2006 Annual Report

世纪阳光

CENTURY SUNSHINE ECOLOGICAL TECHNOLOGY HOLDINGS LIMITED

世紀陽光生態科技控股有限公司

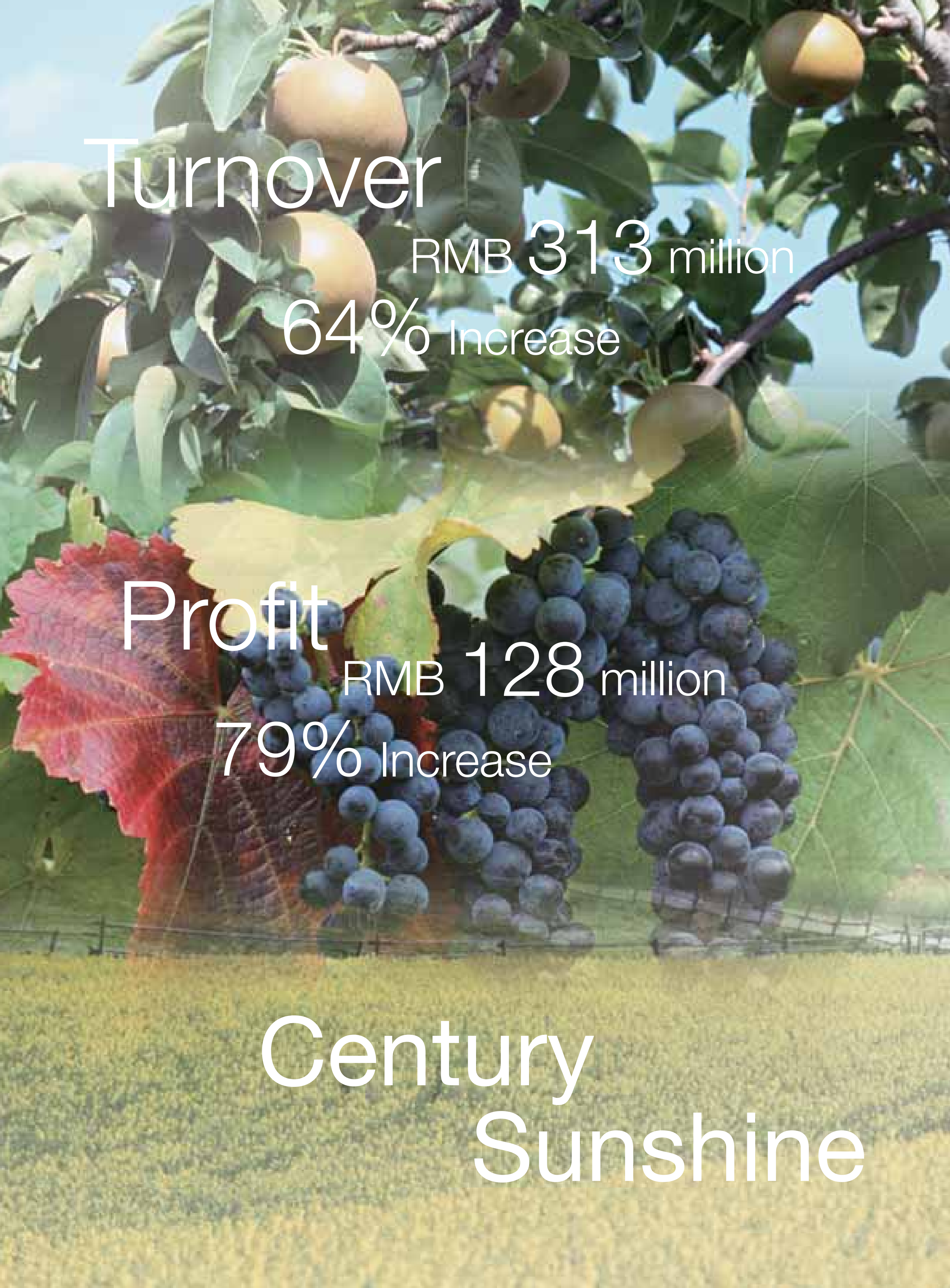
CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

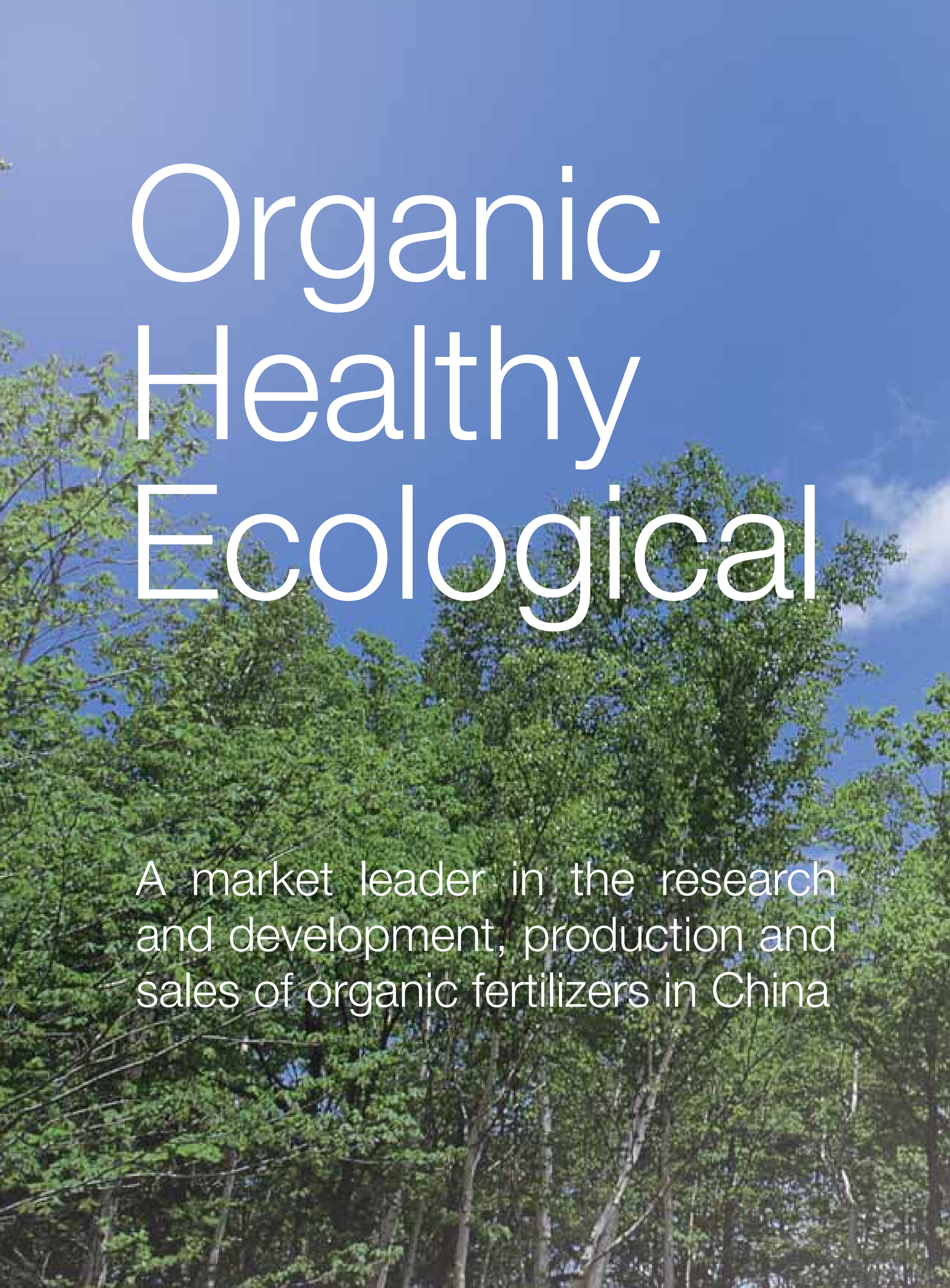
GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out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

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

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

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


Turnover
RMB 313 million
64% Increase
Profit
RMB 128 million
79% Increase
Century
Sunshine



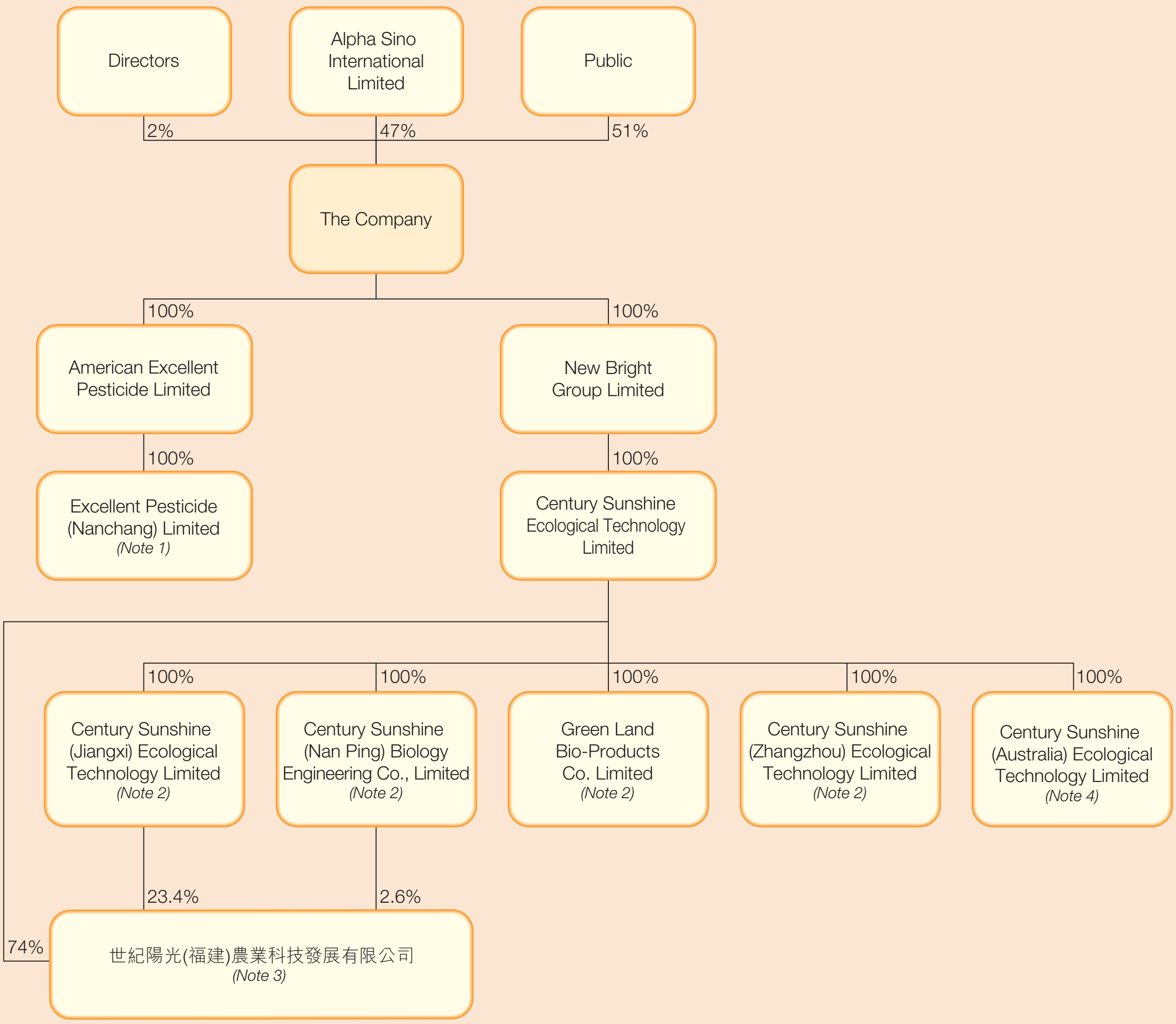
Organic Healthy Ecological

A market leader in the research and development, production and sales of organic fertilizers in China

Contents

Corporate Structure

As at 31 December 2006, the corporate structure of Century Sunshine Ecological Technology Holdings Limited (the "Company") and its subsidiaries (together, the "Group") is as follows:



Note 1: production and sale of bio-pesticide products.
Note 2: production and sale of organic fertilizer products.
Note 3: research and development and provision of technical services.
Note 4: Inactive.

