildings and properties under development are situated on land held under medium-term land use rights in the PRC.

The cost of land use rights is amortised over 50 years on a straight-line basis.

13. OTHER ASSETS

Included in the balance as at 31 December 2003 was an amount of RMB6,000,000 placed to 西安巨川國際投資有限公司 (Xian Juchuan International Investments Ltd.) (formerly known as 陝西巨川實業有限責任公司) (Shaanxi Juchuan Industrial Co. Ltd.) ("Juchuan Investments") for investing in securities in the PRC. On 18 June 2002, the Group entered into a two-year investment arrangement with Juchuan Investments. Juchuan Investments was a former shareholder of Juchuan Fuwanjia. Sungreen Agro became the immediate holding company of Juchuan Fuwanjia after the transformation of Juchuan Fuwanjia from a joint stock limited company to a PRC sino-foreign equity joint venture in March 2004. The said amount borne interest rate of 6% per annum and was fully repaid to the Group during the year ended 31 December 2004.

NOTES TO THE PROFORMA FINANCIAL STATEMENTS

For the year ended 31 December 2004

13. OTHER ASSETS (Continued)

Details of balance with Juchuan Investments are as follows:

	As at 31 December		Maximum amount outstanding during the year RMB
	2004	2003	
	RMB	RMB	
Juchuan Investments	–	6,000,000	6,000,000

Other than the amount disclosed above, included in the balance as at 31 December 2003 was an amount of RMB1,300,000 placed to a third party for investing in advertising business in the PRC. The said amount borne interest rate of 20% per annum and was fully repaid to the Group during the year ended 31 December 2004.

14. INVENTORIES

	2004 RMB	2003 RMB
Raw materials	1,087,554	408,733
Work in progress	580,870	127,152
Finished goods	6,736,391	9,439,053
	8,404,815	9,974,938

Included above are finished goods of nil (2003: RMB9,439,053) which are carried at net realisable value.

15. TRADE RECEIVABLES

The Group allows a credit period from 30 days to 180 days to its trade customers. However, for certain customers with long established relationship and good past payment histories, a longer credit period may be granted. The aged analysis of trade receivables is as follows:

	2004 RMB	2003 RMB
Aged:		
0-60 days	10,655,096	12,604,747
61-120 days	11,689,042	8,839,365
121-180 days	6,997,797	5,813,230
181-365 days	582,342	1,085,760
Over 365 days	3,661	51,230
	29,927,938	28,394,332
Less: Allowances for bad and doubtful debts	(1,578,611)	(1,432,877)
	28,349,327	26,961,455

NOTES TO THE PROFORMA FINANCIAL STATEMENTS

For the year ended 31 December 2004

16. OTHER INVESTMENTS

	Trading securities	
	2004	2003
	RMB	RMB
Unlisted equity securities, at fair value	600,000	–

17. AMOUNT DUE FROM A RELATED COMPANY

Name of related company	Balance as at 31 December		Maximum amount outstanding during the year
	2004	2003	
	RMB	RMB	
Juchuan Investments	–	183,127	183,127

The amount was unsecured, non-interest bearing and was fully settled during the year.

18. AMOUNT DUE FROM A DIRECTOR

Name of director	Balance as at 31 December		Maximum amount outstanding during the year
	2004	2003	
	RMB	RMB	
Ms. Lv Xia	6,000	–	10,000

The amount is unsecured, non-interest bearing and has been settled subsequent to the year end.

19. LOAN RECEIVABLES

The amounts represented loan receivables due from third parties which were unsecured and were fully repaid during the year ended 31 December 2004. The amounts were non-interest bearing, other than amounts of approximately RMB31,456,000 at 31 December 2003, which borne interest at rates ranged from 5.31% to 6% per annum.

