SunGreen

Annual Report 2005

SUNGREEN INTERNATIONAL HOLDINGS LIMITED
綠陽國際控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 8306)

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.

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.

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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. YUE Kwai Wa, Ken
Mr. NG Tang

COMPLIANCE OFFICER
Mr. ZHUO Ze Fan

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT
Mr. LI Ho Cheong CPA, ACS, ACIS

AUDIT COMMITTEE
Mr. ZHAO Shou Guo
Mr. YUE Kwai Wa, Ken
Mr. NG Tang

AUTHORISED REPRESENTATIVES
Mr. ZHUO Ze Fan
Ms. LV Xia

STOCK CODE
8306

COMPANY WEBSITE
www.jc-sino.com

COMPLIANCE ADVISER
Hantec Capital Limited

LEGAL ADVISERS
Michael Li & Co.

AUDITORS
Deloitte Touche Tohmatsu

PRINCIPAL BANKERS
Citic Industrial Bank, Xi'an Branch
Bank of Communications, Xi'an Branch, Gao Xin Wu Road Sub-branch
China Everbright Bank, Xi'an Branch, Dong Da Street Sub-branch
Xian City Commercial Bank, Gaoxin Branch
China Minsheng Banking Corp. Ltd, Xian Branch

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE
Tricor Investor Services Limited
26th Floor,
Tesbury Centre,
28 Queen's Road East,
Wanchai,
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN BERMUDA
Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
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Pembroke
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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

	2005 RMB'000	2004 RMB'000	2003 RMB'000	2002 RMB'000
Revenue	**129,969**	116,155	88,739	60,178
Gross profit	**46,576**	43,823	35,034	25,951
Profit attributable to equity holders of the parent	**769**	7,845	9,964	6,852
Equity attributable to equity holders of the parent	**97,272**	12,770	41,499	42,732
Total assets	**187,606**	164,735	167,519	125,150
Total liabilities	**90,334**	151,965	126,020	82,418

	2005 RMB	2004 RMB	2003 RMB	2002 RMB
Earnings per share, basic (cents)	**1.09**	9.81	12.46	8.56
Net asset value per share	**1.22**	0.16	0.52	0.53

CHAIRMAN'S STATEMENT

On behalf of the board of directors (the "Board"), 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 2005 for your consideration. I greatly appreciate this opportunity to share the achievements with shareholders.

BUSINESS REVIEW

The year of 2005 undoubtedly marked a significant milestone in the development history of the Group. The shares of the Company were successfully listed on GEM on 28 February 2005 (the "Listing Date") that further strengthened our corporate reputation in the industry of organic fertilizer.

For the year ended 31 December 2005, the turnover of the Group increased by approximately 11.9% to approximately RMB130.0 million whereas the audited profit attributable to equity holders of the parent decreased by approximately 90.2% to approximately RMB0.8 million comparing with the same period last year. During the year, a refundable valued added tax of 6% had been imposed for our organic potash fertilizer products. The refundable valued added tax has no effect on the Group's net profit but increased in other income and decreased in turnover. If no value added tax is imposed during the year, turnover of the Group will be approximately RMB138.0 million, representing an increase of approximately 18.8% compared with the same period in last year. For the profit attributable to equity holders of the parent, the decrease was primarily due to the one-off listing expenses amounted to approximately RMB7.8 million being charged to income statement. If no listing expenses were charged to income statement, the profit attributable to equity holders of the parent will be approximately RMB8.6 million, representing an increase of approximately 9.7% from 2004. After excluding the effect of one-off transaction, the result of the Group is satisfactory in the year of 2005.

During 2005, we continued to enhance our efforts in expanding the People's Republic of China (the "PRC") sales network. At the end of 2005, we appointed over 120 distributors and reached over 2,000 point of sales in 26 provinces and autonomous region in the PRC. In addition, we continued to strengthen our brand name of "Fuwanjia" (富萬稼) by advertising on television, radio broadcast, mass transportation, public places and holding field demonstrations. As a result of our efforts, we have registered significant growth in our turnover.

In respect of product development, we put strong efforts in the past and has been accredited various awards both in the PRC and abroad as to our Fuwanjia Organic Potash Fertilizers since establishment. In order to maintain the high quality standard of our products and develop more products to expand our product range, we established a research centre with Institute of Soil and Water Conservation, CAS & MWR and Institute of Soil and Water Conservation, NWSUAF during 2005. The establishment of the research centre will further consolidate our leading position in the technology development of organic potash fertilizers.

CHAIRMAN'S STATEMENT

PROSPECT

Looking forward, the Group will continue to give top priority to keep expanding the sales network in the PRC as the success of our network expansion in the PRC strengthened our sales platform, which can be leveraged in the promotion of other new products to our users in the future. In addition, the Group will accelerate the development of overseas market in order to capture market share in different countries. For the research and development, the Group will maintain its advantage in the technology development of organic potash fertilizers. After the establishment of the research centre, the Group believes that more new products to be developed and these new products will broaden the Group's product range and finally become new drivers of the Group in the next few years.

APPRECIATION

With the support from every party, the Group achieved impressive results and was successfully listed on the GEM this year. 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

27 March 2006

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Zhuo Ze Fan (卓澤凡先生), aged 34, is the chairman of the Board, 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 nine 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) ("Juchuan Investments") 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 41, 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 20 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 42, 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 46, 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 16 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 42, 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 15 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. Yue Kwai Wa, Ken (余季華先生), aged 40, is the executive director of Winkas Company Limited, a financial and management consulting company, Monitronic Limited and Monitronix Limited, both engaged in trading of telecommunication products. Mr. Yue is currently an independent non-executive director of Byford International Limited and Loulan Holdings Limited, both companies listed on GEM of the Stock Exchange. Also, he served as an independent non-executive director of Wealthmark International (Holdings) Limited, the shares of which are listed on the Main Board of the Stock Exchange, during the period from January 2005 to June 2005. In addition, Mr. Yue is a Certified Public Accountant with 15 years of experience in the accounting and auditing business. Mr. Yue is a member of the American Institute of Certified Public Accountants, a member of the Colorado State Society of Certified Public Accountants and a member of the Hong Kong Securities Institute holding a specialist certificate in corporate finance and a practising certificate in corporate finance. Mr. Yue joined the Group in November 2005.

Mr. Ng Tang (吳騰先生), aged 44, 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 13 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 40, is the chief sales officer of the Group who is responsible for product sales and marketing. He had approximately 15 years' experience in sales and marketing, among which, more than six years in export business, another eight 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 53, 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 seven 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 58, 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. Li Ho Cheong (李浩昌先生), aged 31, 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. Li has over eight years of experience in the field of auditing and accounting. Prior to joining the Company, Mr. Li worked for an international accounting firm and a multinational retail company for approximately six and two years respectively. Mr. Li obtained a bachelor degree in accountancy from the Hong Kong Polytechnic University in 1997. Mr. Li is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants. He is an associate member of the Hong Kong Institute of Certified Public Accountants, Association of Chartered Certified Accountants, Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Company Secretaries. Mr. Li joined the Group in July 2005.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Turnover

Turnover of the Group for the year ended 31 December 2005 amounted to approximately RMB130.0 million, representing an increase of approximately 11.9% compared with the 2004 figure of approximately RMB116.2 million. During the year, valued added tax of 6%, equivalent to approximately RMB8.0 million, had been imposed for our organic potash fertilizer products. Although the valued added tax is refundable and has no effect on the Group's profit, it reduced the growth of turnover of the Group. If no value added tax is imposed during the year, turnover of the Group will be approximately RMB138.0 million, representing an increase of approximately 18.8% compared with the same period in last year. The increase was mainly attributable to our continuing effort in expansion of our point of sales in the PRC and continuing rise in demand of our Group's products among farmers. Due to the high business potential of organic potash fertilizer product, the Group continues its effort in the business of manufacture and sale of organic potash fertilizer product which represents the only reportable business of the Group. In marketing, as the Group continues to keep focusing in developing the PRC market, most of the Group's operation is carried out in the PRC.

Gross profit

The Group's gross profit for 2005 amounted to approximately RMB46.6 million, representing an increase of approximately 6.3% from 2004. Gross profit margin during the year ended 31 December 2005 was approximately 35.8%, whilst the gross profit margin for 2004 was approximately 37.7%. The drop in gross profit margin was mainly affected by the value added tax imposed during this year. If no value added tax is imposed during the year, gross profit for 2005 will be approximately 54.6 million, representing an increase of approximately 24.6% from 2004 whereas gross profit margin will be approximately 39.6%, representing approximately 1.9% higher than the gross profit margin for 2004. The increase in gross profit margin was mainly contributed by the operating efficiency of the Group.

Other income and operating expenses

The Group's other income for 2005 amounted to approximately RMB8.3 million whilst other income for 2004 was approximately RMB1.3 million. The increase mainly contributed by the refund on value added tax this year amounted to approximately RMB8.0 million.