Board of Directors and Committees

Board of Directors

Executive Directors	Chi Wen Fu *(Chairman)* Shum Sai Chit Zhou Xing Dun
Non- Executive Directors	Zou Li Wong May Yuk Wu Wen Jing, Benjamin Chi Bi Fen
Independent Non- Executive Directors	Cheung Sound Poon Shen Yi Min Kwong Ping Man

Committees

Audit Committee	Cheung Sound Poon* Shen Yi Min Kwong Ping Man
Remuneration Committee	Kwong Ping Man* Cheung Sound Poon Shen Yi Min Shum Sai Chit Wu Wen Jing, Benjamin

* Committee Chairman

Corporate Information

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

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

COMPANY SECRETARY

Tang Ying Kit

COMPLIANCE OFFICER

Shum Sai Chit

QUALIFIED ACCOUNTANT

Tang Ying Kit

AUDITORS

PricewaterhouseCoopers
Certified Public Accountants

LEGAL ADVISERS

As to Hong Kong law:
Sit, Fung, Kwong & Shum

As to PRC law:
Kang Da Law Office

PRINCIPAL BANKERS

DBS Bank (Hong Kong) Limited
United Overseas Bank Limited

LISTING DATE

17 February 2004

COMPANY'S WEBSITE ADDRESS

www.centurysunshine.com.hk

STOCK CODE

8276

Financial Highlights

FINANCIAL SUMMARY FOR THE YEAR ENDED 31 DECEMBER

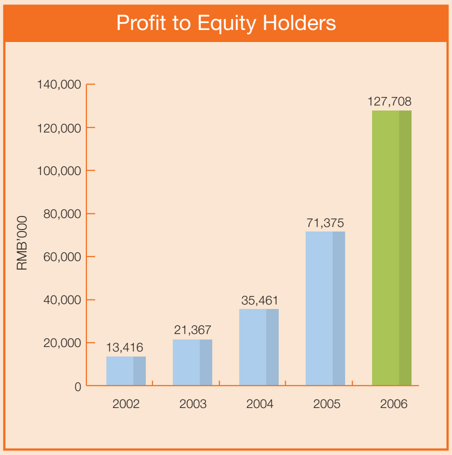
	2006 RMB'000	2005 RMB'000	2004 RMB'000 Restated	2003 RMB'000	2002 RMB'000
Sales	**312,695**	191,003	93,921	55,468	42,630
Cost of sales	**(152,410)**	(93,412)	(41,301)	(24,364)	(19,177)
Gross profit	**160,285**	97,591	52,620	31,104	23,453
Selling and marketing costs	**(10,667)**	(6,690)	(3,416)	(3,094)	(3,241)
Administrative expenses	**(23,599)**	(14,029)	(13,996)	(6,473)	(6,781)
Operating profit	**126,019**	76,872	35,208	21,537	13,431
Finance income	**12,258**	528	343	–	–
Finance costs	**(767)**	(1,028)	(136)	(343)	(230)
Profit before income tax	**137,510**	76,372	35,415	21,194	13,201
Income tax expense	**(9,802)**	(4,997)	–	(29)	(11)
Profit for the year	**127,708**	71,375	35,415	21,165	13,190
Attributable to:					
Equity holders of the Company	**127,708**	71,375	35,461	21,367	13,416
Minority interests	**–**	–	(46)	(202)	(226)
Total assets	**566,113**	342,356	116,389	47,300	23,299
Total liabilities	**(128,405)**	(30,267)	(4,706)	(12,927)	(7,384)
Total equity	**437,708**	312,089	111,683	34,373	15,915

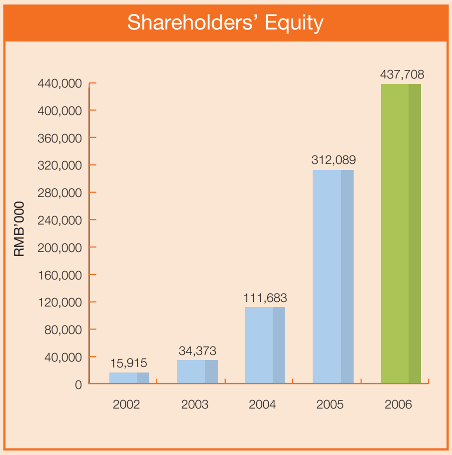
Financial Highlights

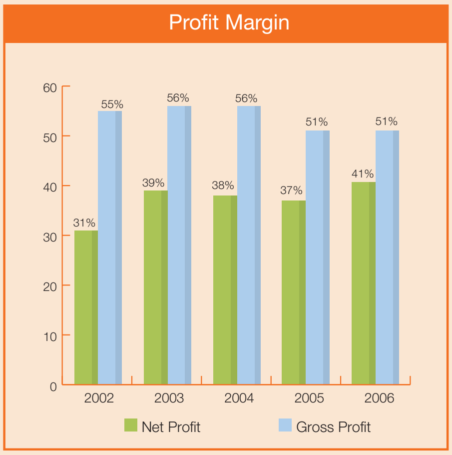
FINANCIAL RATIO (AS AT 31 DECEMBER)

	2006	2005	2004	2003	2002
Return on equity [1]	**29%**	23%	32%	62%	84%
Return on total assets [2]	**23%**	21%	31%	45%	58%
Interest cover [3]	**101x**	64x	261x	63x	58x
Gearing [4]	**25%**	7%	–	32%	39%
Liquidity [5]	**23x**	11x	20x	3x	3x

1 Profit attributable to shareholders/Total equity
2 Profit attributable to shareholders/Total assets
3 Profit before tax and interest/Interest expense
4 Total borrowings/Total equity
5 Current assets/Current liabilities







Financial Highlights

SHARE INFORMATION

(as adjusted for the effect of the Share Subdivision)

	31 December 2006	31 December 2005
Company's shares of HK$0.02 each (the "Shares") in issue	**2,047,025,000**	1,992,025,000
Closing market price per Share	**HK$1.48**	HK$0.505
Market capitalization	**HK$3,030 million**	HK$1,006 million
Net asset value per Share	**RMB0.214**	RMB0.157
Earnings per Share		
Basic	**RMB6.35 cents**	RMB4.35 cents
Diluted	**RMB6.05 cents**	RMB4.17 cents
Dividend per Share		
Interim	**HK0.4 cents**	HK0.3 cents
Final	**HK1 cents**	HK0.7 cents

Note:

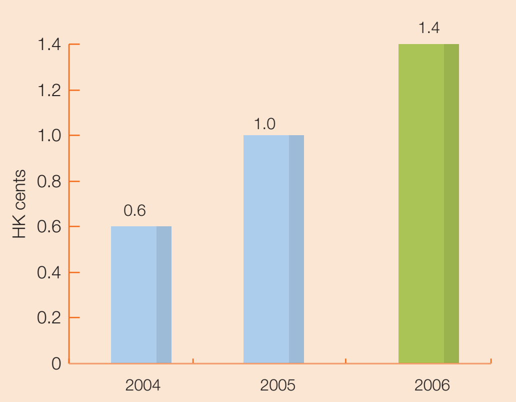
On 1 December 2006, an ordinary resolution was duly passed under which each of the then existing issued and unissued shares of HK$0.10 each in the share capital of the Company was subdivided (the "Share Subdivision") into five ordinary shares of HK$0.02 each. The Share Subdivision took effective on 4 December 2006.

Stock Price Movement

(as adjusted for the effect of the Share Subdivision)

Dividend

(as adjusted for the effect of the Share Subdivision)



Chairman's Statement

Chi Wen Fu
Chairman

On behalf of the board of Directors (the "Board") of the Company, I am pleased to present the annual results of the Group for the year ended 31 December 2006 for your review and consideration.

RESULTS HIGHLIGHTS

We achieved very good financial results in the past year. For the financial year ended 31 December 2006, the Group's consolidated turnover reached RMB312,695,000, representing a significant growth of 64% from last year, and the profit attributable to the equity holders of the Company increased by 79% to RMB127,708,000. Basic and diluted earnings per Share were RMB6.35 cents and RMB6.05 cents respectively, representing an increase of 46% and 45% from 2005.

The Board is pleased to share the profit growth with shareholders by recommending a payment of a final dividend of HK1 cents per Share. This dividend, together with the interim dividend of HK0.4 cents per Share already paid, as adjusted for the effect of the Share Subdivision, will make a total dividend of HK1.4 cents per Share for the full year.

BUSINESS REVIEW

1. Market demand remains strong

The significant increase in turnover was mainly driven by strong market demand for organic fertilizers. The Chinese consumers' increasing demand for green food has been driving the farmers to use more organic fertilizers. We produced a total of 178,000 tones of organic fertilizers. Our production facilities reached 100% utilization, however still not able to meet the demand. We believe that such trend of demand is to be continued in 2007.

2. Brand name promotion

During the year, we spent much effort on promoting our brand name and products in Fujian and Jiangxi provinces. We have always placed strong emphasis on product qualities and we expected to win the customers' confidence in our products through these promotional activities. The results were very encouraging and we received steadily increasing orders from our existing customers. We believe these promotional activities are very effective in building our brand name in the industry and we plan to continue to do the same in the coming years.

3. **Government recognition**

In early 2006, the Chinese Government implemented a new round of "Rich Soil Project" nation-wide with an objective to improve the soil structure and fertility. Some of the key strategies include the promotion of "Customized Fertilization Method" among farmers and encouraging the use of organic fertilizers. In November 2006, we were appointed by the Chinese Government as one of the customized-fertilizer producers in Fujian province. This recognition is a demonstration of our foresight in product research and development. We had been engaging in the research and development of customized fertilizing method as early as year 2000.

4. **Construction of Yunxiao Plant**

The building construction of the first phase of Yunxiao Plant was completed in March 2007 with 200,000 tones of capacity. The machinery installation is yet to complete due to tightened environmental appraisal procedures by the Chinese Government. The Chinese Government has recently implemented more stringent appraisal requirements on all newly constructed factories with the aim to protect the environment. The Yunxiao Plant is currently undergoing the appraisal procedure before obtaining the consent for machinery installation and production. Although our plant is designed for pollution-free with little energy consumption, we are still subject to all the application procedures. We expect the appraisal to be completed in the second quarter and installation and production will be immediately followed thereafter.

5. **Strategic cooperation with International Finance Corporation ("IFC")**

In November 2006, we were granted by IFC a 7-year loan in the principal amount of RMB120 million (the "IFC Loan"). The loan is to be used to finance our business and capacity expansion in the future. Before granting us the loan, IFC conducted a comprehensive due diligence on various aspects of our operation including production, financials, social environmental and corporate governance. The loan did not only provide us with the financial resources for future expansion, but also took us to a higher platform in terms of corporate governance. While appreciating the support from IFC, we also realize that it is our objective to keep our corporate governance at a high standard.

6. **Shares placement and subscription**

In February 2007, we completed a shares placement of 300 million existing Shares to over 20 institutional investors through Morgan Stanley & Co. International Limited and a subscription of 250 million new Shares by Alpha Sino International Limited. The net proceeds from the subscription were approximately HK$456 million and were intended to be used to finance future expansion as well as general working capital. Following the shares placement, our shareholders' base was broadened widely and our capital base was strengthened significantly.

Chairman's Statement

BUSINESS OUTLOOK

1. Government's favorable agricultural policies

Organic fertilizer has been listed as one of the key development products in the Central Government's "11th Five-Year Plan" commencing 2006. The Central Government spent RMB700 million in 2006 to provide 100 million farmers with technical services on how to use fertilizers wisely. These activities are to be continued in the coming years. In addition, the Central Government also pledged to increase spending on research and development on organic fertilizer products and technologies in the next five to ten years. These new policies will help the farmers to realize the advantages of using organic fertilizers especially for the farmland with poor soil structure and fertility after prolonged inappropriate use of chemical fertilizers. We therefore believe that demand for organic fertilizers will remain very strong in the coming years.

2. Capacity expansion

It is our primary objective to reach one million tones of capacity by 2010. With the expected completion of the both phases of Yunxiao Plant by next year, our annual production capacity will reach 555,000 tones by the end of 2008. The balance of 445,000 tones of capacity is expected to be achieved through acquisition. We are actively seeking for suitable acquisition targets and hope to complete one to two acquisitions by the end of this year. However, these activities are currently in preliminary stages, no agreements whatsoever have been entered into between the Company and any of the potential candidates.

3. Research and development ("R&D")

We have been placing strong emphasis on developing new types of fertilizer products. Following the launch of humic acid organic fertilizer for eucalypt tree in 2005, we launched the humic acid organic fertilizer for orchards this year. It contributed about 10% of our turnover in 2006. We are currently developing two new products, namely the wind-protection tree organic fertilizer and pesticide-fertilizer. Wind-protection tree organic fertilizer is specially designed for the plantation of wind-protection trees in costal and desert areas. Pesticide-fertilizer is a product that combines the function of both bio-pesticide and organic fertilizer. We expect these new products to be completed in 2007 and launched to the market in 2008.

I wish to thank our shareholders for your kind support over the past year. Looking forward, we expect the strong growth to be continued in 2007. With the new plant to commence operation and possible completion of acquisition, we foresee the coming year to be both challenging and promising. We shall definitely do our best to deliver to you a satisfactory return next year.