NOTES TO THE PROFORMA FINANCIAL STATEMENTS

For the year ended 31 December 2004

20. TRADE PAYABLES

The aged analysis of trade payables is as follows:

	2004	2003
	<i>RMB</i>	<i>RMB</i>
Aged:		
0-90 days	432,620	896,376
91-180 days	–	180
181-365 days	8,630	8,692
	<hr/> 441,250	<hr/> 905,248

21. AMOUNTS DUE TO RELATED COMPANIES

Details of amounts due to related companies are as follows:

	2004	2003
	<i>RMB</i>	<i>RMB</i>
Top Precision Group Limited	4,240,000	–
Sungreen Agro Limited	870,037	–
	<hr/> 5,110,037	<hr/> –

The amounts are unsecured, non-interest bearing and have been fully repaid prior to the listing of the shares of the Company on the GEM of the Stock Exchange. Mr. Zhuo Ze Fan, the director of the Company, has beneficial interests in these related companies.

22. AMOUNT DUE TO A SHAREHOLDER

The amount due to Legend Profit Holdings Limited is unsecured, non-interest bearing and has been waived pursuant to the deed of waiver prior to the listing of the shares of the Company on the GEM of the Stock Exchange.

NOTES TO THE PROFORMA FINANCIAL STATEMENTS

For the year ended 31 December 2004

23. BANK BORROWINGS

	2004 RMB	2003 RMB
Secured	30,000,000	–
Unsecured	30,000,000	80,000,000
	60,000,000	80,000,000

The bank borrowings are repayable as follows:

Within one year	40,000,000	70,000,000
More than one year, but not exceeding two years	20,000,000	10,000,000
	60,000,000	80,000,000
<i>Less:</i> Amount repayable within one year shown under current liabilities	(40,000,000)	(70,000,000)
Amount repayable after one year	20,000,000	10,000,000

All the Group's bank borrowings are in RMB and guaranteed by third parties except for RMB10,000,000 as at 31 December 2003 and 31 December 2004 which were guaranteed by Juchuan Investments and RMB30,000,000 as at 31 December 2004 which is secured by a pledge of the Group's land and buildings and a property held by Juchuan Investments.

For the year ended 31 December 2004, all the bank borrowings were arranged at fixed interest rates ranging from 5.310% to 5.765% (2003: 4.646% to 5.841%).

24. CONVERTIBLE NOTES

During the year ended 31 December 2004, Sungreen Agro Strategic Holdings Limited, a subsidiary of the Company, issued convertible notes to third parties and a shareholder of the Company. The convertible notes are unsecured, non-interest bearing and are repayable on eighteen months of the issue date of the convertible notes. The convertible notes shall automatically be converted into ordinary shares of the Company at a price of range from HK\$1.50 to HK\$1.75, which in aggregate equivalent to 21.29% of the issued share capital of the Company as enlarged by the conversion of convertible notes upon the listing of the Company's shares on the GEM of the Stock Exchange.

NOTES TO THE PROFORMA FINANCIAL STATEMENTS

For the year ended 31 December 2004

24. CONVERTIBLE NOTES (Continued)

Details of the convertible notes are as follows:

Name of party	Notes	Conversion price HK\$	Approximate percentage of shareholding after the conversion of convertible notes %	Date of issue	Amount of convertible notes HK\$
Ms. An Yu	(ii)	1.75	7.14	24 February 2004	10,000,000
Legend Profit Holdings Limited	(i)	1.50	5.00	1 May 2004	6,000,000
Bright Process Technology Limited	(ii)	1.50	4.17	22 March 2004	5,000,000
Chung Fu (Hong Kong) Investment Limited	(ii)	1.50	2.50	2 April 2004	3,000,000
Future Finance Group Limited	(ii)	1.50	2.33	24 February 2004	2,800,000
Asia Trinity International Limited	(ii)	1.50	0.15	6 April 2004	180,000
			21.29		26,980,000
					<i>RMB</i>
Shown in the financial statements as					28,598,800
Less: Amount repayable within one year shown under current liabilities					28,598,800
					-

Notes:

- (i) A shareholder of the Company
- (ii) Third parties

NOTES TO THE PROFORMA FINANCIAL STATEMENTS

For the year ended 31 December 2004

25. SHARE CAPITAL

At 31 December 2003, the combined share capital of the Group represented the interest of the Group in the registered capital of Juchuan Fuwanjia. At 31 December 2004, the amount represented the combination of the issued and fully paid up share capital of the Company and Sungreen Investment Limited, as Best Era Assets Limited, Sungreen Agro Strategic Holdings Limited and Juchuan Fuwanjia became subsidiaries of the Sungreen Investment Limited.