The Group's operating expenses primarily consist of selling and distribution costs and administrative expenses. For the year ended 31 December 2005, the operating expenses of the Group amounted to approximately RMB36.3 million. Comparing with the operating expense of approximately RMB29.1 million in 2004, the Group's operating expenses increased by approximately 24.6% in 2005.

Selling and distribution costs of the Group amounted to approximately RMB25.4 million during the year ended 31 December 2005, representing an increase of approximately 18.7% from the same period of last year. The increase was due to continuing expansion of point of sales and enhancement of brand name recognition by making advertisements and exhibitions in the PRC.

MANAGEMENT DISCUSSION AND ANALYSIS

Administrative expenses of the Group amounted to approximately RMB10.9 million during the year ended 31 December 2005, representing an increase of approximately 41.3%. Such increase was mainly due to the increase in compliance cost following the listing of the Company's shares on GEM.

Listing expenses

During the year, the Group incurred approximately RMB11.6 million share issuance cost for listing of the Company's shares on GEM. Part of listing expenses incurred by the Group during the year amounted to approximately RMB7.8 million had been charged to income statement.

Profit for the year attributable to equity holders of the parent

Profit for the year attributable to equity holders of the parent amounted to approximately RMB0.8 million, representing a decrease of approximately 90.2% from 2004. The decrease was primarily due to the one-off listing expenses amounted to approximately RMB7.8 million had been charged to income statement. If no listing expenses to be charged to income statement, profit for the year attributable to equity holders of the parent will be approximately RMB8.6 million, representing an increase of approximately 9.7% from 2004.

FINANCIAL RESOURCES AND LIQUIDITY

As at 31 December 2005, the Group had bank balances and cash of approximately RMB62.0 million (2004: RMB46.2 million).

As at 31 December 2005, the outstanding bank loan of the Group amounted to RMB33.0 million (2004: RMB60 million), comprising all short-term bank borrowings repayable within one year (2004: RMB40.0 million) and no long term bank borrowings repayable after one year (2004: RMB20.0 million). As at 31 December 2005, the total asset value of the Group was approximately RMB187.6 million (2004: approximately RMB164.7 million) whereas the total liabilities was approximately RMB90.3 million (2004: RMB152.0 million). The gearing ratio of the Group, calculated as total liabilities excluding minority interests over total assets, was approximately 30.0% (2004: 75.8%).

FOREIGN EXCHANGE EXPOSURE

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

PLEDGE OF ASSETS

As at 31 December 2005, the Group has pledged its prepaid lease payments and buildings of approximately RMB11,541,000 (2004: approximately RMB13,182,000) for the banking facilities granted by the banks to the Group.

CAPITAL COMMITMENTS

As at 31 December 2005, the Group had RMB30,120,000 (2004: 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 ("the Second Yang Ling Site"). Also, the Group had RMB159,000 of capital expenditure contracted but not provided for in respect of purchase of property, plant and equipment.

CONTINGENT LIABILITIES

As at 31 December 2005, the Group had contingent liabilities in respect of guarantee to general banking facilities of RMB12 million (2004: RMB10 million) granted to an independent third party.

ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

The Group did not have any material acquisition and disposal of subsidiaries and associated companies in the year ended 31 December 2005.

SIGNIFICANT INVESTMENTS

The Group had no significant investments held in the year ended 31 December 2005.

EMPLOYEE INFORMATION

As at 31 December 2005, the Group had approximately 220 employees. 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. The Company has adopted a share option scheme. A summary of the principal terms and conditions of the share option scheme is set out in note 28 to the financial statements.

Total remuneration incurred for the year ended 31 December 2005 amounted to approximately RMB8.8 million (2004: approximately RMB6.6 million). The Directors received remuneration of approximately RMB1.5 million during the year ended 31 December 2005 (2004: approximately RMB0.2 million).

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

The following is a summary of the Group's actual business progress to date compared with the business objectives set out in the Company's prospectus dated 21 February 2005 (the Prospectus) for the period from the date of commencement of dealings in the Shares on GEM (the "Listing Date") to 31 December 2005.

Business objectives as disclosed in the Prospectus	Actual business progress
To expand business into the Asia Pacific region	
To conduct market studies and sign up distributors in Malaysia and Vietnam, with a focus on fruit used fertilisers for its tropical fruit	Market study on Vietnam had been done and participated an exhibition in Vietnam in 2005. Follow-up work is conducting in progress. Market study on Malaysia is conducting in progress.
To conduct market studies and sign up distributors in Indonesia	Changed the market to India after market study. Field demonstrations are conducting in progress in potential India's customers.
To engage two additional sales staff in the Company's headquarters to coordinate overseas related business and services	Specify staff had been engaged in the Company's headquarter to coordinate overseas related business and services.
To review sales record and make necessary changes to its sales policy of Malaysia and Indonesia markets	To review sales record after sign up distributors in Malaysia. Changed the market from Indonesia to India after market study.
To expand the PRC sales network	
To appoint distributors in eleven more provinces and autonomous regions of the PRC, for sales and services to individual farmers in the respective province/autonomous region	Continuously appointed distributors in more provinces and autonomous regions of the PRC and the total PRC sales network reached 26 provinces and autonomous region
To implement a five-person sales team in each province/autonomous region, which will be increased by three additional temporary personnel in high seasons	Optimum number of persons had been added in each province/autonomous to meet the high seasons
To engage three additional personnel in the industry development division	Three additional personnel have been engaged as planned

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

Business objectives as disclosed in the Prospectus	Actual business progress
To enhance its research and development capability	
To conduct and complete feasibility study of organic compound fertilisers and make necessary technical adjustments	The production of organic compound fertilisers has been postponed after market study. Specific use fertilisers for golden vegetable use has been developed instead to cope with the market needs.
To complete feasibility study and the research and development of specific use fertilisers for herbal use	The production of specific use fertilisers for herbal use has been postponed after market study. Specific use fertilisers for banana use has been developed instead to cope with the market needs.
To set up a new production plant on the Second Yang Ling Site	
To conduct feasibility study of the construction of new production plant on the Second Yang Ling Site	Feasibility study has been conducted and reached final stage. Foundation work on the site had been started
To submit preliminary design, layout plans and detailed construction plans to relevant authorities for approval	Preliminary design and layout plans have been submitted
To enhance its brand name recognition	
To advertise on television, radio broadcast, mass transportation and public place	Advertisement has been conducted as planned
To hold field demonstrations, in order to collect direct feedback from end users and incorporate brand names into end users	Field demonstrations have been held as planned
To increase its production output	
Expecting to increase the production output on the Yang Ling Site	Production output was increased in line with sales
To commence production of Specific use fertiliser for herbal use	Production of specific use fertiliser for herbal use has been postponed after market study. Specific use fertilisers for golden vegetable use and banana use has been produced instead to cope with market needs.
To maintain the production output of organic acid on the Baoji Site	Production output of organic acid had been increased after expansion of production facilities in Baoji Site

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

On the Listing Date, the Company obtained net proceeds, after deducting all relevant expenses, of approximately HK$39 million from the new issue of shares by way of public offer and placing. Up to 31 December 2005, the Group has applied the net proceeds as follows:

Business objectives	**Planned uses of proceeds as set out in the Prospectus from the Listing Date to 31 December 2005** (HK$ million)	**Actual amount of proceeds used from the Listing Date to 31 December 2005** (HK$ million)
To expand business into the Asia Pacific region	2.2	1.8
To expand the PRC sales network	3.8	2.5
To enhance research and development capability	4.0	1.4
To set up a new production plant on the Second Yang Ling Site	3.0	4.2
To enhance its brand name recognition	6.0	3.9
To strengthen the management team and international marketing team	1.6	0.5
To increase production output	1.5	2.7
Total	22.1	17.0

The remaining net proceeds as at 31 December 2005 have been placed as short-term interest bearing deposit with banks in Hong Kong and/or the PRC.

CORPORATE GOVERNANCE REPORT

The Company applied the principles and complied with all requirements of the new promulgated Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 15 of the GEM Listing Rules throughout 2005 with certain deviations in respect of the distinctive roles of chairman and chief executive officer and required number of independent non-executive Director. The following summarises the Company's corporate governance practices and explains deviations, if any, from the CG Code.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry, all Directors confirmed that they comply with the required standard of dealings and its code of conduct regarding directors' securities transactions throughout the year ended 31 December 2005.

BOARD OF DIRECTORS

The Board comprises seven Directors, of whom three being executive Directors (including the Chairman of the Board), one being non-executive Director and three being independent non-executive Directors. The directors' profile is set out on pages 6 and 7 of the annual report. The Company has received confirmation from each independent non-executive Director about his independence under the GEM Listing Rules and continues to consider each of them to be independent. On 1 September 2005, one of our independent non-executive Directors, Mr. Yam Tak Fai, Ronald, resigned his directorship. Following the resignation of Mr. Yam Tak Fai, Ronald, there were only two independent non-executive Directors in the Board and two members in the audit committee. Therefore, the Company was not able to comply with Rules 5.05 and 5.28 of the GEM Listing Rules which require the Company to retain at all times a minimum of three independent non-executive Directors, one of whom must have appropriate professional qualifications or accounting or related financial management expertise and three audit committee members. On 1 November 2005, the Company announced that Mr. Yue Kwai Wa, Ken has been appointed as an independent non-executive Director and audit committee member of the Company. Upon Mr. Yue Kwai Wa, Ken's appointment on 1 November 2005, the Company has resumed compliance with Rules 5.05 and 5.28 of the GEM Listing Rules.