Chi Wen Fu
Chairman

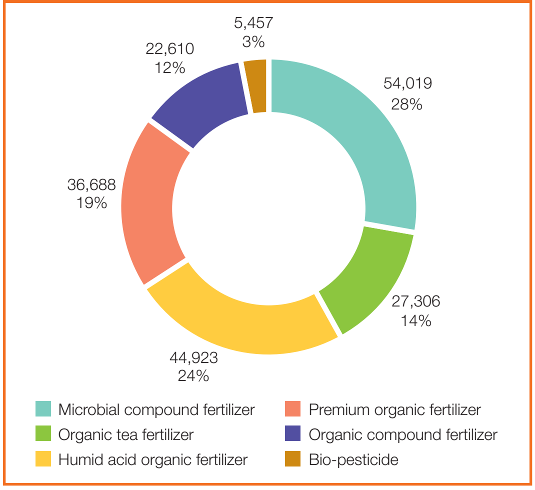
Hong Kong, 21 March 2007

TURNOVER

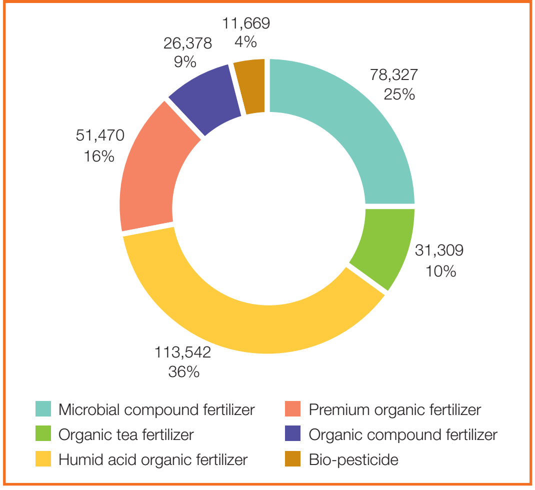
The Group's turnover for the year amounted to approximately RMB312,695,000, representing a significant increase of 64% from last year. The table below sets out the Group's turnover by product for both 2006 and 2005.

RMB'000	2006	2005	Growth
Mircrobial compound fertilizer	78,327	54,019	45%
Organic tea fertilizer	31,309	27,306	15%
Premium organic fertilizer	51,470	36,688	40%
Organic compound fertilizer	26,378	22,610	17%
Humic acid organic fertilizer	113,542	44,923	153%
Bio-pesticides	11,669	5,457	114%
Total	312,695	191,003	64%

Turnover 2005 (RMB'000)



Turnover 2006 (RMB'000)



Microbial compound fertilizer recorded a turnover of RMB78,327,000 and accounted for 25% of the total turnover. It remained as our key product with the highest profit margin and recorded a growth of 45% from last year.

Organic tea fertilizer recorded a turnover of RMB31,309,000 and accounted for about 10% of the total turnover. Its growth rate was about 15% which is lower than the average growth rate of 64%. This is due to the fact that we allocated more capacity to new products such as humic acid organic fertilizer. Therefore the production volume of organic tea fertilizer was restricted due to our capacity constraint and was not able to grow as fast as its demand. This situation is expected to be improved following the commencement of operation of the Yunxiao Plant in 2007.

Management Discussion and Analysis

Premium organic fertilizer recorded a turnover of RMB51,470,000 and accounted for about 16% of the total turnover. Its growth rate was 40% from last year.

Humic acid organic fertilizer recorded a turnover of RMB113,542,000 and accounted for about 36% of the total turnover. It had the highest growth rate of 153% from last year. We have three types of humic acid organic fertilizers, namely the humic acid organic fertilizer for eucalypt tree, humic acid organic fertilizer for orchard and humic acid organic fertilizer for general purpose. Humic acid organic fertilizer for eucalypt tree was firstly introduced in 2005, and continued to be the major driver of growth in 2006. It recorded a 52% growth rate and accounted for about 22% of the total turnover this year. Both of the humic acid organic fertilizer for orchard and general purpose were introduced in the third quarter of 2006 and the sales were satisfactory. The sales of the humic acid organic fertilizer for orchard and general purpose accounted for about 10% and 4% of the total turnover respectively.

RMB'000	2006	2005	Growth
Humic acid organic fertilizer			
– for eucalypt tree	68,231	44,923	52%
– for orchard	33,041	–	–
– for general purpose	12,270	–	–
	113,542	44,923	153%

Organic compound fertilizer recorded a turnover of RMB26,378,000 and accounted for about 9% of the total turnover. Its growth rate was about 17%.

Bio-pesticides recorded a turnover of RMB11,669,000, representing an increase of 114% from last year. It accounted for about 4% of the total turnover. Bio-pesticide is a supplemental business to the Group and acts as our additional services to customers. We expect this section to remain as a minor part of our business in the coming years.

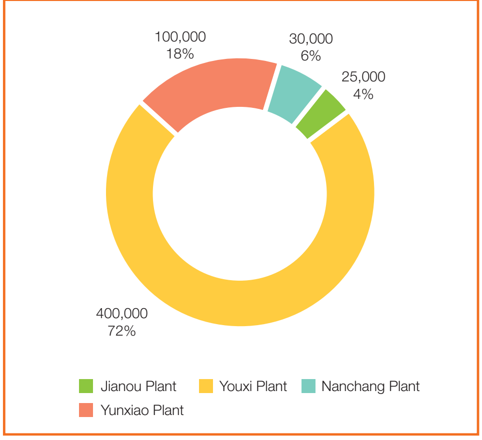
In 2006, the total sales volume of organic fertilizer products amounted to approximately 178,000 tones in which 20,000 tones of the organic compound fertilizers were produced through a subcontractor in the Fujian province.

Management Discussion and Analysis

PRODUCTION CAPACITY

Our current production capacity, excluding the subcontractor, is 155,000 tones. This is not enough to meet the continued growth of demand. It is our primary objective to reach one million tones of capacity by 2010. This is expected to be achieved through both building new plants and acquisitions. The building construction of the first phase of Yunxiao Plant with 200,000 tones of capacity is completed in March 2007. The plant is currently undergoing a environmental appraisal that is required by the Chinese government and is expected to commence operation in mid 2007. The second phase of Yunxiao Plant with another 200,000 tones of capacity is expected to be completed by the first half of 2008. Upon completion, the total capacity is to reach 555,000 tones. The balance of 445,000 tones is expected to be achieved through acquisitions. We are actively seeking suitable acquisition targets and hope to complete one to two acquisitions by the end of 2007. However, these activities are currently in preliminary stages, no agreements whatsoever have been entered into between the Company and any of the potential candidates.

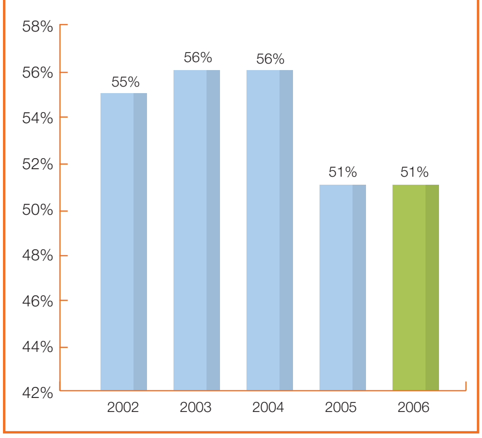
Total Production Capacity (tones) in 2008



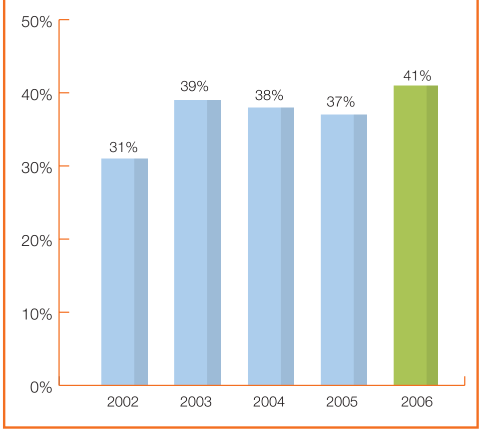
MARGINS

Gross profit of the Group amounted to RMB160,285,000 in 2006. Gross profit margin was maintained unchanged at 51%. We increased the average selling price of two products by 12% and 15% in 2006. The effects were offseted by the increased portion of products with relatively lower gross margins. Including the fair value gain on the IFC Loan of RMB8,543,000 under the current accounting standards, the net profit for the year amounted to RMB127,708,000, representing an increase of 79% over that of 2005. The net profit margin therefore increased by 4% from 37% to 41%.

Gross Profit Margin



Net Profit Margin

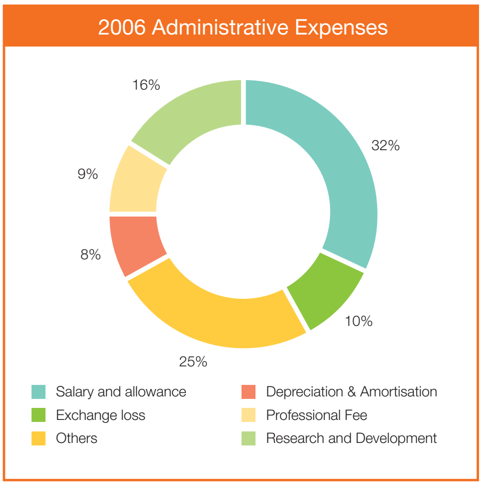


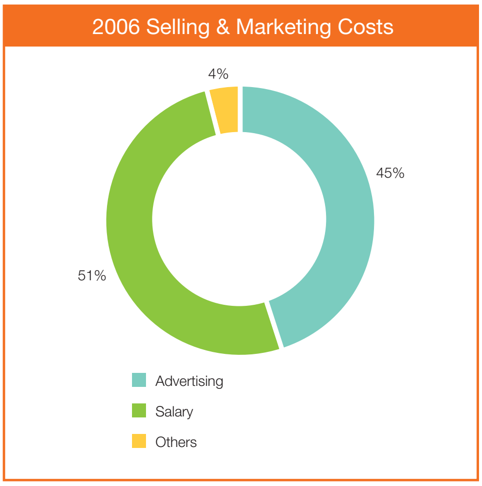
Management Discussion and Analysis

EXPENSES

Selling and marketing cost increased by 59% to RMB10,667,000 from last year. Due to the recruitment of sales personnel and increased marketing activities for our bio-pesticides business, advertising costs and salary expenses increased by 99% and 40% respectively, accounting for 45% and 51% of the total selling and marketing cost.

Administrative expenses amounted to RMB23,599,000, representing an increase of 68% from last year. The increase was mainly attributable to increase in R&D expenses on new R&D projects for bio-pesticides and organic fertilizers. During the year, R&D expenses increased by 290% to RMB3,837,000. Salary expenses recorded a slight increase of 11% to RMB7,507,000 when compared to the same period last year. Exchange loss of RMB2,296,000 was mainly due to the appreciation of Chinese Renminbi during the year against the Group's Hong Kong dollar assets. The R&D expenses, salary and exchange loss accounted for 16%, 32% and 10% of the total administrative expenses respectively.





CREDIT RISK CONTROL

Along with the significant increase in turnover and account receivable, the Group was fully aware of the credit risk exposure of our customers. The Group strictly followed the "client account management procedures" which was established in 2004. The procedures required and ensured each client account was maintained and kept tracked periodically according to the previous transactions records and credit history of each customer. The Group specified and assigned to each customer a series of credit measures such as credit ratio, credit period, credit rating and credit terms. The client account management procedures were effective to control the credit risk of the Group. As at 31 December 2006, no bad debt of the Group was recorded.

Management Discussion and Analysis

LIQUIDITY, GEARING AND SOURCE OF FINANCE

As at 31 December 2006, cash and bank balances of the Group increased by RMB165,834,000 to RMB384,827,000 (2005: RMB218,993,000), balances of which are mostly denominated in Hong Kong dollars (RMB34,296,000) (2005: RMB126,627,000) and Chinese Renminbi (RMB350,529,000) (2005: RMB92,364,000). As at 31 December 2006, the Group has a long term borrowings of RMB110,482,000 (2005: 21,312,000) and the net current assets was approximately RMB400,083,000 (2005: RMB226,430,000). The Group's gearing ratio as measured by bank and other borrowings over net asset value was 25% as at 31 December 2006 (2005: 7%).

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

PLEDGE OF ASSETS

As at 31 December 2006, the Group did not have any charges or pledges on its assets.

CAPITAL COMMITMENTS

As at 31 December 2006, the Group did not have any material capital commitments apart from those disclosed in Note 26 to the financial statements.

SIGNIFICANT INVESTMENT

Save for the Company's investment in its subsidiaries, the Group did not have any significant investment during the year.

DISPOSAL OF SUBSIDIARIES

On 10 February 2006, the Group disposed of its entire interest in Century Sunshine (China) Tea Concept Holdings Limited and Xian Zhong (International) Organic Food Limited. Both companies had been dormant since the dates of their incorporation. Details of disposal of these subsidiaries are set out in page 33 of the annual report. Save for disclosed, no subsidiary of the Group was disposed of during the year.

FOREIGN EXCHANGE EXPOSURE AND HEDGING POLICY

Since most of the income and expenses as well as assets and liabilities of the Group are denominated in Renminbi, the Directors consider that the Group has no material foreign exchange exposures and no hedging policy have been taken.

CONTINGENT LIABILITIES

As at 31 December 2006, the Group did not have any material contingent liabilities.