The Company was incorporated on 14 April 2004 with an authorised share capital of HK\$100,000 (equivalent to RMB106,000) divided into 10,000,000 shares of HK\$0.10 each. On 26 April 2004, 1,000,000 shares of HK\$0.10 each were allotted and issued to Callaway Group Limited, all of which were issued and credited as nil paid.

Sungreen Investment Limited was incorporated on 5 January 2004 with an authorised share capital of US\$50,000 (equivalent to RMB413,400) divided into 50,000 shares of US\$1 each and 1,000 shares of US\$1 each were issued, as consideration shares credited as fully paid, for the acquisitions of the entire interests in Sungreen Agro Strategic Holdings Limited and Best Era Assets Limited.

Changes in the share capital of the Company subsequent to 31 December 2004 are set out in note 35 to the proforma financial statements.

26. SHARE OPTION SCHEME

The Company's share option scheme (the "Share Option Scheme") was adopted pursuant to the resolutions of the shareholders passed on 16 February 2005 for the primary purpose of providing the people and the parties working for the interest of the Group with an opportunity to obtain equity interest in the Company, thus linking their interest with the interest of the Group and thereby providing them with incentives to work better for the interest of the Group and/or rewards for their contribution and support to the Group. The board of directors may, at its discretion, invite (i) employees of the Company (whether full-time or part-time) or any of its subsidiaries or associated companies; (ii) chief executive, directors (whether executive directors or non-executive directors or independent non-executive directors) of the Company or any of its subsidiaries or associated companies; (iii) any shareholder of any member of the Company or any of its subsidiaries or associate companies; (iv) suppliers of goods and/or services to the Company or any of its subsidiaries or associated companies; (v) any customers of the Company or any of its subsidiaries or associated companies; (vi) any person or entity that provides research, development or other technical support to the Company or any of its subsidiaries or associated companies; (vii) any adviser (technological, technical, financial, legal or otherwise) or consultants engaged by or worked for the Company or any of its subsidiaries or associated companies; and (viii) joint venture partner or counter-party to any business operation or business arrangements of the Group (together, the "Participants" and each a "Participant"), to take up options ("Options") to subscribe for shares at a price calculated in accordance with paragraph below. No performance target is required to be achieved before an Option can be exercised.

HK\$1.00 is payable by the Participant to the Company on acceptance of the option offer as consideration for the grant.

At the time of adoption of the Share Option Scheme, the Company may seek approval of its shareholders in a general meeting to authorise the directors to grant options under the Share Option Scheme and any other share option schemes of the Company entitling the grantees to exercise up to an aggregate of 10%, being 8,000,000 shares (the "Scheme Mandate Limit") of the total number of shares in issue immediately following completion of the placing (excluding (a) any shares issued pursuant to the Share Option Scheme and any other Share Option Schemes of the Company; and (b) any pro rata entitlements to further shares issued in respect of these shares mentioned in (a) unless the Company obtains a fresh approval from the shareholders).

NOTES TO THE PROFORMA FINANCIAL STATEMENTS

For the year ended 31 December 2004

26. SHARE OPTION SCHEME (Continued)

An Option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period of not more than 10 years to be notified by the board of directors to each grantee, which period shall commence on the date on which an offer of the grant of an option is accepted or deemed to be accepted in accordance with the terms of the Share Option Scheme and expire on the last day of such period as determined by the board.

The Share Option Scheme will remain valid and effective for a period of 10 years commencing on 16 February 2005, after which period no further Options will be granted but in respect of all Options which remain exercisable at the end of such period, the provisions of the Share Option Scheme shall remain in full force and effect.