The Board is responsible for determining the overall strategy and approving the annual business plan of the Group whereas day-to-day execution responsibility was delegated to management team of the Company with clear directions by the Board.

CORPORATE GOVERNANCE REPORT

The Board held five meetings in 2005. Details of the attendance of the Board are as follows:

		Attendance
Executive Directors		
Mr. Zhuo Ze Fan		5/5
Ms. Lv Xia		5/5
Ms. Xie Yi Ping		5/5
Non-executive Director		
Mr. Wu Jing Jin		4/5
Independent non-executive Directors		
Mr. Yue Kwai Wa, Ken	(appointed on 1 November 2005)	1/1
Mr. Zhao Shou Guo		5/5
Mr. Ng Tang		5/5
Mr. Yam Tak Fai, Ronald	(resigned on 1 September 2005)	3/3

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Company has a post of General Manager but not Chief Executive Officer to manage day-to-day business. Mr. Zhuo Ze Fan is the Chairman and General Manager of the Company. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Company. The balance of power and authority is ensured by the operations of the Board, which comprises experienced and high caliber individuals and meets regularly at least four times a year to discuss issues affecting operations of the Company. Also, the balance of power is further ensured by the following reasons:

– The non-executive Directors (including independent non-executive Director and non-executive Director) form the majority of the Board; and

– Audit Committee is composed exclusively of independent non-executive Directors;

– The independent non-executive Directors have free and direct access to the Company's external auditors and independent professional advices when considered necessary.

The Board believes that this structure is conducive to strong and consistent leadership, enabling the Company to make and implement decisions promptly and efficiently. The Board has full confidence in Mr. Zhuo Ze Fan, and believes that his appointment to the posts of Chairman and General Manager is beneficial to the business prospects of the Company.

CORPORATE GOVERNANCE REPORT

NON-EXECUTIVE DIRECTORS

Non-executive Directors (including independent non-executive Director and non-executive Director) of the Company are appointed for a period of two years and are subject to termination by either party giving not less than two month's prior written notice to the other.

REMUNERATION OF DIRECTORS

The Company set up a Remuneration Committee in February 2005. The Remuneration Committee comprises three members, (i) the executive Director, Ms. Lv Xia; and (ii) the independent non-executive Directors, namely Mr. Ng Tang and Mr. Zhao Shou Guo. Ms. Lv Xia is the chairman of the Remuneration Committee. The responsibility to the Remuneration Committee is to formulate transparent procedures for development remuneration policies and packages for key executives. The terms of reference of the Remuneration Committee are in compliance with GEM Listing Rules.

The Remuneration Committee consults the chairman of the Board about their proposals relating to the remuneration policies and packages of key executives. During the year, no meeting was held and the remuneration committee decisions were approved by way of written resolutions passed by all the committee members. A resolution in writing signed by all the committee members shall be as valid and effectual as if it had been passed at a meeting of the Remuneration committee duly convened and held. A meeting of the Remuneration Committee will be convened in 2006.

NOMINATION OF DIRECTORS

The Board is empowered under the Company's bye-laws to appoint any person as a Director either to fill a causal vacancy on or, subject to authorization by the shareholders of the Company in general meetings, as an addition member of the Board. Qualified candidates will be proposed to the Board for consideration and the selection criteria are mainly based on the assessment of their professional qualifications and experience. The Board selects and recommends candidates for directorship having regard to the balance of skills and experience appropriate to the Group's business. During the year, the Board proposed to appoint Mr. Yue Kwai Wa, Ken as independent non-executive Director to fill in the vacancy of Mr. Yam Tak Fai, Ronald and the proposal was duly approved.

AUDITORS' REMUNERATION

During 2005, the fees paid and payable to the Company's external auditors for audit and non-audit service amounted to approximately RMB0.6 million and RMB1.9 million respectively. The non-audit service mainly includes initial public offering services.

CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE

The Company set up an Audit Committee in February 2005. The Audit Committee comprises three members which are all independent non-executive Directors, namely Mr. Yam Tak Fai, Ronald (who was later replaced by Mr. Yue Kwai Wa, Ken), Mr. Zhao Shou Guo and Mr. Ng Tang. All the independent non-executive Directors confirmed his independence pursuant to Rule 5.09 of the GEM Listing Rules.

The Audit Committee met four times in the year of 2005, which were attended by all members. The Group's 2005 quarterly and interim reports and 2004 annual report have been reviewed by the Audit Committee. For 2004 annual report, the Audit Committee met with the external auditors to discuss auditing and internal control matters before recommending it to the Board for approval.

On 1 September 2005, one of our independent non-executive Directors, Mr. Yam Tak Fai, Ronald, resigned his directorship. Details of non-compliance with rule 5.28 of the GEM Listing Rules and respective remedial steps had been stated in the section of Board of Directors above.

DIRECTORS' REPORT

The Directors present their annual report together with the audited financial statements of the Company and the Group for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. Details of the principal activities of the Company's subsidiaries are set out in note 36 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

No segment information is presented as the Group is principally engaged in the research and development, manufacture, sales and distribution of a series of organic potash fertilizers under the brand name of "Fuwanjia" to customers in the PRC. Accordingly, the Directors consider that there is only one business segment and one geographical segment.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2005 are set out in the consolidated income statement on page 30 of the annual report.

The Directors do not recommend the payment of a final dividend.

PROPERTY, PLANT AND EQUIPMENT

Details of movements during the year in the property, plant and equipment of the Group are set out in note 14 to the financial statements.

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 27 to the financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders at 31 December 2005 amounted to approximately RMB5.3 million (2004: Nil).

DIRECTORS' REPORT

Under the Companies Act 1981 of Bermuda (as amended), contributed surplus is also available for distribution to shareholders. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus, if:

a) the Company is, or would after the payment be, unable to pay its liabilities as they become due; or

b) the realisable value of the Company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

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.

DIRECTORS

The Directors who held office during the year and up to the date of this report were:

Executive directors:	
Mr. Zhuo Ze Fan	
Ms. Lv Xia	
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. Yue Kwai Wa, Ken	(appointed on 1 November 2005)
Mr. Zhao Shou Guo	(appointed on 16 February 2005)
Mr. Ng Tang	(appointed on 16 February 2005)
Mr. Yam Tak Fai, Ronald	(appointed on 16 February 2005 and resigned on 1 September 2005)

In accordance with clause 87 of the Company's bye-laws, Ms. Lv Xia and Mr. Wu Jing Jin will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

In accordance with clause 86(2) of the Companys' bye-laws, Mr. Yue Kwai Wa, Ken, being director appointed during the year, shall hold office until the next following annual general meeting after his appointment and will therefore retire at the forthcoming annual general meeting, being eligible, offer himself for re-election.

DIRECTORS' PROFILE

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

DIRECTORS' SERVICE AGREEMENTS

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

Each of the executive Directors has entered into a service contract with the Company for an initial term of three years and will continue thereafter until the contract is terminated by either party giving to the other party not less than three calendar months' notice in writing. Each of the executive Directors is entitled to a basic salary subject to an annual review by the Board. In addition, the executive Directors are also entitled to a discretionary management bonus provided that the aggregate amount of the bonuses payable to all the executive Directors in respect of any financial year of the Company shall not exceed 5% of the audited consolidated net profit of the Group in respect of that financial year.

The non-executive Director and the independent non-executive Directors of the Company are appointed for a term of two years with specific terms in the letter of appointment.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the Remuneration Committee on the basis of their merit, qualifications and competence.

The emoluments of the Directors are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme is set out in note 28 to the financial statements.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed above and in notes 19, 20, 23 and 34 to the financial statements, no Director had a material interests, 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

The Company has adopted a share option scheme. A summary of the principal terms and conditions of the share option scheme is set out in note 28 to the financial statements. Up to 31 December 2005, no option has been granted pursuant to such share option scheme.

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

As at 31 December 2005, the interests of each director and chief executive in the shares of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong Special Administrative Region ("SFO")), as recorded in the register maintained by the Company under Section 352 of the SFO or as notified to the Company or as required to be notified to the Company and the Stock Exchange in accordance with Rules 5.46 to 5.67 of the GEM Listing Rules were as follows:

(a) Long positions in the Shares

Name of director	Capacity	Personal interests	Family interests	Corporate interests	Other interests	Total number of shares	Percentage of shareholding
Zhuo Ze Fan	Held by controlled corporation (Note)	–	–	34,905,059	–	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.

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

As at 31 December 2005, the following persons or companies (other than the directors or chief executive of the Company) had an interest or short position in the shares or underlying shares of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of SFO, and were directly or indirectly, interest in 5% or more of the nominal value of any class of share capital carrying rights to vote on all circumstances as general meeting of any other members of the Group were as follows:

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

Notes:

1. 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. Ms. Chen Dong Jin is the spouse of Mr. Wang Wen Ming. Mr. Wu Jing Jin is a non-executive Director of the Company.