Management Discussion and Analysis

CAPITAL STRUCTURE

As at 1 January 2006, the issued share capital of the Company was HK$39,840,500, divided into 398,405,000 shares of HK$0.10 each.

On 16 August 2006, a total of 9,225,000 options were exercised at the exercise price of HK$1.47 each and the Company subsequently allotted and issued 9,225,000 new share of HK$0.10 each to the options holders.

On 16 November 2006, a total of 1,775,000 options were exercised at the exercise price of HK$1.47 each and the Company subsequently allotted and issued 1,775,000 new share of HK$0.10 each to the options holders.

On 1 December 2006, an ordinary resolution was duly passed under which each of the then existing issued and unissued shares of HK$0.10 each in the share capital of the Company was subdivided into five ordinary shares of HK$0.02 each. The Share Subdivision took effective on 4 December 2006.

As at 31 December 2006, the issued share capital of the Company was HK$40,940,500, divided into 2,047,025,000 shares of HK$0.02 each.

HUMAN RESOURCES

As at 31 December 2006, the Group had about 420 employees. Salaries are determined by reference to prevailing market rates. Staff benefits include medical protection, pension, discretionary bonus and share options. The Group has not experienced any labour disputes or significant changes in its headcount which may undermine its normal operation. The Directors considers that the Group enjoys a good relationship with its staff.

Corporate Governance Report

The Company is committed in maintaining high standards of corporate governance and business integrity in all of its activities. The Board believes the commitment in robust corporate governance practices will translate into long-term value and providing satisfactory and sustainable returns to shareholders. The Company has applied the principles and complied with the Code on Corporate Governance Practices (the "CCGP") contained in Appendix 15 of the GEM Listing Rules throughout the year ended 31 December 2006, except for disclosed in this report.

THE BOARD

The Board is accountable to the shareholders and lead the Group in an ethical, responsible and effective manner. The Board sets the overall strategic directions of the Group, monitors its performance and provides proper supervision on effective management. The Board has identified a number of areas which it has direct responsibility in making the decision, such as approval of financial results, material acquisitions or disposals of assets, significant investments and key human resources. The Board meets on a regular basis and as when necessary to address any specific significant matters that may arise.

The Board has delegated the authority and responsibility for implementing business strategies and management of the daily operations of the Company to the management. The Board is empowered to access any corporate information from senior management and the company secretary at all times. The management is required to response their requests and inform the Board of all material events and transactions as and when they occur. The Board communicates with the management on regular basis and gives consultation whenever necessary and appropriate.

The Board comprises ten Directors in which three are executive Directors; four are non-executive Directors and three are independent non-executive Directors. Non-executive Directors from diverse background bring in valuable expertise and experience that promotes the best interests of the Company. Independent non-executive Directors ensure the Board accounts for the interest of all shareholders and subject matters are considered in an objective matter. The Board believes it is an appropriate size for effective decision making, taking into consideration the nature and scope of the Company's operations.

The Directors as at the date of this report are set out in page 29 of the annual report. Except that Chi Wen Fu and Chi Bi Fen have a family relationship of brother and sister, there is no other relationship among the rest of the Directors.

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

The Company has received from each of Messrs. Shen Yi Min, Cheung Sound Poon and Kwong Ping Man an annual confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules. The Board considers that the independent non-executive Directors are independent.

Corporate Governance Report

BOARD'S COMMITTEES

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

AUDIT COMMITTEE

All the members of the Audit Committee are independent non-executive Directors. The Audit Committee members include:

– Cheung Sound Poon *(Chairman of the Audit Committee)*
– Kwong Ping Man
– Shen Yi Min

The Audit Committee meets at least four times a year.

REMUNERATION COMMITTEE

The Remuneration Committee comprises of five members, the majority of whom are independent non-executive Directors:

– Kwong Ping Man *(Chairman of the Remuneration Committee)*
– Cheung Sound Poon
– Shen Yi Min
– Shum Sai Chit
– Wu Wen Jing, Benjamin

The Remuneration Committee meets at least once a year.

The number of the Board meetings and the Board's committee meetings held for the year ended 31 December 2006 and the attendance of each Director are as follows:

Meetings (Attended/Held)

	BOARD	AUDIT COMMITTEE	REMUNERATION COMMITTEE
Executive Directors			
Chi Wen Fu	8/8	–	–
Shum Sai Chit	8/8	–	2/2
Zhou Xing Dun	8/8	–	–
Non-executive Directors			
Wong May Yuk	1/8	–	–
Zou Li	2/8	–	–
Wu Wen Jing, Benjamin	6/8	–	2/2
Chi Bi Fen	7/8	–	–
Independent non-executive Directors			
Cheung Sound Poon	8/8	4/4	2/2
Kwong Ping Man	8/8	4/4	2/2
Shen Yi Min	7/8	3/4	2/2

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the year, the Company had adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company also had made specific enquiry of all Directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transaction by Directors.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER (THE "CEO")

Chi Wen Fu, the founder of the Group, currently holds both the roles of the Chairman and the CEO. This structure is not complied with the code provision of the CCGP. However, the Board is of the view that it is for the best interests of the Group to adopt a single leadership structure, as Mr. Chi possesses extensive experience and knowledge in the field of agriculture especially the organic fertilizers and he is playing significant role in establishing the strategic decision and the overall management of the Group. This structure is conducive to strong and consistent leadership, enabling the Company to make and implement decisions promptly and efficiently. The Board considers that there is no suitable professional or expertise in the market to fill the position of CEO at this stage.

In light of the single leadership structure, sufficient safeguards are established to ensure that the management is accountable to the Board as a whole. The Chairman/CEO ensures that Board meetings are held regularly and when necessary. The Chairman/CEO ensures that Board members are provided with complete, adequate, accurate and timely information on a regular basis to enable them to be fully cognisant of the affairs of the Group. The Chairman/CEO ensures that all Directors have unrestricted access to the documents or information kept by the Group and professional advice when necessary.

NON-EXECUTIVE DIRECTORS

All the existing non-executive Directors are appointed for an initial term of two years and the term of office shall continue after the expiration of the initial term until at least 3 months' prior written notice is given by either party or the Company to terminate the same. Except that they are reimbursed for reasonable expenses incurred during the performance of their duties to the Company and are eligible to be granted share options under the share option scheme of the Company, there is no emolument provided for their appointment.

REMUNERATION OF DIRECTORS

The aim of the Remuneration Committee is to formulate transparent procedures for developing remuneration policies and packages for Directors and the senior management of the Group. Its duties include (i) to review and recommend the remuneration packages of the Directors and senior management of the Group; (ii) to review the administration of the share option scheme of the Company; and (iii) to review the appropriateness of compensation for Directors and the senior management of the Group. No Directors is involved in determining his own remuneration.

At the meeting of Remuneration Committee held on 6 November 2006, followed by several discussions among the members on 1 December 2006 and 14 December 2006, the Remuneration Committee has formalized the remuneration policy for the Directors and the Hong Kong Office for Board approval.

NOMINATION OF DIRECTORS

The Board does not establish the Nomination Committee at present. The appointment of new Directors is therefore a matter for consideration and decision by the full Board. The Board considers that new Directors are expected to have such expertise to qualify them to make a positive contribution to the Company and to give sufficient time and attention to the affairs of the Company.

All Directors are subject to election by shareholders of the Company at the annual general meeting. New Directors are briefed on the role of the Board and Board Committee, their duties and obligation as a director of a listed company.

AUDITORS' REMUNERATION

The Company has appointed PricewaterhouseCoopers as the auditors of the Group (the "Auditors") since the Listing Date. The Board is authorized in the annual general meeting to determine the remuneration of the Auditors. During the year, the Auditors perform the work of statutory audit for the year of 2006 and also involve in non-audit assignment of giving a confirmation to IFC in respect of the Group's compliance of certain financial covenants under the IFC loan. The Audit Committee was satisfied that the non-audit services provided did not affect the independence of the Auditors. The remuneration of the Auditors for the year of 2005 and 2006 are as follows:

	Year 2006	Year 2005
Audit services	**HK$895,000**	HK$680,000
Non-audit services	**HK$30,000**	–

AUDIT COMMITTEE

The Audit Committee assists the Board in corporate governance, financial reporting and internal control. The main duties of the Audit Committee are summarized as follows:

- Review the work of the external auditors of the Company;
- Meet with external auditors of the Company, whenever they consider necessary;
- Review quarterly, interim and annual financial statements and the Auditors' report on the Company's annual financial statements before presenting to the Board;
- Ensure the completeness, accuracy and fairness of quarterly, interim and annual financial statements;
- Review the independence of the external auditors annually;
- Review the adequacy and effectiveness of the Company's system of internal control in use;

The Audit Committee has the power to conduct investigations into any matter within the scope of responsibility of the Audit Committee. The Audit Committee is authorized to obtain independent professional advice if it deems necessary in the discharge of its responsibilities.

For the year ended 31 December 2006, the Audit Committee held four meetings in which the members of the Audit Committee had review the system of internal control and the following reports:

- Annual report for the year of 2005;
- Quarterly reports for the first quarter and third quarter of 2006; and
- Interim report for the first six months of 2006

Corporate Governance Report

RISK MANAGEMENT

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

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

COMMUNICATION WITH SHAREHOLDERS

The Company recognizes the importance of open communication and fair disclosure. The Company practices timely and non-selective dissemination of material information. It is the Company's policy to ensure that all shareholders are equally informed of all major corporate developments. Shareholders are given the opportunity to express their views and make enquiries to the Directors or management during the Company's general meeting. The Chairman of the Audit and Remuneration Committees will attend the annual general meeting of the Company and give explanation on any query in relation to the work of these committees.

Directors' Report

The Directors have pleasure in submitting their report together with the audited financial statements for the year ended 31 December 2006, which are set out on pages 40 to 86 of the annual report.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are production and sale of organic fertilizers and bio-pesticides. Particulars of the Company's subsidiaries are shown under Note 9 to the financial statements.

No segmental information is presented. Details of which are set out in note 5 to the financial statements.

RESULTS AND DIVIDEND

The results of the Group for the year ended 31 December 2006 are set out on page 43 of the annual report, which have been reviewed by the Audit Committee.

The Board recommends the payment of final dividend for 2006 of HK1 cents per Share (2005: HK0.7 cents, as adjusted for the effect of the Share Subdivision) which, together with the interim dividends paid on 15 September 2006 of HK0.4 cents per Share (as adjusted for the effect of the Share Subdivision), make a total dividend of HK1.4 cents per Share for the full year of 2006 (2005: HK1 cents, as adjusted for the effect of the Share Subdivision). Subject to the approval of the 2006 final dividends by the shareholders at the annual general meeting to be held on 30 April 2007, it is expected that the final dividends will be paid on 21 May 2007 to the shareholders registered on 26 April 2007. The share registrar will be closed from 26 April 2007 to 30 April 2007, both date inclusive.

FIVE-YEAR FINANCIAL SUMMARY

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

PROPERTY PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in note 6 to the financial statements.

SHARE CAPITAL

At an extraordinary general meeting of the Company held on 1 December 2006, an ordinary resolution was duly passed under which each of the then existing issued and unissued shares of HK$0.10 each in the share capital of the Company was subdivided into five ordinary shares of HK$0.02 each. The Share Subdivision took effective on 4 December 2006.

Directors' Report

Pursuant to the employee share option scheme of the Company adopted on 31 January 2004 (the "Scheme"), the Company issued 55,000,000 new ordinary Shares (as adjusted for the effect of the Share Subdivision) to option holders who exercised their share options during the year.

As at 31 December 2006, the issued share capital of the Company was HK$40,940,500 divided into 2,047,025,000 shares of HK$0.02 each. Details of the movements in share capital of the Company are set out in note 13 to financial statements.

RESERVES

In accordance with the Laws of the Cayman Islands, share premium is distributable to shareholders, subject to the condition that immediately following the date on which the distribution or dividend is proposed to be made, the Company is able to pay its debts as they fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares. As at 31 December 2006, the Company's reserve available for distribution to shareholders amounted to RMB184,711,000 (2005: RMB155,220,000).

Movement in the reserves of the Company and the Group during the year are set out in the Statement of Changes in Equity on pages 44 and 45 of the annual report.

BANK AND OTHER BORROWINGS

The total borrowings of the Group as at 31 December 2006 amounted to RMB110,482,000 (2005: RMB21,312,000). Details of which is set out in note 15 to the financial statements.

FINANCE COSTS CAPITALIZED

Finance costs amounting to RMB628,000 (2005: nil) were capitalized by the Group during the year as set out in note 20 to the financial statements.

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

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

SHARE OPTION SCHEME

The purpose of the Scheme is to attract and retain the best quality employees for the development of the Company's businesses and to provide additional incentives or rewards to selected qualifying participants of the Scheme for their contribution to the creation of the Company's shareholders value. Under the Scheme, the Company may grant options to the Directors or employees of the Group to subscribe for Shares in the Company for a consideration of HK$1 for each lot of share options granted. The Scheme, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The subscription price is not less than the highest of (i) the closing price of the Shares on GEM as stated in the Stock Exchange's daily quotation sheet on the date of offer of the option; (ii) the average closing prices of the Shares on GEM as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of offer of the option; and (iii) the nominal value of a Share of HK$0.02 (as adjusted for the effect of the Share Subdivision). The maximum number of Shares in respect of which options may be granted under the Scheme shall not, in aggregate, exceed 30% of the issued share capital of the Company from time to time.