No share option has been granted by the Company since the adoption of the Share Option Scheme.

27. RESERVES

(a) Statutory surplus reserve

According to the Articles of Association of Juchuan Fuwanjia, it requires the appropriation of 10% of its profit after taxation each year, as shown in the PRC statutory financial statements which are prepared in accordance with the accounting principles generally accepted in the PRC, to the statutory surplus reserve until the balance reaches 50% of the registered share capital. According to the provision of the Articles of Association, in normal circumstances, the statutory surplus reserve shall only be used for making up losses, capitalisation into share capital and expansion of the production and operation of Juchuan Fuwanjia.

(b) Statutory public welfare fund

Pursuant to the PRC Company Law, Juchuan Fuwanjia shall make allocation from its profit after taxation, as shown in the PRC statutory financial statements which are prepared in accordance with the accounting principles generally accepted in the PRC, at the rate of 5% to 10% to the statutory public welfare fund. The statutory public welfare fund can only be utilised on capital items for employees collective welfare. Individual employees only have the right to use these facilities, the titles to which will remain with the Group. The statutory public welfare fund forms part of the shareholder's equity but is non-distributable other than in liquidation.

(c) Special reserve

The special reserve represented the difference between the nominal value of share capital issued by the Sungreen Investment Limited and the nominal value of the share capital of Best Era Assets Limited and Sungreen Agro Strategic Holdings Limited at the time of Group Reorganisation.

NOTES TO THE PROFORMA FINANCIAL STATEMENTS

For the year ended 31 December 2004

28. OPERATING LEASE COMMITMENTS

Minimum lease payments paid under operating leases during the year:

	2004 RMB	2003 RMB
Premises	959,449	789,000

At the respective balance sheet dates, the Group had outstanding commitments payable under non-cancellable operating leases in respect of rented premises which fall due as follows:

	2004 RMB	2003 RMB
Within one year	447,603	789,000
In the second to fifth year inclusive	143,683	131,500
	591,286	920,500

Operating lease payments represent rental payable by the Group for its office premises. Leases are negotiated for an average term of two years with fixed rentals.

29. CAPITAL COMMITMENTS

	2004 RMB	2003 RMB
Capital expenditure authorised but not contracted for in respect of development project of additional plant and machinery for the expansion in the production capacity	34,530,000	34,530,000

30. CONTINGENT LIABILITIES

	2004 RMB	2003 RMB
Guarantees given to banks in respect of general banking facilities granted to third parties	10,000,000	14,000,000

31. PLEDGE OF ASSETS

As at 31 December 2003, no assets of the Group were pledged. As at 31 December 2004, the Group has pledged its land and buildings of approximately RMB13,182,000 for the banking facilities granted by the banks to the Group.

NOTES TO THE PROFORMA FINANCIAL STATEMENTS

For the year ended 31 December 2004

32. RELATED PARTY DISCLOSURES

During the year, the Group entered into the following transactions with Juchuan Investments:

Nature of transactions	Notes	2004 RMB	2003 RMB
Rental expenses and air conditioning charges paid by the Group	(i)	821,086	835,829
Interest income from other assets received by the Group	(ii)	60,000	360,000

Notes:

- (i) Rental expenses and air conditioning charges were charged in accordance with the lease terms mutually agreed between the relevant parties.
- (ii) Investment income was charged at a fixed return rate of 6% per annum on the amount placed by the Group to Juchuan Investments. The said amount was fully repaid during the year ended 31 December 2004.

Also, the Group had certain balances with related parties, details of these are set out in notes 13, 17, 18, 21 and 22 to the proforma financial statements.

In addition, certain bank borrowings of the Group is guaranteed by Juchuan Investments and pledged by a property held by Juchuan Investments, and an wholly-owned subsidiary of the Company has issued convertible notes to a shareholder of the Company. Details of these transactions are set out in notes 23 and 24 respectively to the proforma financial statements.