2. 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.

DIRECTORS' REPORT

3. 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.

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.

The Company has not been notified of other interests or short positions of any other person (other than the Directors and chief executive of the Company), in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO as at 31 December 2005.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate purchases attributable to the Group's five largest suppliers during the year accounted for approximately 93% of the total purchases of the Group and the largest supplier accounted for approximately 45% of the total purchases of the Group. The aggregate sales attributable to the Group's five largest customers during the year were less than 30% of the total sales 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

Rental expenses to Juchuan Investments

During the year, rental charges and sub-charges of approximately RMB834,000 were charged from Juchuan Investments, a company in which Mr. Zhuo Ze Fan, the executive Director, of the Company have beneficial interests.

The rental charges and sub-charges payable by the Group 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 2005 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.

Consultancy fee to Shenzhen Guang Xin

During the year, the Group had entered a connected transaction with Shenzhen Guang Xin Investment Co. Ltd. ("Shenzhen Guang Xin"). Details of the connected transaction required to be disclosed in compliance with the requirements of Chapter 20 of the GEM Listing Rules are as follows:

DIRECTORS' REPORT

On 4 October, 2005, Juchuan Fuwanjia, which is a 65% owned subsidiary of the Company, entered into a consultancy agreement ("Consultancy Agreement") with Shenzhen Guang Xin, which is owned as to 50% by Ms. Chen Dong Jin ("Ms. Chen"), 30% by Mr. Wang Wen Ming ("Mr. Wang") and 20% by Mr. Wu Jing Jin ("Mr. Wu") to provide consultancy services in connection with market development in Asia Pacific region.

The length of period for rendering of all services is estimated to be ten months from the date of the Consultancy Agreement which is expected to end at August, 2006. The scope of the services is summarised below:

(a) conducting market study in Asia Pacific region, selection of countries for product development and conducting product registration in selected countries.

(b) establishing customer base in selected countries and communication channel with customers.

(c) establishing market strategies in selected countries.

(d) designing execution plan for setting up organisation in selected countries.

In return, Shenzhen Guang Xin shall receive from Juchuan Fuwanjia a consultancy fee in the sum of RMB2.62 million, payable in cash, in consideration of the consultancy services to be rendered under the Consultancy Agreement, in the following manners:

(a) RMB262,000 within 3 days upon signing of the Consultancy Agreement.

(b) RMB1,703,000 after 3 weeks upon signing of the Consultancy Agreement with reference to the progress of services rendered.

(c) RMB655,000 upon completion of services.

Mr. Wang and Mr. Wu owned 59% and 30% shareholding respectively in Wonder Opportunity Limited, which through Legend Profit Holdings Limited owned 14.94% shareholding of the Company. As Ms. Chen is the wife of Mr. Wang, by virtue of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), she is deemed to be interested in the shares which Mr. Wang is or is deemed to be interested in. Therefore, Mr. Wang and Ms. Chen are substantial shareholders of the Company pursuant to Rule 1.01 of the GEM Listing Rules. Mr. Wu is a non-executive director of the Company. Therefore, Shenzhen Guang Xin is a connected person of the Company pursuant to Rule 20.11 of the GEM Listing Rules. The consultancy agreement constitutes a continuing connected transaction of the Company under Rule 20.14 of the GEM Listing Rules.

The independent non-executive Directors have confirmed that the above transactions were conducted (1) in the ordinary and usual course of business of the Company; (2) on normal commercial terms, (3) in accordance with the relevant agreement governing them the terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole, the consultancy fees paid to Shenzhen Guang Xin during the year ended 31 December 2005 have not exceeded the caps as set out in the relevant agreements.

DIRECTORS' REPORT

The Company confirms that it has received written confirmation from its auditors confirming the matters stated in the GEM Listing Rules 20.38.

Details of connected transactions for the year, which are also related party transactions, are set out in note 34 to the financial statements.

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 interests 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.

COMPLIANCE ADVISER'S INTERESTS

As at 31 December 2005, neither Hantec Capital Limited (the "compliance adviser") 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 compliance adviser, the compliance adviser received and shall receive an annual fee for acting as the Company's retained compliance adviser 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.

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company considers all of the independent non-executive Directors are independent.

CORPORATE GOVERNANCE

A report on the principle corporate governance practices adopted by the Company is set out on pages 15 to 18 of the annual report.

DIRECTORS' REPORT

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 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. Yue Kwai Wa, Ken and Mr. Ng Tang.

SUBSEQUENT EVENTS

There have been no material events which took place subsequent to 31 December 2005.

AUDITORS

A resolution will be submitted to the annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board
Sungreen International Holdings Limited

ZHUO Ze Fan
Chairman

Xi'an City, Shaanxi Province, the PRC, 27 March 2006

AUDITORS' REPORT

Deloitte.
德勤

TO THE MEMBERS OF SUNGREEN INTERNATIONAL HOLDINGS LIMITED
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Sungreen International Holdings Limited (the "Company") and its subsidiaries (the "Group") from pages 30 to 68 which have been prepared in accordance with International Financial Reporting Standards.

Respective responsibilities of directors and auditors

The directors are responsible for the preparation of consolidated financial statements which give a true and fair view. In preparing consolidated 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 Hong Kong Standards on Auditing 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 consolidated financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the consolidated 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 consolidated financial statements are free from misstatement. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2005 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, 27 March 2006

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2005

	Notes	2005 RMB	2004 RMB (Note 1)
Revenue		**129,969,287**	116,155,151
Cost of sales		**(83,392,895)**	(72,332,206)
Gross profit		**46,576,392**	43,822,945
Other income	7	**8,318,411**	1,314,539
Selling and distribution costs		**(25,420,789)**	(21,421,073)
Administrative expenses		**(10,867,815)**	(7,691,856)
Listing expenses		**(7,837,483)**	–
Other expenses		**–**	(1,330)
Finance costs	8	**(3,096,969)**	(3,467,567)
Profit before tax		**7,671,747**	12,555,658
Income tax expenses	9	**–**	–
Profit for the year	10	**7,671,747**	12,555,658
Attributable to:			
Equity holders of the parent		**768,751**	7,845,059
Minority interests		**6,902,996**	4,710,599
		7,671,747	12,555,658
Earnings per share, basic (RMB cents)	12	**1.09**	9.81

CONSOLIDATED BALANCE SHEET

At 31 December 2005

	Notes	2005 RMB	2004 RMB (Note 1)
Non-Current Assets			
Intangible assets	13	**2,620,833**	3,405,833
Property, plant and equipment	14	**36,082,090**	35,647,652
Prepaid lease payments	15	**28,870,275**	27,722,824
		67,573,198	66,776,309
Current Assets			
Inventories	16	**12,496,778**	8,404,815
Trade receivables	17	**29,800,027**	28,349,327
Other receivables and prepayments		**11,434,805**	13,837,072
Held for trading investments	18	**350,000**	600,000
Prepaid lease payments	15	**630,483**	594,625
Amount due from a related company	19	**1,310,000**	–
Amount due from a director	20	**3,950**	6,000
Other advance	21	**2,000,000**	–
Bank balances and cash		**62,006,821**	46,166,867
		120,032,864	97,958,706
Current Liabilities			
Trade payables	22	**933,687**	441,250
Other payables and accrued charges		**4,381,370**	6,750,727
Amounts due to related companies	23	**834,303**	5,110,037
Dividend payable to the shareholders of a subsidiary		**17,225,492**	17,225,492
Bank borrowings – due within one year	25	**33,000,000**	40,000,000
Convertible notes – due within one year	26	**–**	28,598,800
		56,374,852	98,126,306
Net Current Assets (Liabilities)		**63,658,012**	(167,600)
		131,231,210	66,608,709

CONSOLIDATED BALANCE SHEET

At 31 December 2005

	Notes	2005 RMB	2004 RMB (Note 1)
Capital and Reserves			
Share capital	27	**848,000**	8,268
Reserves		**96,423,917**	12,761,626
Equity attributable to equity holders of the parent		**97,271,917**	12,769,894
Minority interests		**33,959,293**	27,056,297
Total equity		**131,231,210**	39,826,191
Non-Current Liabilities			
Amount due to a shareholder	24	–	6,782,518
Bank borrowings – due after one year	25	–	20,000,000
		–	26,782,518
		131,231,210	66,608,709

The consolidated financial statements on pages 30 to 68 were approved and authorised for issue by the Board of Directors on 27 March 2006 and are signed on its behalf by:

Zhuo Ze Fan	**Lv Xia**
DIRECTOR	DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2005