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

As at 31 December 2006, options to subscribe for a total of 89,775,000 option shares (as adjusted for the effect of the Share Subdivision) were still outstanding under the Scheme, which represents approximately 4.4% of the issued ordinary shares of the Company.

Details of the share options outstanding as at 31 December 2006 are as follows:

(A) Share options granted on 11 October 2004 (as adjusted for the effect of the Share Subdivision)

	Held at 1 January 2006	Options exercised during the year	Options lapsed/ cancelled during the year	Held at 31 December 2006	Exercise price HK$	Exercisable in December 2007	Exercisable in January 2009
(A) Employee							
	1,500,000	–	–	1,500,000	0.126	1,500,000	–
	32,525,000	–	–	32,525,000	0.126	–	32,525,000
	6,250,000	–	–	6,250,000	0.126	–	6,250,000
(B) Director							
Zhou Xing Dun	7,000,000	–	–	7,000,000	0.126	–	7,000,000
	47,275,000		**–**	**47,275,000**		**1,500,000**	**45,775,000**

(B) Share options granted on 17 June 2005 (as adjusted for the effect of the Share Subdivision)

	Held at 1 January 2006	Options exercised during the year	Options lapsed/ cancelled during the year	Held at 31 December 2006	Exercise price HK$	Exercisable between July and December 2007	Exercisable between July 2008 and March 2009
(A) Employee							
	30,000,000	(30,000,000)	–	–	0.294	–	–
	31,000,000	(13,000,000)	–	18,000,000	0.294	18,000,000	–
	26,500,000	(8,000,000)	–	18,500,000	0.294	8,000,000	10,500,000
(B) Directors							
Wu Wen Jing, Benjamin	5,000,000	(2,500,000)	–	2,500,000	0.294	2,500,000	–
Cheung Sound Poon	2,500,000	(750,000)	–	1,750,000	0.294	750,000	1,000,000
Kwong Ping Man	2,500,000	(750,000)	–	1,750,000	0.294	750,000	1,000,000
	97,500,000	**(55,000,000)**	**–**	**42,500,000**		**30,000,000**	**12,500,000**

Notes:

1. During the year, no options were granted

2. During the year, 46,125,000 options and 8,875,000 options, which were granted on 17 June 2005, were exercised on 16 August 2006 and 16 November 2006 respectively. Accordingly, a total of 55,000,000 new ordinary Shares (as adjusted for the effect of the Share Subdivision) were issued at HK$0.294 each pursuant to the Scheme during the year.

Directors' Report

DIRECTORS

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

Executive Directors

Chi Wen Fu *(Chairman)*
Shum Sai Chit
Zhou Xing Dun

Non-Executive Directors

Zou Li
Wong May Yuk
Wu Wen Jing, Benjamin
Chi Bi Fen *(appointed on 28 April 2006)*

Independent Non-Executive Directors

Shen Yi Min
Cheung Sound Poon
Kwong Ping Man

Under the existing Articles of Association of the Company, all the Directors are subject to retirement by rotation and re-election at the annual general meeting. In accordance with Article 87 of the Company's articles of association, Mr. Chi Wen Fu, Mr. Shum Sai Chit, Mr. Zhou Xing Dun and Mr. Shen Yi Min will retire from office by rotation at the forthcoming annual general meeting of the Company and, being eligible, offer themselves for election.

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.

The biographical details of the Directors are set out on pages 35 and 36 of the annual report.

Details of the Directors' fee and any other reimbursement or emolument payable to Directors are set out in note 19 to the financial statements.

Directors' Report

DIRECTORS' INTERESTS IN CONTRACTS

No Director had a material interest, whether directly or indirectly, in any contract significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

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

As at 31 December 2006, the relevant interests and short positions of the Directors or chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors to be notified to the Company and the Stock Exchange, were as follows:

(i) Directors' interests in the Company

Long positions in Shares

Name of Director	Number of ordinary shares held Personal interests	Corporate interests	Total	Type of interest	Percentage of issued share capital of the Company
Chi Wen Fu	6,050,000	968,484,850 (Note 1)	974,534,850	Beneficial owner	47.61%
Zhou Xing Dun	7,000,000	–	7,000,000	Beneficial owner	0.34%
Wu Wen Jing, Benjamin	22,300,000	–	22,300,000	Beneficial owner	1.1%
Kwong Ping Man	1,175,000	–	1,175,000	Beneficial owner	0.06%
Cheung Sound Poon	1,050,000	–	1,050,000	Beneficial owner	0.05%

Note:

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

(ii) Directors' interests in associated corporations

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

Save as disclosed above, as at 31 December 2006, none of the Directors or chief executive of the Company or their respective associates had interests and short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors to be notified to the Company and the Stock Exchange.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

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

SUBSTANTIAL SHAREHOLDERS

So far as is known to any Director or chief executive of the Company, as at 31 December 2006, persons who had interests or short positions in the shares or underlying shares of equity derivatives of the Company as recorded in the register required to be kept under Section 336 of the SFO were as follows:

Name of shareholder	Nature	Number of shares	Percentage of issued share capital of the Company
Chi Wen Fu	Long position	974,534,850 (Note 1)	47.61%
Alpha Sino	Long position	968,484,850 (Note 2 and 3)	47.31%

Notes:

1. Chi Wen Fu has interest in an aggregate of 974,534,850 Shares of which (a) 6,050,000 Shares are beneficially owned by him and registered in his name; and (b) 968,484,850 Shares are deemed corporate interests by virtue of his holding of 90% of the issued share capital of Alpha Sino which entitled him to exercise or control the exercise of one-third or more of the voting power at general meeting of Alpha Sino.

2. The entire issued share capital of Alpha Sino is beneficially owned as to 90% and 10% by Chi Wen Fu and Shum Sai Chit respectively.

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

SENIOR MANAGEMENT

The biographical details of the senior management as at the date of this report are set out on page 37 of the annual report.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

MAJOR SUPPLIERS AND CUSTOMERS

The percentage of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

Purchases	
– the largest supplier	42%
– five largest suppliers combined	87%
Sales	
– the largest customer	2%
– five largest customers combined	8%

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

PUBLIC FLOAT

From information publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital are held by the public at all times during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year, none of the Directors nor the management shareholders of the Company nor their respective associates (as defined in the GEM Listing Rules) had any interest in a business that competed or might compete with the business of the Group.

PRE-EMPTIVE RIGHT

There is no provision for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands, which would oblige the Company to offer new shares on pro-rata basis to existing shareholders.

SPONSOR'S INTEREST

In accordance with the sponsor's agreement dated 4 February 2004 entered between the Company and CSC Asia Limited (the "Sponsor"), the Sponsor agreed to act as the Company's retained sponsor for the period from the Listing date to 31 December 2006.

To the best knowledge of the Sponsor, none of the Sponsor, its directors, employee or associates (as defined in the GEM Listing Rules) had any interest in the shares of the Company or any right to subscribe for or to nominate persons to subscribe for any shares of the Company as at 31 December 2006.

CONNECTED TRANSACTION

On 10 February 2006, the Group disposed of its entire interest in two wholly owned subsidiaries namely Century Sunshine (China) Tea Concept Holdings Limited and Xian Zhong (International) Organic Food Limited, which had been dormant since the dates of their incorporation, to Mr. Chi Wen Fu and Ms. Chi Bi Fen at a consideration of HK$100 (the "Disposal"). The terms of the Disposal were arrived at after arm's length negotiations between the parties. The Disposal was made on normal commercial terms and the Directors (including the independent non-executive Directors) consider that the terms thereof are fair and reasonable to the Company. Both Mr. Chi Wen Fu and Ms Chi Bi Fen were connected persons of the Company under the GEM Listing Rules as Mr. Chi Wen Fu was a Director and Ms. Chi Bi Fen was an associate of Mr. Chi Wen Fu. The Disposal was therefore a connected transaction under the GEM Listing Rules. However, the Disposal qualified as a de minimis transaction under the GEM Listing Rules, which was exempted from reporting, announcement and independent shareholders' approval requirements.

Directors' Report

CORPORATE GOVERNANCE

The Company's corporate governance principles and practices are set out in the Corporate Governance Report on pages 19 to 24 of the annual report.

SUBSEQUENT EVENTS

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

AUDITORS

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

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

By order of the Board
Shum Sai Chit
Executive Director

Hong Kong, 21 March 2007

Directors and Senior Management Profile

EXECUTIVE DIRECTORS

CHI Wen Fu (池文富): aged 44, is the Chairman and Chief Executive Officer of the Group responsible for overall strategic direction and key operating decisions. Mr. Chi graduated from Fujian Light Industry Technical College (福建省輕工業技術學校) in 1981 specialising in Chemical Analysis. Mr. Chi became a qualified lawyer in the PRC in 1989 and joined Fuzhou Justice Bureau Commerce Law Office (福州市司法局經濟律師事務所). Mr. Chi left Fuzhou Justice Bureau Commerce Law Office and set up a law office in Fuzhou in 1995 in which he was the managing partner. In early 1998, Mr. Chi started initial research on organic agricultural production and funded a project on research and development of microbial compound fertilizer products. Mr. Chi established the Group in 2000. He is currently the Vice Chairman of the Youth Business Association of Fujian Province (福建省青年商會). He was awarded "Top Hundred of Asia Innovative Management Executive" (亞洲管理創新百名優秀人物獎) in 2005.

SHUM Sai Chit (沈世捷): aged 49, is the Chief Operation Officer of the Group responsible for investment and commercial activities of the Group in Hong Kong. Mr. Shum is a graduate from Longxi Finance Training College (龍溪地區財貿幹部學校) specializing in Consumer Product Pricing Statistics. Mr. Shum joined Fujian Textiles Import and Export Corporation (福建省紡織品進出口公司) as a manager in 1984 responsible for importing and exporting of textile products. In November 1994, Mr. Shum became the managing director of Go Modern Limited which was principally engaged in the business of manufacturing of textile products and trading activities. Mr. Shum joined the Group in January 2002.

ZHOU Xing Dun (周性敦): aged 67, is the Chief Technology Officer of the Group responsible for research and development of new organic fertilizer production and its applications for the Group. Professor Zhou is a graduate from Beijing Geological Institute (北京地質學院), presently known as China Geological University (中國地質大學), in the PRC in 1962. Before joining the Group in January 2002, Professor Zhou was a professor at the Institute of Natural Resource and Environment of Fujian Agriculture and Forestry University (福建農林大學資源與環境學院) in the PRC. Professor Zhou has over 30 years of experience in the field of geology, ecology, fertilizer and environmental protection. Professor Zhou is currently a member of the Advisory Panel of Fuzhou Municipal People's Government in relation to city waste re-utilization (福州市人民政府城市垃圾資源化利用專家顧問).

NON-EXECUTIVE DIRECTORS

WONG May Yuk (黃美玉): aged 64, is the Chairman of Go Modern Limited. Ms. Wong has over 30 years experience in garment manufacturing, trading, property development in both Hong Kong and the PRC. Ms. Wong is also the Vice Chairman of a private school, the Fuzhou Li Ming Private School (福州黎明私立學校), and a director of a public high-school, the Fuzhou Yan An High School (福州延安中學), in Fuzhou, Fujian Province, the PRC. Ms. Wong joined the Group in October 2003.

Directors and Senior Management Profile

ZOU Li（鄒勵）: aged 39. Ms. Zou is a graduate from Fujian Government Departments Open University（福建省直屬機關業餘大學）in the PRC with a major in Finance. Ms. Zou has 15 years of experience in corporate accounting in the PRC. Before joining the Group in January 2000, Ms. Zou worked for Fuzhou Yinguang Factory（福州市瀛光工業綜合廠）, a collectively owned enterprise in the PRC and Fujian Zhuang Zhuan Property Company Ltd.（福建壯昌房地產有限公司）, a private enterprise in the PRC.

WU Wen Jing, Benjamin（吳文京）: aged 38. Mr. Wu had over 10 years of investment banking experience in Hong Kong and Australia. He possesses a master degree in Banking and Finance. Currently, Mr. Wu is also an independent non-executive director of Yunnan Enterprises Holdings Limited, a company listed on the Stock Exchange.

CHI Bi Fen（池碧芬）: aged 48, is presently the Deputy General Manager of Green Land Bio-Products Company Limited, a wholly owned subsidiary of the Company. Before joining Green Land Bio-Products Company Limited in March 2000, she was a Deputy General Manager of an electrical equipment company for more than 17 years. She has a diploma in Accounting and Finance from Fujian Province Adult College (福建省成人中等專業學校) in the PRC. Ms. Chi has extensive experience in the field of accounting, taxation and finance in the PRC for more than 15 years.