33. RETIREMENT BENEFITS SCHEME

The Group participates in a defined contribution retirement scheme organised by the relevant local government authority in the PRC. Certain employees of the Group eligible to participate in the retirement scheme are entitled to retirement benefits from the scheme. The local government authority is responsible for the pension liabilities to these retired employees. The Group is required to make monthly contributions to the retirement scheme up to the time of retirement of the eligible employees, at 20% of the local standard basic salaries.

As at 31 December 2003 and 2004, the Group had no significant obligation apart from the contribution as stated above.

NOTES TO THE PROFORMA FINANCIAL STATEMENTS

For the year ended 31 December 2004

34. FINANCIAL RISKS AND MANAGEMENT

(i) Credit risk

Credit risk refers to the risk that debtors will default on their obligations to repay the amounts owing to the Group, resulting in a loss to the Group. The Group has adopted procedures in extending credit terms to customers and in monitoring its credit risk.

The Group's current credit practices include assessment and valuation of customer's credit reliability and periodic review of their financial status to determine credit limits to be granted.

The maximum exposure to credit risk in the event that the counterparties fail to perform their obligations as at the end of the financial year in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the combined balance sheets.

(ii) Significant concentrations of credit risk

Concentrations of credit risk exist when changes in economic, industry or geographical factors similarly affect group of counterparties whose aggregate credit exposure is significant in relation to the Group's total credit exposure. The Group's policy does not permit non-secured credit risk to be significantly centralised in one customer or group of customers.

(iii) Interest rate risk

The Group is exposed to interest rate risk through the impact of rate changes on interest bearing financial assets and liabilities. Interest bearing financial assets are mainly balances with banks which are all short term in nature. Interest bearing financial liabilities are mainly bank borrowings with fixed interest rates. Therefore, any future variations in interest rates will not have a significant impact on the results of the Group.

(iv) Foreign currency risk

The Group is exposed to minimal foreign exchange rate risk as the purchases and sales are denominated in RMB.

(v) Liquidity risk

The Group is exposed to minimal liquidity risk as a substantial portion of its financial assets are due within one year, and a significant portion of its financial liabilities are due after one year.

(vi) Fair values of financial assets and financial liabilities

The fair values of financial assets and financial liabilities reported in the proforma consolidated balance sheet approximate their carrying amounts.

NOTES TO THE PROFORMA FINANCIAL STATEMENTS

For the year ended 31 December 2004

35. POST BALANCE SHEETS EVENTS

Pursuant to written resolutions of the sole shareholder of the Company passed on 16 February 2005:

- (a) the authorised share capital of the Company was increased from HK\$100,000 to HK\$50,000,000 by the creation of additional 4,990,000,000 shares of HK\$0.01 each to rank pari passu with the existing shares in all respects;
- (b) the directors were authorised to allot and issue, credited as fully paid, 6,300,000 shares to Callaway Group Limited and 3,700,000 shares to Legend Profit Holdings Limited and to credit as fully paid at par the 1,000,000 shares of HK\$0.10 each, which were allotted and issued nil paid to Callaway Group Limited on 26 April 2004 and were subsequently subdivided into 10,000,000 shares as consideration for the acquisition by the Company of the entire issued share capital of Sungreen Investment Limited;
- (c) the share premium of the Company being credited as a result of the placing of the Company's share, an amount of HK\$229,657 be capitalised and be applied in paying up in full at par 22,965,716 shares for allotment and issue to the shareholders whose names were on the register of members of the Company as at the close of business on 21 February 2005 and the shares to be allotted and issued pursuant to this resolution shall rank pari passu in all respects with the existing issued shares (the "Capitalisation Issue") as follows:

Name of allottee	Number of shares issued
Callaway Group Limited	18,717,059
Legend Profit Holdings Limited	4,248,657