	Attributable to equity holders of the parent									
	Share capital RMB (Note 27)	Share premium RMB	Capital reserve RMB (Note 24)	Statutory reserve RMB (Note 29 (a) & (b))	Translation reserve RMB	Special reserve RMB (Note 29(c))	Retained profits RMB	Total RMB	Minority interests RMB	Total RMB
At 1 January 2004	32,500,000	–	–	3,611,357	–	–	5,387,795	41,499,152	22,345,698	63,844,850
Profit for the year, representing total recognised income and expenses for the year	–	–	–	–	–	–	7,845,059	7,845,059	4,710,599	12,555,658
Issue on incorporation	82,688	–	–	–	–	–	–	82,688	–	82,688
Arising in reorganisation (Note 29 (c) (i))	(74,420)	–	–	–	–	74,420	–	–	–	–
Distribution in reorganisation	(32,500,000)	–	–	–	–	–	(4,157,005)	(36,657,005)	–	(36,657,005)
Appropriated from retained profits	–	–	–	1,503,870	–	–	(1,503,870)	–	–	–
At 31 December 2004	8,268	–	–	5,115,227	–	74,420	7,571,979	12,769,894	27,056,297	39,826,191
Exchange difference arising on translation of foreign operations recognised directly in equity	–	–	–	–	(885,884)	–	–	(885,884)	–	(885,884)
Profit for the year	–	–	–	–	–	–	768,751	768,751	6,902,996	7,671,747
Total recognised income and expense for the year	–	–	–	–	(885,884)	–	768,751	(117,133)	6,902,996	6,785,863
Arising in reorganisation (Note 29 (c) (ii))	203,732	–	–	–	–	(203,732)	–	–	–	–
Arise upon conversion issue (Note 27(e))	180,564	28,418,236	–	–	–	–	–	28,598,800	–	28,598,800
Shares issued on listing (Note 27(f))	212,000	52,788,000	–	–	–	–	–	53,000,000	–	53,000,000
Capitalisation issue of shares (Note 27(g))	243,436	(243,436)	–	–	–	–	–	–	–	–
Contribution from shareholders (Note 24)	–	–	6,782,518	–	–	–	–	6,782,518	–	6,782,518
Transaction costs attributable to issue of new shares	–	(3,762,162)	–	–	–	–	–	(3,762,162)	–	(3,762,162)
Appropriated from retained profits	–	–	–	1,752,840	–	–	(1,752,840)	–	–	–
At 31 December 2005	848,000	77,200,638	6,782,518	6,868,067	(885,884)	(129,312)	6,587,890	97,271,917	33,959,293	131,231,210

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2005

	2005 RMB	2004 RMB
OPERATING ACTIVITIES		
Profit before tax	**7,671,747**	12,555,658
Adjustments for:		
Finance costs	**3,096,969**	3,467,567
Interest income	**(150,367)**	(811,810)
Depreciation of property, plant and equipment	**6,429,147**	6,758,751
Amortisation of prepaid lease payments	**95,025**	95,025
Amortisation of intangible assets	**845,000**	845,000
Gain on changes in fair value of held-for-trading investment	**(3,727)**	(2,970)
Written off of property, plant and equipment	**193,953**	–
Allowances (reversal of allowances) for bad and doubtful debts	**310,692**	(299,759)
Allowances (reversal of allowances) for inventories	**8,678**	(271,074)
Operating cash flows before movements in working capital	**18,497,117**	22,336,388
(Increase) decrease in inventories	**(4,100,641)**	1,841,197
Increase in trade receivables	**(1,454,932)**	(1,130,539)
Decrease (increase) in other receivables and prepayments	**2,095,807**	(6,936,698)
Increase in other advance	**(2,000,000)**	–
Decrease (increase) in amount due from a director	**2,050**	(6,000)
(Increase) decrease in amounts due from a related companies	**(1,310,000)**	183,127
(Decrease) increase in amounts due to related companies	**(4,275,734)**	5,110,037
Increase (decrease) in trade payables	**492,437**	(463,998)
(Decrease) increase in other payables and accrued charges	**(2,369,357)**	2,529,948
Cash generated from operations	**5,576,747**	23,463,462
Income tax paid	**–**	(1,322,925)
Interest paid	**(3,096,969)**	(3,467,567)
NET CASH FROM OPERATING ACTIVITIES	**2,479,778**	18,672,970
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(6,559,123)**	(3,882,834)
Acquisition of prepaid lease payments	**(1,792,875)**	–
Purchase of intangible assets	**(60,000)**	–
Purchase of held for trading investments	**(50,000)**	(600,000)
Proceeds from disposal of held for trading investment	**303,727**	–
Interest received	**150,367**	1,114,539
Repayment of loan receivables	**–**	32,429,395
Recover of other assets	**–**	7,300,000

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2005

	2005 RMB	2004 RMB
Decrease in deposit placed with a security company	–	2,000,000
NET CASH (USED IN) FROM INVESTING ACTIVITIES	**(8,007,904)**	38,361,100
FINANCING ACTIVITIES		
Distribution in reorganisation	–	(36,657,005)
Proceeds from issue of new shares	**53,000,000**	–
Repayment of bank borrowings	**(40,000,000)**	(40,000,000)
New bank borrowings raised	**13,000,000**	20,000,000
Expenditure on issue of new shares	**(3,762,162)**	–
Issue of convertible notes	–	28,598,800
Advance from a shareholder	–	6,782,518
Issue of shares of subsidiaries to minority shareholders	–	82,688
NET CASH FROM (USED IN) FINANCING ACTIVITIES	**22,237,838**	(21,192,999)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**16,709,712**	35,841,071
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**46,166,867**	10,325,796
Effect of foreign exchange	**(869,758)**	–
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by		
Bank balances and cash	**62,006,821**	46,166,867

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2005

1. GROUP RESTRUCTURING AND BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

The Company was incorporated in Bermuda on 14 April 2004 as an exempted company under the Companies Act 1981 of Bermuda (as amended) and its shares have been listed on the Growth Enterprises Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 28 February 2005. The directors consider that the Company's parent and ultimate holding company is Callaway Group Limited, a company incorporated in British Virgin Islands. The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information of the annual report.

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

The Company is an investment holding company. Its principal subsidiary is engaged in the manufacture and distribution of organic potash fertilizers products.

Under a group reorganisation scheme to rationalise the structure of the Group in preparation for the listing of the Company's shares on the GEM of the Stock Exchange, the Company became the holding company of the group (the "Group") on 16 February 2005. Details of the group reorganisation are set out in appendix V of the prospectus of Company dated 21 February 2005.

Prior to 16 February 2005, the entire interests of the Company and the entities now controlled by the Company (the "Subsidiaries") were separately held by Callaway Group Limited. On 16 February 2005, Callaway Group Limited has transferred the entire interests in the Subsidiaries to the Company. As International Financial Reporting Standards ("IFRS") does not specify the accounting for business combinations under common control, the Group has elected to apply principles of uniting of interests (merger accounting) in respect of this business combination under common control. Accordingly, the consolidated income statement, consolidated cash flow statement and relevant notes included in the results and cash flows of the Group have been prepared as if the current group structure had been in existence throughout the two years ended 31 December 2005. The consolidated balance sheet as at 31 December 2004 and relevant notes have been prepared to present the assets and liabilities of the Group as if the current group structure had been in existence as at that date.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of IASB that are relevant to its operations and effective for accounting periods beginning on 1 January 2005. The adoption of these new and revised International Financial Reporting Standards and Interpretations ("IFRSs") has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. The changes in presentation have been applied retrospectively. The adoption of the new and revised Standards and Interpretations has resulted in changes to the Group's accounting policies in the following areas that have affected the amounts reported for the current or prior years:

IFRS 2, Share-based Payment

IFRS 2 Share-based Payment requires the recognition of equity-settled share-based payments at fair value at the date of grant and the recognition of liabilities for cash-settled share-based payments at the current fair value at each balance sheet date. The change has had no material impact on the Group.

At the date of authorisation of these financial statements, the following Standards and Interpretations were in issue but not yet effective:

IAS 1 (Amendment)	Capital disclosures[1]
IAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures[2]
IAS 21 (Amendment)	Net investment in a foreign operation[2]
IAS 39 (Amendment)	Cash flow hedges of forecast intragroup transactions[2]
IAS 39 (Amendment)	The fair value option[2]
IAS 39 and IFRS 4 (Amendments)	Financial Guarantee contracts[2]
IFRS 6	Exploration for and evaluation of mineral resources[2]
IFRS 7	Financial instruments: disclosures[1]
IFRIC 4	Determining whether an arrangement contain a lease[2]
IFRIC 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds[2]
IFRIC 6	Liabilities arising from participating in a specific market – waste electrical and electronic equipment[3]
IFRIC 7	Applying the restatement approach under IAS 29 financial reporting in hyperinflationary economies[4]
IFRIC 8	Scope of IFRS 2[5]
IFRIC 9	Reassessment of embedded derivatives[6]

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

IFRS 2, Share-based Payment (Continued)

[1] Effective for annual periods beginning on or after 1 January 2007.

[2] Effective for annual periods beginning on or after 1 January 2006.

[3] Effective for annual periods beginning on or after 1 December 2005.

[4] Effective for annual periods beginning on or after 1 March 2006.

[5] Effective for annual periods beginning on or after 1 May 2006.