INDEPENDENT NON-EXECUTIVE DIRECTORS

SHEN Yi Min（沈毅民）: aged 42, is presently a partner of Fujian Zhi Li Law Office（福建至理律師事務所）in the PRC. Mr. Shen is a qualified lawyer to practise securities laws in the PRC. He is a graduate from Fudan University（復旦大學）with a major in Economics Law. Mr. Shen had been the former principal of Fujian Fuzhou Foreign Economics Law Office（福建省福州市對外經濟律師事務所）.

CHEUNG Sound Poon（張省本）: aged 46, is presently a senior manager at Chui & Kwok (CPA), an audit firm in Hong Kong. He was a senior auditor at Gary W. K. Yam & Co. (CPA), an audit firm in Hong Kong, of which he was with between June 1979 and May 1987. He then joined another audit firm in Hong Kong as an audit manager before joining Chui and Kwok. Mr. Cheung has had over 25 years of experience in auditing and accounting in Hong Kong.

KWONG Ping Man（鄺炳文）, aged 42, is currently the managing director of Fortitude Consulting Limited, engaging corporate advisory services. Prior to joining this company, he served as the chief financial officer of two companies based in Guangzhou and Nanjing, the PRC for more than 5 years. Mr. Kwong obtained a master's degree in Professional Accounting from the Hong Kong Polytechnic University. Mr. Kwong is an associate member of the Hong Kong Institute of Certified Public Accountants. Mr. Kwong is also an associate member of the Hong Kong Institute of Company Secretaries.

Directors and Senior Management Profile

SENIOR MANAGEMENT

REN Jian Fei (任建飛): aged 47, is the Chief Corporate Affairs Officer responsible for the overall corporate activities of the Group including public relations and communications management of the Group. Mr. Ren completed a postgraduate study course at the Postgraduate School of Xiamen University (廈門大學) with a major in Business Administration. Before joining the Group in January 2000, he was an executive at a large manufacturer of agriculture-related products in the PRC responsible for administration of corporate activities.

SHI Li Ping (師力平): aged 50, is the Chief Sales Officer responsible for product sales and marketing. Mr. Shi is a graduate from the Artillery College of the PRC Liberation Army (中國人民解放軍炮兵學院) specialising in Artillery Military Affairs. Before joining the Group, he was the general manager of a major agricultural production group in the PRC, with extensive experience in sales and marketing of organic fertilizer.

CHEN Ru Mao (陳儒茂): aged 36, is the Chief Production Officer responsible for the Group's production of organic fertilizer products. Mr. Chen is a graduate from Fuzhou University (福州大學) specializing in Industrial Enterprise Management. He possesses a degree in Bachelor of Engineering and the title of Economist. Before joining the Group in July 2004, Mr. Chen was a deputy factory manager at a large food processing factory. He is responsible for the registration of quality control system GB/T19001-2000 idt ISO 9001：2000 for the Group's organic fertilizer production corporations.

QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

TANG Ying Kit (鄧英傑): aged 33, is the Chief Financial Officer and Company Secretary of the Group. Prior to joining the Group in April 2003, he served as the finance manager with Guangdong Assets Management Limited and Guangdong Enterprise (Holdings) Limited for a total of 5 years. He has a Bachelor degree in Business Administration in Finance from the Hong Kong University of Science and Technology and is an associate member of the Hong Kong Institute of Certified Public Accountants and a member of the Association of Chartered Certified Accountants and an associate member of the Chartered Institute of Management Accountants.

Report of the Auditors

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor, Prince's Building
Central, Hong Kong

Independent Auditor's Report

To the shareholders of Century Sunshine Ecological Technology Holdings Limited

(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Century Sunshine Ecological Technology Holdings Limited ("the Company") set out on pages 40 to 86 which comprise the consolidated and company balance sheets as at 31 December 2006, the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTOR'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

Report of the Auditors

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 21 March 2007

Consolidated Balance Sheet

As at 31 December

	Note	2006 RMB'000	2005 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	6	**130,842**	75,518
Land use rights	7	**4,275**	4,365
Prepayment for acquisition of land	7	**7,372**	7,030
Intangible assets	8	**5,618**	5,402
		148,107	92,315
Current assets			
Inventories	10	**5,432**	7,570
Trade and other receivables	11	**27,747**	23,478
Cash and cash equivalents	12	**384,827**	218,993
		418,006	250,041
Total assets		**566,113**	342,356
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	13	**43,194**	42,074
Share premium	13	**156,703**	137,639
Other reserves	14	**42,175**	29,972
Retained earnings			
– Proposed final dividend	24	**22,970**	14,502
– Others		**172,666**	87,899
		437,708	312,086
Minority interests		**–**	3
Total equity		**437,708**	312,089

Consolidated Balance Sheet

As at 31 December

	Note	2006 RMB'000	2005 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	15	**110,482**	6,656
Current liabilities			
Trade and other payables	16	**10,342**	4,291
Current income tax liabilities		**7,581**	4,664
Borrowings	15	**–**	14,656
		17,923	23,611
Total liabilities		**128,405**	30,267
Total equity and liabilities		**566,113**	342,356
Net current assets		**400,083**	226,430
Total assets less current liabilities		**548,190**	318,745

Chi Wen Fu
Director

Shum Sai Chit
Director

The notes on pages 47 to 86 are an integral part of these consolidated financial statements.

Balance Sheet

As at 31 December

	Note	2006 RMB'000	2005 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	6	**230**	–
Investments in subsidiaries	9	**1,803**	1,803
		2,033	1,803
Current assets			
Prepayments, deposits and other receivables	11	**19**	186
Amounts due from subsidiaries	9	**104,963**	28,451
Dividend receivable		**88,200**	41,340
Cash and cash equivalents	12	**33,973**	126,398
		227,155	196,375
Total assets		**229,188**	198,178
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	13	**43,194**	42,074
Share premium	13	**156,703**	137,639
Other reserves	14	**3,292**	2,733
Retained earnings			
– Proposed final dividend	24	**22,970**	14,502
– Others		**1,746**	346
Total equity		**227,905**	197,294
LIABILITIES			
Current liabilities			
Accruals and other payables	16	**1,283**	884
Total liabilities		**1,283**	884
Total equity and liabilities		**229,188**	198,178
Net current assets		**225,872**	195,491
Total assets less current liabilities		**227,905**	197,294

Chi Wen Fu
Director

Shum Sai Chit
Director

The notes on pages 47 to 86 are an integral part of these consolidated financial statements.

Consolidated Income Statement

Year ended 31 December

	Note	**2006** **RMB'000**	2005 RMB'000
Sales	17	**312,695**	191,003
Cost of sales	18	**(152,410)**	(93,412)
Gross profit		**160,285**	97,591
Selling and marketing costs	18	**(10,667)**	(6,690)
Administrative expenses	18	**(23,599)**	(14,029)
Operating profit		**126,019**	76,872
Finance income	20	**12,258**	528
Finance costs	20	**(767)**	(1,028)
Profit before income tax		**137,510**	76,372
Income tax expense	21	**(9,802)**	(4,997)
Profit for the year, attributable to equity holders of the Company	22	**127,708**	71,375
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in RMB per share)			
– basic	23	**6.35 cents**	4.35 cents
– diluted	23	**6.05 cents**	4.17 cents
Dividends	24	**31,286**	19,590

The notes on pages 47 to 86 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

		Attributable to equity holders of the Company					
	Note	Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Minority interests RMB'000	Total RMB'000
Balance at 1 January 2005		33,920	3,371	19,942	54,447	3	111,683
Disposal of a subsidiary		–	–	(244)	–	–	(244)
Translation differences		–	–	8	–	–	8
Net expense recognised directly in equity		–	–	(236)	–	–	(236)
Profit for the year		–	–	–	71,375	–	71,375
Total recognised (expense)/ income for 2005		–	–	(236)	71,375	–	71,139
Appropriation of retained earnings	14	–	–	8,157	(8,157)	–	–
Transfer of reserves upon exercise of share options	14	–	2,171	(2,171)	–	–	–
Share option scheme							
– value of employee services	14	–	–	4,280	–	–	4,280
– proceed from shares issued	13	2,278	12,074	–	–	–	14,352
Issue of shares	13	5,876	120,023	–	–	–	125,899
Dividend paid relating to 2004		–	–	–	(10,176)	–	(10,176)
Dividend paid relating to 2005	24	–	–	–	(5,088)	–	(5,088)
		8,154	134,268	10,266	(23,421)	–	129,267
Balance at 31 December 2005		42,074	137,639	29,972	102,401	3	312,089

Consolidated Statement of Changes in Equity

	Note	Attributable to equity holders of the Company					
		Share capital	Share premium	Other reserves	Retained earnings	Minority interests	Total
	Note	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2006		**42,074**	**137,639**	**29,972**	**102,401**	**3**	**312,089**
Disposal of subsidiaries		–	–	–	–	(3)	(3)
Translation differences		–	–	(11)	–	–	(11)
Net expense recognised directly in equity		–	–	(11)	–	(3)	(14)
Profit for the year		–	–	–	127,708	–	127,708
Total recognised (expense)/ income for 2006		–	–	(11)	127,708	(3)	127,694
Appropriation of retained earnings	14	–	–	11,655	(11,655)	–	–
Transfer of reserves upon exercise of share options	14	–	3,717	(3,717)	–	–	–
Share option scheme							
– value of employee services	14	–	–	4,276	–	–	4,276
– proceed from shares issued	13	1,120	15,347	–	–	–	16,467
Dividend paid relating to 2005	24	–	–	–	(14,502)	–	(14,502)
Dividend paid relating to 2006	24	–	–	–	(8,316)	–	(8,316)
		1,120	19,064	12,214	(34,473)	–	(2,075)
Balance at 31 December 2006		**43,194**	**156,703**	**42,175**	**195,636**	**–**	**437,708**

The notes on pages 47 to 86 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

Year ended 31 December

	Note	**2006 RMB'000**	2005 RMB'000
Cash flows from operating activities			
Cash generated from operations	25	**150,906**	85,781
Interest received		**3,715**	528
Income tax paid		**(6,885)**	(362)
Net cash generated from operating activities		**147,736**	85,947
Cash flows from investing activities			
Acquisition of subsidiary, net of cash acquired		**–**	(4,048)
Purchase of property, plant and equipment		**(68,509)**	(65,796)
Proceeds from sale of property, plant and equipment		**–**	685
Disposal of subsidiaries		**(3)**	–
Payment for land use rights		**–**	(4,424)
Payment for acquisition of land		**(342)**	(7,030)
Additions of intangible assets		**(1,755)**	(1,914)
Net cash used in investing activities		**(70,609)**	(82,527)
Cash flows from financing activities			
Proceeds from issue of shares	13	**16,467**	140,251
Proceeds from borrowings		**131,025**	24,640
Repayment of borrowings		**(33,312)**	(3,328)
Interest paid		**(348)**	(1,208)
Dividends paid to the Company's shareholders		**(22,818)**	(15,264)
Net cash generated from financing activities		**91,014**	145,091
Net increase in cash and cash equivalents		**168,141**	148,511
Cash and cash equivalents at beginning of the year		**218,993**	70,474
Exchange (losses)/gains on cash and cash equivalents		**(2,307)**	8
Cash and cash equivalents at end of the year		**384,827**	218,993

The notes on pages 47 to 86 are an integral part of these consolidated financial statements.

Notes to the Financial Statements

1 GENERAL INFORMATION

Century Sunshine Ecological Technology Holdings Limited ("the Company") and its subsidiaries (together "the Group") are principally engaged in the reseach and development, production and distribution of organic fertilizers and biological pesticides.

The Company was incorporated in the Cayman Islands on 21 January 2003 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, PO Box 2681 Grand Cayman KY1-1111, Cayman Islands.

The Company is listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited.

These consolidated financial statements are presented in Chinese Renminbi (RMB), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 21 March 2007.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). They have been prepared under the historical cost convention.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(a) *Interpretations of existing standards that are not yet effective*

- HKFRS 7, 'Financial instruments: Disclosures', and the complementary Amendment to HKAS 1, 'Presentation of Financial Statements-Capital Disclosures', (effective for annual periods beginning on or after 1 January 2007). The Group assessed the impact of HKFRS 7 and the amendment to HKAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and capital disclosures required by the amendment of HKAS 1. The Group will apply HKFRS 7 and the amendment to HKAS 1 for annual periods beginning 1 January 2007.

- HK(IFRIC)-Int 8, Scope of HKFRS 2 (effective for annual periods beginning on or after 1 May 2006). HK(IFRIC)-Int 8 requires consideration of transactions involving the issuance of equity instruments – where the identifiable consideration received is less than the fair value of the equity instruments issued – to establish whether or not they fall within the scope of HKFRS 2. The Group will apply HK(IFRIC)-Int 8 from 1 January 2007, but it is not expected to have any impact on the Group's consolidated financial statements; and

- HK(IFRIC)-Int 9, Reassessment of embedded derivatives (effective for annual periods beginning on or after 1 June 2006). HK(IFRIC)-Int 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. As the Group has not changed the terms of its contracts, HK(IFRIC)-Int 9 is not relevant to the Group's operations.