- (d) the placing of 20,000,000 new shares of HK\$0.01 each in the Company for HK\$2.50 per share (the "Placing Shares") was approved and the directors were authorised to allot and issue the Placing Shares upon the listing of the Company's shares on the GEM of the Stock Exchange; and
- (e) the directors were authorised to allot and issue a total of 17,034,284 shares to the convertible note holders (as to 5,714,285 shares to Ms. An Yu, as to 2,000,000 shares to Chung Fu (Hong Kong) Investment Limited, as to 1,866,666 shares to Future Finance Group Limited, as to 4,000,000 shares to Legend Profit Holdings Limited, as to 3,333,333 shares to Bright Process Technology Limited and as to 120,000 shares to Asia Trinity International Limited) upon the listing of the Company's shares on the GEM of the Stock Exchange.

NOTES TO THE PROFORMA FINANCIAL STATEMENTS

For the year ended 31 December 2004

36. SUBSIDIARIES

As at the balance sheet date, the particulars of the subsidiaries of the Company are as follows:

Name of subsidiary	Place of incorporation/ registration and operation	Issued and fully paid up share capital/ registered capital	Attributable equity interest held by the Company		Principal activities
			Directly	Indirectly	
Best Era Assets Limited	British Virgin Islands	US\$1	-	100%	Investment holding
Sungreen Agro Strategic Holdings Limited (Formerly known as Crown General Holdings Limited)	British Virgin Islands	US\$10,000	-	100%	Investment holding
Sungreen Investment Limited (Formerly known as Fu Hing Group Limited)	British Virgin Islands	US\$1,000	100%	-	Investment holding
陝西巨川富萬鉀股份有限公司 Shaanxi Juchuan Fuwanjia Co., Ltd. (Note)	The PRC	RMB 50,000,000	-	65%	Manufacture and distribution of organic fertilizers

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

Note: Juchuan Fuwanjia was established on 25 July 2000 as a joint stock limited company and reorganised into a PRC sino-foreign equity joint venture on 26 March 2004.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the annual general meeting (the “AGM”) of the members of Sungreen International Holdings Limited (the “Company”) will be held at Meeting Room, Level 2, 23 Tuan Jie Nan Road, Xi’an High-Tech Development Zone, Xi’an City, Shanxi Province, The People’s Republic of China on Monday, 25 April 2005, at 3:00 p.m. for the following purposes:

1. As ordinary business, to consider and, if thought fit, pass the following resolutions:
 - (A) to receive and adopt the audited financial statements and the reports of the directors and auditors of the Company and its subsidiaries for the year ended 31 December 2004;
 - (B) to re-elect Mr. Zhuo Ze Fan as an executive director;
 - (C) to re-elect Ms. Xie Yi Ping as an executive director;
 - (D) to re-elect Mr. Wu Jing Jin as a non-executive director;
 - (E) to re-elect Mr. Zhao Shou Guo as an independent non-executive director;
 - (F) to re-elect Mr. Yam Tak Fai, Ronald as an independent non-executive director;
 - (G) to re-elect Mr. Ng Tang as an independent non-executive director;
 - (H) to authorise the board of directors to fix the remuneration of all directors; and
 - (I) to re-appoint auditors for the ensuing year and authorise the board of directors of the Company to fix their remuneration.

2. As special business, to consider and, if thought fit, pass with or without amendments, the following resolutions as ordinary resolutions of the Company:
 - (A) **“THAT:**
 - (a) subject to paragraph (c), the exercise by the board of directors of the Company during the Relevant Period of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options which might require the exercise of such power be and is hereby generally and unconditionally approved;
 - (b) the approval in paragraph (a) shall authorise the board of directors of the Company during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such power after the end of the Relevant Period;
 - (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the board of directors of the Company pursuant to the approval in paragraph (a), otherwise than pursuant to a Rights Issue or the exercise of the subscription rights under the share option scheme of the Company adopted on 16 February 2005, shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of this resolution and the said approval shall be limited accordingly; and

NOTICE OF ANNUAL GENERAL MEETING

- (d) for the purpose of this resolution:

“Relevant Period” means the period from the passing of this resolution until whichever is the earlier of:

- (I) the conclusion of the next annual general meeting of the Company;
- (II) the expiration of the period within which the next annual general meeting of the Company is required by the bye-laws of the Company or any applicable law to be held; or
- (III) the revocation or variation of this resolution by an ordinary resolution of the shareholders of the Company in a general meeting.