[6] Effective for annual periods beginning on or after 1 June 2006.

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2005

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements are prepared on historical cost basis, except for certain financial instruments which are measured at fair value. The principal accounting policies adopted are set out below.

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

Basis of consolidation

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

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

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

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

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

Revenue recognition

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

Sales of goods are 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 income.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

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

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 income.

Leasing

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

The Group as lessee

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

Foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of the Group are expressed in RMB.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on retranslation of monetary items, are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including comparatives) are expressed in RMB using exchange rates prevailing on the balance sheet date. Income and expense items (including comparatives) are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Borrowing costs

All borrowing costs are recognised in income statements in the period in which they are incurred.

Retirement benefit costs

Payments to contribution retirement benefit plans are charged as an expense as they fall due. Payments made to state-managed retirement benefit schemes such as PRC state-managed retirement schemes, are dealt with as payments to defined contribution plans where the Group's obligations under the plans are equivalent to those arising in a defined contribution retirement benefit plan.

Income tax

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are not taxable or tax deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted in countries where the subsidiaries operate by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2005

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment

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

Depreciation and amortisation is provided to write off the cost of items of property, plant and equipment, other than properties under development, over their estimated useful lives and after taking into account their estimated residual value, using the straight line method.

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

Leasehold land for future owner-occupied purpose

When the leashold land and building are in the course of development for production purpose, the leasehold land component is classified as a prepaid lease payment and amortised over a straight-line basis over the lease term. During the construction period, the amortisation charge provided for the leasehold land is included under properties under development. Properties under development are carried at cost, less any identified impairment losses.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period 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.

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

Patent and technical know-how

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of tangible and intangible 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). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the income statement.

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

Inventories

Inventories are measured at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the first-in first-out method. Net realisable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Trade receivables/other receivables/bank balances/amount due from a related company/amount due from a director/other advance

Trade receivables, other receivables, bank balances, amount due from a related company, amount due from a director and other advance are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest method. Appropriate allowances for estimated irrecoverable amounts are recognised in the income statement when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Held for trading investments

Investments are recognised and derecognised on a trade-date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable 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 profit or loss for the period.

Financial liabilities and equity

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Bank borrowings

Interest-bearing bank loans are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the Group's accounting policy for borrowing costs.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Convertible notes

Convertible notes are regarded as compound instruments, consisting of a liability component and an equity component, or in the case of the conversion options are not settled by the exchange of a fixed amount for fixed number of equity instrument, the accounting standard requires the issuer to recognise the compound financial instrument in the form of financial liability with embedded derivatives. Derivatives embedded in a financial instrument are treated as separated derivatives when their economic risks and characteristics are not closely related to those of the host contract (the liability component) and the host contract is not carried at fair value through profit or loss.

The convertible notes with embedded derivatives as a whole are designated as financial liabilities at fair value through profit or loss, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Trade payables/other payables/amount due to related companies/dividend payable to the shareholders of a subsidiary

Trade payables, other payables, amount due to related companies and dividend payable to the shareholders of a subsidiary are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2005

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies, which are described in note 3, management makes various estimates and judgments (other than those involving estimates) based on past experience, expectations of the future and other information. The key sources affect the amounts recognised in the financial information as disclosed below.

Depreciation and amortisation

The Group depreciates the property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual values, using the straight line method. The estimated useful life reflects the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment. The residual values reflect the directors' estimated amount that the Group would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the assets were already of the age and in the condition expected at the end of its useful life.

5. FINANCIAL RISKS AND MANAGEMENT

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 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 consolidated balance sheet.

5. FINANCIAL RISKS AND MANAGEMENT (Continued)

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 and thus the exposure to credit risk is not significant.

Foreign currency risk

The Group exposed to minimal foreign exchange rate risk as the purchases and sales are denominated in RMB, the functional currency of the principal subsidiary.

Fair values of financial assets and financial liabilities

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

6. SEGMENT INFORMATION

As manufacture and sale of organic potash 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2005

7. OTHER INCOME

	2005 RMB	2004 RMB
Bank interest income (Note a)	**150,367**	86,196
Interest income from loan receivables	**–**	665,614
Interest income from other assets (Note 34(a) iii)	**–**	60,000
Gain on changes in fair value of held-for-trading investment	**3,727**	2,970
Reversal of allowance for bad debts	**–**	299,759
Government grants (Note b)	**150,000**	200,000
Refund on value-added tax (Note c)	**8,014,317**	–
	8,318,411	1,314,539

Note a: The deposits carried fixed interest rate ranged from 0.20%-2.45% per annum.

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

Note c: Pursuant to an approval document issued by State Tax Finance Bureau [財稅(2004)197號], a subsidiary of the Group will be entitled to a refund of the valued added tax paid in relation to the sales of organic potash fertilizer products with effect from 1 December 2004.

8. FINANCE COSTS

	2005 RMB	2004 RMB
Interest on bank borrowings wholly repayable within five years	**3,096,969**	3,467,567

9. INCOME TAX EXPENSES

	2005 RMB	2004 RMB
Current tax:		
PRC Enterprise Income Tax ("EIT")	**–**	–

No provision for Hong Kong profits tax has been made as the Group had no assessment profits arising in Hong Kong for both years.

9. INCOME TAX EXPENSES (Continued)

Shaanxi Juchuan Fuwanjia Co., Ltd. ("Juchuan Fuwanjia"), a subsidiary established in the PRC, 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 EIT for the two years starting from their first production year followed by a EIT rate of 15% in the remaining years of operation. Therefore, as confirmed with the local tax bureau, Juchuan Fuwanjia was exempted from EIT for the first two years since its production commenced in 2000 and is subject to a EIT payable of 15% thereafter.

Upon the reorganisation of Juchuan Fuwanjia into a PRC sino-foreign equity joint venture company on 26 March 2004, it was entitled to an exemption from PRC EIT for two years commencing from its first profit-making year of operation, followed by a 50% relief from the PRC EIT for the next three years. Juchuan Fuwanjia has no assessable profits for the period from 1 January 2004 to 26 March 2004.

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

	2005 **RMB**	2004 RMB
Profit before tax	**7,671,747**	12,555,658
Tax at the domestic income tax rate of 15%	**1,150,762**	1,883,349
Tax effect of profit of subsidiary in the PRC under tax holiday	**(2,958,427)**	(2,018,828)
Tax effect of income that are not taxable in determining taxable profit	**–**	(23)
Tax effect of expenses that are not deductible in determining taxable profit	**1,807,665**	135,502
Tax expense for the year	**–**	–

There was no significant unprovided deferred taxation for both years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2005

10. PROFIT FOR THE YEAR

	2005 RMB	2004 RMB
Profit for the year has been arrived at after charging (crediting):		
Directors' emoluments (note 11)	1,483,417	195,893
Other staff costs	7,261,174	6,321,267
Retirement benefit schemes contributions (excluding those of directors)	68,019	73,682
Total staff costs	8,812,610	6,590,842
Less: Staff cost included in the research and development costs	(216,956)	(191,375)
	8,595,654	6,399,467
Amortisation of intangible assets (charged to administrative expenses)	845,000	845,000
Amortisation of prepaid lease payments		
– changed to income statement	95,025	95,025
– capitalised in properties under development	514,541	499,600
	609,566	594,625
Depreciation of property, plant and equipment	6,429,147	6,758,751
Less: Depreciation included in the research and development costs	(201,756)	(213,666)
	6,227,391	6,545,085
Cost of inventories recognised in the income statement	83,392,895	72,332,206
Auditors' remuneration		
– current year	610,400	494,000
– overprovision in prior year	(20,800)	–
Written off of property, plant and equipment	193,953	–
Research and development costs	930,790	942,148
Allowances for bad and doubtful debts for trade receivables	4,232	–
Allowances for bad and doubtful debts for other receivables	306,460	–
Allowances for (reversal of allowance for) inventories (Note)	8,678	(271,074)

Note: Inventory were reprocessed and used for production in 2004. Hence the amount was reversed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2005

11. DIRECTORS' EMOLUMENTS

The emoluments of each of the directors for the year are as follows:

	2005 RMB	2004 RMB
Directors' fees	148,400	–
Other emoluments:		
Basic salaries, bonus and allowances	1,335,017	188,000
Retirement benefits scheme contributions	–	7,893
	1,483,417	195,893

The amounts disclosed above include director's fees of RMB148,400 payable to four independent non-executive directors during the year (2004: nil).