- HK(IFRIC)-Int 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006). HK(IFRIC)-Int 10 prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group will apply HK(IFRIC)-Int 10 from 1 January 2007, but it is not expected to have any impact on the Group's consolidated financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(b) Standards, amendments and interpretations effective in 2006 but not relevant for the Group's operations

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2006 but are not relevant to the Group's operations:

- HKAS 19 Amendment – Employee Benefits;
- HKAS 21 Amendment – New Investment in a Foreign Operation;
- HKAS 39 Amendment – Cash Flow Hedge Accounting of Forecast Intragroup Transactions;
- HKAS 39 Amendment – The Fair Value Option;
- HKFRS 6, Exploration for and Evaluation of Mineral Resources;
- HKFRS 1 Amendment – First-time Adoption of International Financial Reporting Standards and IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources;
- HK(IFRIC)-Int 4, Determining whether an Arrangement contains a Lease;
- HK(IFRIC)-Int 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds; and
- HK(IFRIC)-Int 6, Liabilities arising from Participating in a Specific Market-Waste Electrical and Electronic Equipment

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December.

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Consolidation (Continued)

(a) Subsidiaries (Continued)

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses (Note 2.7). The results of subsidiaries are accounted by the Company on the basis of dividends received and receivable.

(b) Transactions with minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Chinese Renminbi, which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at balance sheet date exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 Property, plant and equipment

Construction-in-progress represents buildings on which construction work has not been completed and machinery pending installation, and is stated at cost, which includes construction expenditure incurred, cost of machinery, interest capitalised and other direct costs capitalised during the construction and installation period, less accumulated impairment losses, if any. On completion, construction-in-progress is transferred to appropriate categories of property, plant and equipment.

Buildings comprise mainly factories. Buildings and other property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost less their estimated residual values over their estimated useful lives, as follows:

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.7).

Gains and losses on disposals are determined by comparing proceeds with carrying amount.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

(b) Technical know-how

Expenditure on acquired technical know-how is capitalised and amortised using the straight-line method over its estimated useful life of 5 years, from the date when the technical know-how is available for use.

(c) Research and development costs

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when the following criteria are fulfilled:

(i) it is technically feasible to complete the intangible asset and use or sell it;

(ii) management intends to complete the intangible asset and use or sell it;

(iii) there is an ability to use or sell the intangible asset;

(iv) it can be demonstrated how the intangible asset will generate probable future economic benefits;

(v) adequate technical, financial or other resources to complete the development and to use or sell the intangible asset are available; and

(vi) the expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recogniesd as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life of 5 years.

Development assets are tested for impairment annually, in accordance with HKAS 36.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Impairment of investments in subsidiaries, associates and non-financial assets

Assets that have an indefinite useful life are not subject to amortisation, but are tested at least annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Assets other than goodwill that have suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.8 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.9 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivables are impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement within “administrative expenses”. When a trade receivable is uncollectible, it is written off against the allowance for trade receivables. Subsequent recoveries of amounts previously written off are credited against administrative expenses in the income statement.

2.10 Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.12 Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.13 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.14 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.15 Employee Benefits

(a) *Pension obligations*

Group companies operate various defined contribution plans. The plans are generally funded through payments to trustee-administered funds. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity on a mandatory, contractual or voluntary basis. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions are recognised as employee benefit expense when they are due and are not reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(b) *Share-based compensation*

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the Group revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

2.16 Provisions

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.17 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Group's activities. Revenue is shown, net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customers, the type of transaction and the specifics of each arrangement.

(a) *Sales of goods*

Sales of goods are recognised when a group entity has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

(b) *Interest income*

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

(c) *Dividend income*

Dividend income is recognised when the right to receive payment is established.

2.18 Operating Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed in the income statement on a straight-line basis over the period of the lease.

2.19 Dividend Distribution

Dividend distributions to the Company's shareholders are recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.20 Government grants

Grants from government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities and deferred government grants are recognised in the income statement on a straight-line basis over the expected lives of the related assets.

2.21 Comparatives

Certain comparative figures have been reclassified to conform to the current year presentation. In particular, interest income from bank deposits has been reclassified from other gains to finance income.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: credit risk, liquidity risk and fair value interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Credit risk

The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales of goods are made to customers with an appropriate credit history.

(b) Liquidity risk

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

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(c) Fair value interest rate risk

Interest income from bank deposits contributed less than 3% of the Group's profit for the year ended 31 December 2006. As the Group has no other significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

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

If interest rates on borrowings as at 31 December 2006 had been 10 basis points (0.1% per annum) higher/lower than the actual effective interest rate, the Group's net profit would have been approximately RMB640,000 higher/lower as a result of a decrease/increase in fair value of fixed rate borrowings.

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

3.2 Fair value estimation

The carrying value less impairment provision of trade receivables and payables is a reasonable approximation of their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Estimated impairment of property, plant and equipment and intangible assets (excluding goodwill)

The Group evaluates whether property, plant and equipment and intangible assets (excluding goodwill) have suffered any impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable, in accordance with the accounting policy stated in Note 2.7. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

4 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (Continued)

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

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

(c) Fair value estimation of share options

The Group estimates the fair value of share options using the Black-Scholes valuation model which involves the use of estimates. Details of the significant inputs to the valuation model are disclosed in Note 13.

5 SEGMENT INFORMATION

Primary reporting format – business segments

At 31 December 2006, the Group has two main business segments:

(1) Manufacturing and sales of organic fertilizers; and

(2) Manufacturing and sales of biological pesticides

No business segment information is presented as the total revenue, segment results and segment assets of the biological pesticides segment is less than 10 per cent of the Group's revenue, profit for the year and total assets. Accordingly, the biological pesticides segment is not identified as a reportable segment in accordance with HKAS 14.

Secondary reporting format – geographical segments

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

6 PROPERTY, PLANT AND EQUIPMENT

(a) The Group

	Buildings	Leasehold improvements	Plant and machinery	Furniture and office equipment	Motor vehicles	Construction-in-progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2005							
Cost	7,183	2,734	6,699	218	414	3,920	21,168
Accumulated depreciation	(60)	(1,545)	(3,474)	(34)	(41)	–	(5,154)
Net book amount	7,123	1,189	3,225	184	373	3,920	16,014
Year ended 31 December 2005							
Opening net book amount	7,123	1,189	3,225	184	373	3,920	16,014
Additions	–	900	1,316	144	307	65,129	67,796
Acquisition of a subsidiary	–	–	633	–	–	–	633
Transfers	20,392	6,535	18,793	–	–	(45,720)	–
Disposals	–	–	(866)	(9)	–	–	(875)
Depreciation (Note 18)	(2,795)	(1,593)	(3,483)	(55)	(124)	–	(8,050)
Closing net book amount	24,720	7,031	19,618	264	556	23,329	75,518
At 31 December 2005							
Cost	27,575	10,169	26,575	353	721	23,329	88,722
Accumulated depreciation	(2,855)	(3,138)	(6,957)	(89)	(165)	–	(13,204)
Net book amount	24,720	7,031	19,618	264	556	23,329	75,518
Year ended 31 December 2006							
Opening net book amount	**24,720**	**7,031**	**19,618**	**264**	**556**	**23,329**	**75,518**
Additions	**–**	**952**	**435**	**54**	**1,485**	**66,211**	**69,137**
Transfers	**–**	**2,615**	**14,446**	**–**	**–**	**(17,061)**	**–**
Depreciation (Note 18)	**(3,476)**	**(2,537)**	**(7,478)**	**(79)**	**(243)**	**–**	**(13,813)**
Closing net book amount	**21,244**	**8,061**	**27,021**	**239**	**1,798**	**72,479**	**130,842**
At 31 December 2006							
Cost	**27,575**	**13,736**	**41,456**	**407**	**2,206**	**72,479**	**157,859**
Accumulated depreciation	**(6,331)**	**(5,675)**	**(14,435)**	**(168)**	**(408)**	**–**	**(27,017)**
Net book amount	**21,244**	**8,061**	**27,021**	**239**	**1,798**	**72,479**	**130,842**

6 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(a) The Group (Continued)

Included in construction-in-progress is capitalised interest of approximately RMB628,000 (2005: Nil). An analysis of construction-in-progress is as follows:

	2006	2005
	RMB'000	RMB'000
Buildings	**61,471**	6,999
Leasehold improvements	**–**	2,185
Plant and machinery	**11,008**	14,145
	72,479	23,329

Depreciation expense of approximately RMB13,491,000 (2005: RMB7,871,000) and approximately RMB322,000 (2005: RMB179,000) has been recorded in cost of sales and administrative expenses, respectively.

Lease rentals amounting to approximately RMB787,000 (2005: RMB673,000) relating to the lease of buildings are included in the income statement (Note 18).

(b) The Company

	Leasehold Improvements
	RMB'000
At 1 January 2005 and 31 December 2005	
Cost	–
Accumulated depreciation	–
Net book amount	–
Year ended 31 December 2006	
Opening net book amount	**–**
Additions	**276**
Depreciation	**(46)**
Closing net book amount	**230**
At 31 December 2006	
Cost	**276**
Accumulated depreciation	**(46)**
Net book amount	**230**

7 LAND USE RIGHTS

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

	2006 RMB'000	2005 RMB'000
Outside Hong Kong, held on:		
Leases of between 10 to 50 years	**4,275**	4,365

	2006 RMB'000	2005 RMB'000
Opening	**4,365**	–
Additions	**–**	4,424
Amortisation of prepaid operating lease payments (Note 18)	**(90)**	(59)
	4,275	4,365

On 29 October 2005, the Group entered into an agreement to acquire a parcel of land in Yunxiao County, Fujian Province, Mainland China for cash consideration of approximately RMB7,372,000. As at 31 December 2006, RMB7,372,000 (2005: RMB7,030,000) has been paid and recorded as prepayment for acquisition of land. The Group is in process of obtaining the land use rights of the aforementioned parcel of land.

8 INTANGIBLE ASSETS

	Goodwill	Technical know-how	Development costs	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2005				
Cost	166	3,600	3,729	7,495
Accumulated amortisation	(4)	(2,950)	(907)	(3,861)
Net book amount	162	650	2,822	3,634
Year ended 31 December 2005				
Opening net book amount	162	650	2,822	3,634
Additions	–	–	1,914	1,914
Acquisition of a subsidiary	37	2,000	–	2,037
Write-off	–	(650)	–	(650)
Disposal of a subsidiary	(162)	–	–	(162)
Amortisation expense (Note 18)	–	(400)	(971)	(1,371)
Closing net book amount	37	1,600	3,765	5,402
At 31 December 2005				
Cost	37	3,000	5,643	8,680
Accumulated amortisation	–	(1,400)	(1,878)	(3,278)
Net book amount	37	1,600	3,765	5,402
Year ended 31 December 2006				
Opening net book amount	**37**	**1,600**	**3,765**	**5,402**
Additions	**–**	**–**	**1,755**	**1,755**
Amortisation expense (Note 18)	**–**	**(400)**	**(1,139)**	**(1,539)**
Closing net book amount	**37**	**1,200**	**4,381**	**5,618**
At 31 December 2006				
Cost	**37**	**1,600**	**7,398**	**9,035**
Accumulated amortisation	**–**	**(400)**	**(3,017)**	**(3,417)**
Net book amount	**37**	**1,200**	**4,381**	**5,618**

Amortisation expense of approximately RMB1,539,000 (2005: RMB1,371,000) has been recorded in administrative expenses.

9 INVESTMENTS IN AND AMOUNTS DUE FROM SUBSIDIARIES

(a) Investments in subsidiaries

	Company	
	2006	2005
	RMB'000	RMB'000
Investments, at cost:		
Unlisted shares/capital	**1,803**	1,803

The following is a list of the principal subsidiaries at 31st December 2006:

Name	Place of incorporation and type of legal entity	Principal activities and place of operation	Particulars of issued share and debt securities	Interests
American Excellent Pesticide Limited	British Virgin Islands, limited liability company	Investment holding in Hong Kong	100 ordinary share of US$1.00 each	100%[1]
Century Sunshine (Australia) Ecological Technology Limited	Australia, limited liability company	Inactive	1 ordinary share of AUD1.00 each	100%
Century Sunshine Ecological Technology Limited	Hong Kong, limited liability company	Investment holding in Hong Kong	1,000 ordinary share of HK$1.00 each	100%
Century Sunshine (Jiangxi) Ecological Technology Limited	Mainland China, limited liability company	Manufacturing and sale of organic fertilizers in Mainland China	Registered and paid up capital HK$31,800,000	100%
Century Sunshine (Nan Ping) Biology Engineering Co., Ltd.	Mainland China, limited liability company	Manufacturing and sale of organic fertilizers in Mainland China	Registered and paid up capital HK$7,000,000	100%
Century Sunshine (Zhangzhou) Ecological Technology Limited	Mainland China, limited liability company	Manufacturing and sale of organic fertilizers in Mainland China	Registered and paid up capital HK$30,000,000	100%

9 INVESTMENTS IN AND AMOUNTS DUE FROM SUBSIDIARIES (Continued)

(a) Investments in subsidiaries (Continued)

Name	Place of incorporation and type of legal entity	Principal activities and place of operation	Particulars of issued share and debt securities	Interests
Excellent Pesticide (Nanchang) Limited	Mainland China, limited liability company	Manufacturing and sale of biological pesticides in Mainland China	Registered and paid up capital US$1,180,000	100%
Green Land Bio-Products Co., Ltd	Mainland China, limited liability company	Manufacturing and sale of organic fertilizers in Mainland China	Registered and paid up capital RMB10,500,000	100%
New Bright Group Limited	British Virgin Islands, limited liability company	Investment holding in Hong Kong	20 ordinary share of US$1.00 each	100%[1]
世紀陽光(福建)農業科技發展有限公司	Mainland China, limited liability company	Research and development and sale of organic fertilizers and biological pesticides in Mainland China	Registered and paid up capital RMB30,107,000	100%

[1] Shares held directly by the Company

(b) Amounts due from subsidiaries

The amounts due from subsidiaries are unsecured, non-interest bearing and repayable within one year.