“Rights Issue” means an offer of shares open for a period fixed by the board of directors of the Company to shareholders of the Company on the register on a fixed record date in proportion to their then holdings of such shares (subject to such exclusion or other arrangements as the board of directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognized regulatory body or any stock exchange in any territory outside Hong Kong).”

- (B) **“THAT:**

- (a) the exercise by the board of directors of the Company during the Relevant Period of all powers of the Company to purchase its own shares, subject to and in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, be and is hereby generally and unconditionally approved;
- (b) the aggregate nominal amount of shares of the Company to be purchased by the Company pursuant to the approval in paragraph (a) during the Relevant Period shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of this resolution and the authority pursuant to paragraph (a) of this resolution shall be limited accordingly; and
- (c) for the purpose of this resolution,

“Relevant Period” means the period from the date of the passing of this resolution until whichever is the earliest of:

- (I) the conclusion of the next annual general meeting of the Company;
- (II) the expiration of the period within which the next annual general meeting of the Company is required by the bye-laws of the Company or any other applicable law to be held; or
- (III) the revocation or variation of this resolution by an ordinary resolution of the Shareholders in a general meeting.”

NOTICE OF ANNUAL GENERAL MEETING

- (C) “**THAT** conditional upon resolutions number 2(A) and 2(B) above being passed, the aggregate nominal amount of the number of shares in the capital of the Company which are repurchased by the Company under the authority granted to the board of directors of the Company as mentioned in resolution number 2(B) above shall be added to the aggregate nominal amount of share capital that may be allotted or agreed conditionally or unconditionally to be allotted by the board of directors of the Company pursuant to resolution number 2(A) above.”

By Order of the Board
Sungreen International Holdings Limited
Zhuo Ze Fan
Chairman

Xi'an City, Shaanxi Province, The PRC, 29 March 2005

Registered office:
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Head office and principal place of business in Hong Kong:
Unit 3407
China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

As at the date of this report, the executive directors of the Company are Mr. Zhuo Ze Fan, Ms. Lv Xia and Ms. Xie Yi Ping; the non-executive director of the Company is Mr. Wu Jing Jin; the independent non-executive directors of the Company are Mr. Zhao Shou Guo, Mr. Yam Tak Fai, Ronald and Mr. Ng Tang.

Notes:

1. Any member entitled to attend and vote at the AGM is entitled to appoint one or more than one proxy to attend and vote in his stead in accordance with the bye-laws of the Company. A proxy need not be a member of the Company.
2. Where there are joint registered holders of any share, any one of such persons may vote at the meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders shall be present at the meeting personally or by proxy, that one of the holders so present whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof.
3. The form of proxy and the power of attorney or other authority, if any, under which it is signed or a certified copy of such power of attorney or authority must be deposited at the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not less than 48 hours before the time for holding the AGM, and in default the form of proxy shall not be treated as valid. The completion and return of the form of proxy shall not preclude members from attending and voting in person at the AGM (or any adjourned meeting thereof) should they so wish.

NOTICE OF ANNUAL GENERAL MEETING

4. In accordance with the Company's bye-laws, the following categories of members may demand that the vote in respect of any resolution to be put to the general meeting should be taken on a poll:
- (a) at least three members present in person (or in the case of a member being a corporation by its duly authorized representative) or by proxy for the time being entitled to vote at the meeting; or
 - (b) any member or members present in person (or in the case of a member being a corporation by its duly authorized representative) or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or
 - (c) any member or members present in person (or in the case of a member being a corporation by its duly authorized representative) or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right; or
 - (d) the chairman of such meeting.

A poll may be so demanded before or on the declaration of the result of the show of hands.