	Zhuo Ze Fan RMB	Lv Xia RMB	Xie Yi Ping RMB	Wu Jing Jin RMB	Zhao Shou Guo RMB	Yue Kwai Wa, Ken RMB	Ng Tang RMB	Yam Tai Fai, Ronald RMB	Total 2005 RMB
Fees	–	–	–	–	53,000	53,000	31,800	10,600	148,400
Other emoluments									
Basic salaries, bonus and allowance	732,617	328,400	274,000	–	–	–	–	–	1,335,017
Total emoluments	732,617	328,400	274,000	–	53,000	53,000	31,800	10,600	1,483,417

	Zhuo Ze Fan RMB	Lv Xia RMB	Xie Yi Ping RMB	Wu Jing Jin RMB	Zhao Shou Guo RMB	Ng Tang RMB	Yam Tai Fai, Ronald RMB	Total 2004 RMB
Fees	–	–	–	–	–	–	–	–
Other emoluments								
Basic salaries, bonus and allowance	54,231	65,031	56,631	–	20,000	–	–	195,893
Total emoluments	54,231	65,031	56,631	–	20,000	–	–	195,893

11. DIRECTORS' EMOLUMENTS (Continued)

The five highest paid individuals included three (2004: three) directors during the year ended 31 December 2005, details of whose emoluments are included above. The emoluments of the remaining two (2004: two) individuals, which fall within the band of nil to HK$1,000,000 (equivalent to approximately RMB1,040,000) for the year ended 31 December 2005 are as follows:

	2005	2004
	RMB	RMB
Basic salaries, bonus and allowances	**641,862**	278,729
Retirement benefits scheme contributions	**22,325**	15,534
	664,187	294,263

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.

12. EARNINGS PER SHARE

The calculation of the basic earnings per share for the year attributable to the equity holders of the parent is based on the profit for the year of RMB768,751 (2004: RMB7,845,059) and weighted average number of ordinary shares of 70,383,562 shares (2004: 80,000,000 shares in issue and issuable as at 31 December 2004 (Note 1)) of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2005

13. 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
Additions	60,000	–	60,000
At 31 December 2005	3,660,000	1,250,000	4,910,000
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 and 1 January 2005	840,000	604,167	1,444,167
Charge for the year	720,000	125,000	845,000
At 31 December 2005	1,560,000	729,167	2,289,167
CARRYING VALUES			
At 31 December 2005	2,100,000	520,833	2,620,833
At 31 December 2004	2,760,000	645,833	3,405,833

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

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB	Leasehold improvements RMB	Plant and machinery RMB	Furniture, fixtures and equipment RMB	Motor vehicles RMB	Properties under development RMB	Total RMB
COST							
At 1 January 2004	14,650,842	7,547,382	28,431,172	1,772,079	3,413,464	228,983	56,043,922
Additions	–	662,383	153,275	429,272	–	3,137,504	4,382,434
Reclassification	16,000	–	46,536	(62,536)	–	–	–
Transfers	–	467,064	1,470,970	–	–	(1,938,034)	–
At 31 December 2004	14,666,842	8,676,829	30,101,953	2,138,815	3,413,464	1,428,453	60,426,356
Exchange difference	–	(12,497)	–	(8,100)	–	–	(20,597)
Additions	334,871	42,099	816,562	14,947	401,483	5,463,702	7,073,664
Written off	–	–	–	(237,021)	–	–	(237,021)
Transfers	669,885	–	101,010	–	–	(770,895)	–
At 31 December 2005	15,671,598	8,706,431	31,019,525	1,908,641	3,814,947	6,121,260	67,242,402
DEPRECIATION							
At 1 January 2004	3,409,502	4,733,222	8,111,867	591,492	1,173,870	–	18,019,953
Reclassification	(543)	-	34,752	(34,209)	–	–	–
Provided for the year	1,067,454	2,276,923	2,671,434	329,228	413,712	–	6,758,751
At 31 December 2004	4,476,413	7,010,145	10,818,053	886,511	1,587,582	–	24,778,704
Exchange difference	–	(3,551)	–	(920)	–	–	(4,471)
Provided for the year	1,081,904	1,531,365	3,074,908	298,873	442,097	–	6,429,147
Written off	–	–	–	(43,068)	–	–	(43,068)
At 31 December 2005	5,558,317	8,537,959	13,892,961	1,141,396	2,029,679	–	31,160,312
CARRYING VALUES							
At 31 December 2005	10,113,281	168,472	17,126,564	767,245	1,785,268	6,121,260	36,082,090
At 31 December 2004	10,190,429	1,666,684	19,283,900	1,252,304	1,825,882	1,428,453	35,647,652

The following rates per annum are used for the depreciation of property, plant and equipment on a straight-line basis:

Buildings	Over the term of the leasehold interests in land
Leasehold improvements	20% – $33^1/_3$%
Plant and machinery	10%
Furniture, fixtures and equipment	20%
Motor vehicles	$12^1/_2$%

The buildings and properties under development are situated on leasehold interests in land held under medium-term in the PRC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2005

15. PREPAID LEASE PAYMENTS

	2005 RMB	2004 RMB
The Group's prepaid lease payments comprise:		
Leasehold interests in land		
in PRC held under medium-term of 50 years	**29,500,758**	28,317,449
Analysed for reporting purposes as:		
Current asset	**630,483**	594,625
Non-current asset	**28,870,275**	27,722,824
	29,500,758	28,317,449

16. INVENTORIES

	2005 RMB	2004 RMB
Raw materials	**1,694,715**	1,087,554
Work in progress	**978,555**	580,870
Finished goods	**9,823,508**	6,736,391
	12,496,778	8,404,815

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2005

17. 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:

	2005	2004
	RMB	RMB
0 – 60 days	**14,003,875**	10,655,096
61 – 120 days	**6,342,147**	11,689,042
121 – 180 days	**9,786,399**	6,997,797
181 – 365 days	**1,250,854**	582,342
Over 365 days	**–**	3,661
	31,383,275	29,927,938
Less: Allowances for bad and doubtful debts	**(1,583,248)**	(1,578,611)
	29,800,027	28,349,327

18. HELD FOR TRADING INVESTMENTS

	2005	2004
	RMB	RMB
Unlisted investment fund – at fair value	**350,000**	600,000

The Group has not designated any financial assets that are not classified as held for trading as financial assets at fair value through profit and loss.

The investments included above represent investments in an unlisted investment fund that offer the Group the opportunity for return through fair value gain. They have no fixed maturity or coupon rate. The fair values of these securities are provided by banks managing the fund.

19. AMOUNT DUE FROM A RELATED COMPANY

Name of a related company	Balance as at 31 December 2005 RMB	2004 RMB
Shenzhen Guang Xin Investment Co. Ltd. (深圳市廣信投資有限公司)	**1,310,000**	–

The amount was unsecured, non-interest bearing and repayable within one year. A non-executive director of the Company, Mr. Wu Jing Jin, has beneficial interests in this related company.

20. AMOUNT DUE FROM A DIRECTOR

Name of director	Balance as at 31 December 2005 RMB	2004 RMB	Maximum amount outstanding during the year RMB
Ms. Lv Xia	**3,950**	6,000	16,161

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

21. OTHER ADVANCE

	2005 RMB	2004 RMB
Other advance	**2,000,000**	–

The amount represents an advance to a third party which is unsecured, interest-free and is repayable within one year. The amount has been fully settled subsequent to the year end.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2005

22. TRADE PAYABLES

The aged analysis of trade payables is as follows:

	2005 RMB	2004 RMB
Aged:		
0 – 90 days	**901,660**	432,620
181 – 365 days	**32,027**	8,630
	933,687	441,250

23. AMOUNTS DUE TO RELATED COMPANIES

Details of amounts due to related companies are as follows:

	2005 RMB	2004 RMB
Xian Juchuan International Investments Ltd.	**834,303**	–
Top Precision Group Limited	**–**	4,240,000
Sungreen Agro Limited	**–**	870,037
	834,303	5,110,037

The amounts are unsecured, non-interest bearing and repayable on demand. Mr. Zhuo Ze Fan, the director of the Company, has beneficial interests in these related companies.

24. AMOUNT DUE TO A SHAREHOLDER

The amount due to Legend Profit Holdings Limited was unsecured, non-interest bearing and had 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 and has been credited to capital reserve of the Group.

25. BANK BORROWINGS

	2005 RMB	2004 RMB
Secured	**13,000,000**	30,000,000
Unsecured	**20,000,000**	30,000,000
	33,000,000	60,000,000
The bank borrowings are repayable as follows:		
Within one year	**33,000,000**	40,000,000
More than one year, but not exceeding two years	**–**	20,000,000
	33,000,000	60,000,000
Less: Amount repayable within one year shown under current liabilities	**(33,000,000)**	(40,000,000)
Amount repayable after one year	**–**	20,000,000

All the Group's bank borrowings are denominated in RMB. As at 31 December 2005, RMB13,000,000 is secured by a pledge of the Group's prepaid lease payment, buildings and personal guarantee by Mr. Zhuo Ze Fan, the director of the Company and a corporate guarantee by an independent third party.

For the year ended 31 December 2005, all the bank borrowings were arranged at fixed interest rates ranging from 5.7645% to 6.138% per annum (2004: 5.310% to 5.765%).

As at 31 December 2004, RMB30,000,000 was guaranteed by third parties and was secured by a pledge of the Group's prepaid lease payment, buildings and a property held by Xian Juchuan International Investments Ltd., a related company.

The fair values of the Group's bank borrowings approximate to the corresponding carrying amounts in view of short maturity period.

26. 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 were unsecured, non-interest bearing and were 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.

The convertible notes were fully converted on 28 February 2005.

27. SHARE CAPITAL

	Notes	**Number of shares**	**Per value per share** HK$	**Amount** HK$
Authorised:				
As at 31 December 2004	a	1,000,000	0.10	100,000
Effect of sub-division of shares of HK$0.1 each into 10 shares of HK$0.01 each	a	9,000,000	0.01	–
Share capital after sub-division		10,000,000	0.01	100,000
Increase on 16 February 2005	c	4,990,000,000	0.01	49,900,000
As at 31 December 2005		5,000,000,000	0.01	50,000,000

27. SHARE CAPITAL (Continued)

	Notes	Number of shares	Per value per share	Amount
			HK$	HK$
Issued:				
Being nil paid shares allotted and issued on 26 April 2004	a	1,000,000	0.10	–
At 31 December 2004		1,000,000	0.10	–
Effect of sub-division of shares of HK$0.1 each into 10 shares of HK$0.01 each on 16 February 2005	a	9,000,000	0.01	–
Shares capital after sub-division		10,000,000	0.01	–
Credit the 10,000,000 ordinary shares issued nil paid as consideration for acquisition of subsidiary	d	–	–	100,000
Shares allotted and issued for acquisition of subsidiary	d	10,000,000	0.01	100,000
Conversion issue	e	17,034,284	0.01	170,343
Issuance of shares on listing	f	20,000,000	0.01	200,000
Capitalisation issue credited as fully paid conditional on share premium amount of the Company as a result of the placing of the Company's share	g	22,965,716	0.01	229,657
As at 31 December 2005		80,000,000	0.01	800,000
In RMB equivalent				848,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2005

27. SHARE CAPITAL (Continued)

Notes:

(a) The Company was incorporated in Bermuda on 14 April 2004 with an authorised share capital of HK$100,000 divided into 1,000,000 shares of HK$0.1 each. On 26 April 2004, 1,000,000 shares of HK$0.1 each were allotted and issued to Callaway Group Limited at par and nil paid. On 16 February 2005, every issued and unissued share of the Company was subdivided into 10 shares of HK$0.01 each.

(b) At 1 January 2004, the share capital of the Group represented the Group's share in the registered capital of the PRC subsidiary, Juchuan Fuwanjia whereas at 31 December 2004, the share capital of the Group 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 were subsidiaries of the Sungreen Investment Limited.

(c) On 16 February 2005, the authorised share capital of the Company was increased from HK$100,000 to HK$50,000,000 by creation of additional 4,990,000,000 shares of HK$0.01 each, which ranked pari passu with the existing shares in all respects.

(d) On 16 February 2005, Callaway Group Limited and Legend Profit Holdings Limited transferred the entire shares of US$1 each in the capital of Sungreen Investments Limited to the Company in consideration of, and in exchange for, the allotment and issue of 10,000,000 shares, credited as fully paid to Callaway Group Limited and Legend Profit Holdings Limited, and all 10,000,000 unpaid shares held by Callaway Group Limited credited as fully paid at par (see Note (a)).

(e) On 28 February 2005, 17,034,284 shares were converted by the convertible note holders upon the conversion issue.

(f) On 28 February 2005, 20,000,000 ordinary shares of HK$0.01 each were issued at HK$2.5 each by way of placing offer, generating cash proceeds of approximately RMB53,000,000 (HK$50,000,000). The premium over the par value of the shares was credited to the share premium account.

(g) Immediately after the placing and conversion issue mentioned in Note (e) above, share premium of RMB243,436 (HK$229,657) was capitalised for the issuance of 22,965,716 shares of HK$0.01 each on a pro-rata basis to shareholders of the Company at the close of the business on 21 February 2005.

28. 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).

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. Unless otherwise determined by the directors of the company at their discretion, there is no requirement of minimum period of which a share option must be held.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2005

29. 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 and financial regulations applicable to PRC enterprises ("PRC GAAP"), 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 PRC GAAP, 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

(i) The special reserve arose during the year 2004 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.

(ii) The special reserve arises during the year 2005 represents the difference between the nominal value of share capital issued by the Company and the nominal value of share capital of Sungreen Investment Limited at the time of Group Reorganisation.

30. OPERATING LEASE COMMITMENTS

Minimum lease payments paid under operating leases during the year:

	2005 RMB	2004 RMB
Premises	**1,184,566**	959,449

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:

	2005 RMB	2004 RMB
Within one year	**912,349**	447,603
In the second to fifth year inclusive	**131,500**	143,683
	1,043,849	591,286

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.

31. CAPITAL COMMITMENTS

	2005 RMB	2004 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	**30,120,000**	34,530,000
Capital expenditure contracted but not provide for in respect of purchase of property, plant and equipment	**159,000**	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2005

32. CONTINGENT LIABILITIES

	2005 RMB	2004 RMB
Guarantees given to banks in respect of general banking facilities granted to third parties	**12,000,000**	10,000,000

33. PLEDGE OF ASSETS

As at 31 December 2005, the Group has pledged its prepaid lease payments and buildings of approximately RMB11,541,000 (2004: RMB13,182,000) for the banking facilities granted by the banks to the Group.

34. RELATED PARTY DISCLOSURES

(a) During the year, the Group entered into the following transactions with the related persons:

Nature of transactions	Notes	2005 RMB	2004 RMB
Rental charges and sub-charges payable by the Group	(i)	**834,236**	821,086
Consultancy service received by the Group	(ii)	**655,000**	–
Interest income from other assets received by the Group	(iii)	**–**	60,000

Notes:

(i) Rental charges and sub-charges were charged in accordance with a tenancy agreement dated 2 April 2002 and a renewal agreement dated 15 February 2005 entered into between the Group and Juchuan Investments. Mr. Zhuo Ze Fan, the director of the Company, has beneficial interests in the Company.

(ii) Consultancy service fee was charged at the pre-agreed rate in accordance with a consultancy agreement dated 12 October 2005 entered into between the Group and Shenzhen Guang Xin Investment Co., Ltd.(深圳市廣信投資有限公司).

(iii) Interest income was charged at a fixed return rate of 6% per annum on the amount placed by the Group to Juchuan Investments for the year ended 31 December 2004. 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 19, 20, 23 and 24 to the financial statements.

In addition, certain bank borrowings of the Group are guaranteed by Mr. Zhuo Ze Fan, a director of the Company. Details of these transactions are set out in note 25 respectively to the financial statements.

34. RELATED PARTY DISCLOSURES (Continued)

(b) Compensation of key management personnel

The remuneration of directors and other members of key management during the period were as follows:

	2005	2004
	RMB	RMB
Short-term benefits	**2,147,604**	490,156

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

35. RETIREMENT BENEFITS SCHEME

The Group operates a Mandatory Provident Fund Scheme ("MPF Scheme") for all qualifying employees in Hong Kong under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme of rate specified in the rules. The only obligation of the Group with respect of the MPF Scheme is to make the required contributions under Scheme.

The Group also 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 2004 and 2005, the Group had no significant obligation apart from the contribution as stated above.

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	British Virgin Islands	US$10,000	–	100%	Investment holding
Sungreen Investment Limited	British Virgin Islands	US$1,000	100%	–	Investment holding
陝西巨川富萬鉀股份有限公司 Juchuan Fuwanjia	The PRC	RMB50,000,000	–	65%	Manufacture and distribution of organic potash fertilizers

None of the subsidiaries had issued any debt securities at the end of the year. The convertible notes issued by Sungreen Argo Strategic Holdings Limited in 2004 were fully converted on 28 February 2005.

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, Shananxi Province, The People's Republic of China on Friday, 28 April 2006, 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 2005;

   (B) to re-elect Ms. Lv Xia as an executive director;

   (C) to re-elect Mr. Wu Jing Jin as a non-executive director;

   (D) to re-elect Mr. Yue Kwai Wa, Ken as an independent non-executive director;

   (E) to authorise the board of directors to fix the remuneration of all directors; and

   (F) 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 resolution as a special resolution of the Company:–

   "**THAT** the Bye-Laws of the Company be amended in the following manner:

   (A) Bye-Law 86(2)

   By deleting the word "annual" before the words "general meeting" of the last sentence in existing Bye-Law 86(2).

   (B) Bye-Law 87(1)

   By deleting the existing Bye-Law 87(1) in its entirety and substituting therefor the following new Bye-Law 87(1):–

   87(1) Notwithstanding any other provisions in the Bye-laws, at each annual general meeting one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to but not less than one-third shall retire from office by rotation, provided that every Director (including those appointed for a specific term or holding office as Chairman of the Board or Managing Director of the Company) shall be subject to retirement by rotation at least once every three years or within such other period as the Designated Stock Exchange may from time to time prescribe or within such other period as the laws of such jurisdiction as is applicable to the Company may require."

3. 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

(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."

(C) "**THAT** conditional upon resolutions number 3(A) and 3(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

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number 3(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 3(A) above."

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

Xi'an City, Shaanxi Province, The PRC, 31 March 2006

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. Yue Kwai Wa, Ken 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 26th Floor, Tesbury Centre, 28 Queen's Road East, 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.