10 INVENTORIES

	2006 RMB'000	2005 RMB'000
Raw materials	**3,671**	5,189
Work in progress	**707**	1,291
Finished goods	**1,054**	1,090
	5,432	7,570

The cost of inventories recognised as expense and included in cost of sales amounted to RMB136,416,000 (2005: RMB83,594,000).

No provision for impairment of inventories was recognised during the year ended 31 December 2006 (2005: Nil).

11 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Trade receivables	**27,457**	20,591	**–**	–
Prepayments and deposits	**20**	2,811	**19**	78
Other receivables	**270**	76	**–**	108
	27,747	23,478	**19**	186

The carrying amounts of trade and other receivables approximate their fair values and are denominated in Chinese Renminbi.

There is no concentration of credit risk with respect to trade receivables, as the Group has a large number of customers.

11 TRADE AND OTHER RECEIVABLES (Continued)

At 31 December 2006, the ageing analysis of the trade receivables was as follows:

	2006 RMB'000	2005 RMB'000
0 to 30 days	**23,154**	15,464
31 to 60 days	**4,010**	3,722
61 to 90 days	**293**	941
Over 90 days	**–**	464
	27,457	20,591

No provision for impairment of trade receivables was recognised during the year ended 31 December 2006 (2005: write back of RMB633,000). The write back of provision during the year ended 31 December 2005 has been included in administrative expenses.

12 CASH AND CASH EQUIVALENTS

	Group		Company	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Cash at bank and on hand	**193,827**	135,793	**33,973**	43,198
Short-term bank deposits	**191,000**	83,200	**–**	83,200
	384,827	218,993	**33,973**	126,398

The effective interest rate on short-term bank deposits was 1.7% (2005: 4.0%); these deposits have an average maturity of 61 days (2005: 30 days).

Cash and cash equivalents were denominated in the following currencies:

	Group		Company	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Chinese Renminbi	**350,529**	92,364	**–**	–
Hong Kong dollars	**34,296**	126,627	**33,973**	126,398
Others	**2**	2	**–**	–
	384,827	218,993	**33,973**	126,398

The remittance of cash and cash equivalents denominated in Chinese Renminbi out of Mainland China is subject to the foreign exchange control restrictions imposed by the government of Mainland China.

13 SHARE CAPITAL AND SHARE PREMIUM

	Note	Number of shares (thousands)	Share capital RMB'000	Share premium RMB'000
Ordinary shares of HK$0.02 each				
At 1st January 2005	(a), (b)	1,600,000	33,920	3,371
Issue of shares	(a), (d)	282,500	5,876	120,023
Employee share option scheme				
– proceeds from shares issued	(a), (d)	109,525	2,278	12,074
Transfer of reserves upon exercise of share options		–	–	2,171
At 31st December 2005	(a), (b)	**1,992,025**	**42,074**	**137,639**
Employee share option scheme				
– proceeds from shares issued	(a), (c)	**55,000**	**1,120**	**15,347**
Transfer of reserves upon exercise of share options		**–**	**–**	**3,717**
At 31st December 2006		**2,047,025**	**43,194**	**156,703**

Notes:

(a) Pursuant to a shareholders' resolution passed on 4 December 2006, each of the Company's ordinary shares of HK$0.10 each was subdivided into 5 ordinary shares of HK$0.02 each (the "Share Subdivision"). All the issued ordinary share numbers previously disclosed have been adjusted for the effect of the Share Subdivision.

(b) Pursuant to the Share Subdivision, the Company had an authorised share capital of 5,000 million shares of HK$0.02 each (2005: 5,000 million shares of HK$0.02 each, as adjusted for the effect of the Share Subdivision).

(c) During the year ended 31 December 2006, 55,000,000 (2005: 109,525,000) ordinary shares of HK$0.02 each (2005: HK$0.02), as adjusted for the effect of the Share Subdivision, were issued at HK$0.294 each (2005: HK$0.126) pursuant to the employee share option scheme.

(d) On 16 December 2005, 282,500,000 ordinary shares of HK$0.02 each were issued at HK$0.44 each by way of a placing (as adjusted for the effect of the Share Subdivision), resulting in net cash proceeds of approximately RMB125,899,000 (equivalent to HK$121,057,000). The excess over the par value of the shares was credited to the share premium account.

Share options

The Company may grant options to the directors or employees of the Group to subscribe for shares in the Company for a consideration of HK$1.00 for each lot of share granted. The subscription price is not less than the highest of (i) the closing price of the shares on GEM as stated in the Stock Exchange's daily quotation sheet on the date of offer of the option; (ii) the average closing prices of the shares on GEM as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of offer of the option; and (iii) the nominal value of a share of HK$0.02 (as adjusted for the effect of the Share Subdivision). The Group has no legal or constructive obligation to repurchase or settle the options in cash. The share options are exercisable only if the directors and employees remain in the service of the Group from the grant date of the share options up to the designated exercise date.

13 SHARE CAPITAL AND SHARE PREMIUM (Continued)

Share options (Continued)

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

	2006		2005	
	Average exercise price in HK$ per share	**Options (thousands)**	Average exercise price in HK$ per share (Adjusted)	Options (thousands) (Adjusted)
At 1 January	**0.240**	**144,775**	0.126	156,800
Granted	**–**	**–**	0.294	97,500
Forfeited	**–**	**–**	–	–
Exercised	**0.294**	**(55,000)**	0.126	(109,525)
Lapsed	**–**	**–**	–	–
At 31 December	**0.206**	**89,775**	0.240	144,775

All the outstanding options as at 31 December 2006 were not yet exercisable at that date. Options exercised in 2006 resulted in 55,000,000 shares (2005: 109,525,000 shares) being issued at HK$0.294 each (2005: HK$0.126), as adjusted for the effect of the Share Subdivision.

Share options outstanding, as adjusted for the effect of the Share Subdivision, at the end of the year have the following expiry dates and exercise prices:

	Exercise price	**Share options**	
Expiry date	HK$ per share	**2006**	2005
31 December 2006	0.294	**–**	55,000,000
31 December 2007	0.126	**1,500,000**	1,500,000
31 December 2007	0.294	**30,000,000**	30,000,000
31 January 2009	0.126	**45,775,000**	45,775,000
31 March 2009	0.294	**12,500,000**	12,500,000
		89,775,000	144,775,000

13 SHARE CAPITAL AND SHARE PREMIUM (Continued)

Share options (Continued)

During the year, no share options were granted to directors and employees. (2005: 97,500,000, as adjusted for the effect of the Share Subdivision). The fair value of options granted during the year ended 31 December 2005 determined using the Black-Scholes valuation mode was RMB7,889,000. The significant inputs into the model were share price of HK$0.294, at the grant date and adjusted for the effect of the Share Subdivision, exercise price shown above, standard deviation of expected share price returns of 40%, annual risk-free interest rate of 3.8%, expected life of options of approximately 1 to 4 years and dividend pay out ratio of zero. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices from the date of listing of the Company's shares (17 February 2004) or from the date of the previous grant through to the current grant date.

14 OTHER RESERVES

(a) The Group

	Capital reserve (i) RMB'000	Statutory reserves (ii) RMB'000	Employee compensation reserves RMB'000	Translation reserves RMB'000	Total RMB'000
At 1 January 2005	11,965	7,324	624	29	19,942
Appropriation of retained earnings	–	8,157	–	–	8,157
Employee share option scheme					
– value of employee services (Note 19)	–	–	4,280	–	4,280
Transfer of reserves upon exercise of share options	–	–	(2,171)	–	(2,171)
Disposal of a subsidiary	–	(244)	–	–	(244)
Translation differences	–	–	–	8	8
At 31 December 2005	11,965	15,237	2,733	37	29,972
At 1 January 2006, as per above	**11,965**	**15,237**	**2,733**	**37**	**29,972**
Appropriation of retained earnings	**–**	**11,655**	**–**	**–**	**11,655**
Employee share option scheme					
– value of employee services (Note 19)	**–**	**–**	**4,276**	**–**	**4,276**
Transfer of reserves upon exercise of share options	**–**	**–**	**(3,717)**	**–**	**(3,717)**
Translation differences	**–**	**–**	**–**	**(11)**	**(11)**
At 31 December 2006	**11,965**	**26,892**	**3,292**	**26**	**42,175**

14 OTHER RESERVES (Continued)

(a) The Group (Continued)

Notes:

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

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

(b) The Company

	Employee compensation reserves RMB'000
At 1 January 2005	624
Employee share option scheme	
– value of employee services	4,280
Transfer of reserves upon exercise of share options	(2,171)
At 31 December 2005	2,733
At 1 January 2006, as per above	**2,733**
Employee share option scheme	
– value of employee services	**4,276**
Transfer of reserves upon exercise of share options	**(3,717)**
At 31 December 2006	**3,292**

15 BORROWINGS

	2006 RMB'000	2005 RMB'000
Non-current		
Bank borrowings	**110,482**	6,656
Current		
Bank borrowings	**–**	14,656
Total borrowings	**110,482**	21,312

The Group entered into a loan arrangement with International Finance Corporation (IFC) in November 2006. Pursuant to the loan arrangement, IFC granted a loan of RMB120,000,000 to certain subsidiaries of the Company. It has been recorded at its fair value of RMB110,482,000 as at 31 December 2006, representing its principal amount of RMB120,000,000, net of fair value gain of RMB8,543,000 (Note 20), applicable loan arrangement fee and notional interests. The loan bears interest at 5.38% per annum and is due for repayment in one instalment in November 2013. The loan granted by IFC is secured by (i) a corporate guarantee given by the Company; and (ii) pledges of 244,578,000 shares in the Company, as adjusted for the effect of the Share Subdivision, owned by Alpha Sino International Limited ("Alpha Sino"), the controlling shareholder. Pursuant to the loan agreement, the Group is required to place bank deposits of RMB32,000,000, RMB64,000,000 and RMB88,000,000 with IFC as at 31 December 2010, 31 December 2011 and 31 December 2012, respectively. As at 31 December 2006, no such deposits had yet been placed with IFC. In addition, Mr. Chi Wen Fu, a director and controlling shareholder of the Company (through his 90% interest in Alpha Sino), has given an undertaking to IFC to maintain a minimum level of shareholding in the Company. The Company and the Group are required to comply with certain covenants, including, among other things, certain financial convenants, under the loan arrangement.

As at 31 December 2005, bank borrowings of RMB13,312,000 were secured by (i) corporate guarantees given by the Company; and (ii) personal guarantees given by Mr. Chi Wen Fu and Mr. Shum Sai Chit, directors of the Company.

The maturity of borrowings is as follows:

	2006 RMB'000	2005 RMB'000
Within one year	**–**	14,656
Between two and five years	**–**	6,656
Over five years	**110,482**	–
	110,482	21,312

The effective interest rates at the balance sheet date were as follows:

	2006 RMB'000	2005 RMB'000
Chinese Renminbi	**6.84%**	6.14%
Hong Kong dollars	**N/A**	8.65%

15 BORROWINGS (Continued)

The carrying amounts and fair value of the non-current borrowings are as follows:

	Carrying amount		Fair value	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Bank borrowings	**110,482**	6,656	**110,482**	6,656

The carrying amounts of short-term bank borrowings approximated their value values.

The carrying amounts of bank borrowings are denominated in the following currencies:

	2006	2005
	RMB'000	RMB'000
Chinese Renminbi	**110,482**	8,000
Hong Kong dollars	**–**	13,312
	110,482	21,312

As at 31 December 2006, the Group has no undrawn borrowing facilities (2005: Nil).

16 TRADE AND OTHER PAYABLES

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade payables	**3,757**	1,823	**–**	–
Accruals and other payables	**6,585**	2,468	**1,283**	884
	10,342	4,291	**1,283**	884

At 31 December 2006, the ageing analysis of trade payables was as follows:

	2006	2005
	RMB'000	RMB'000
0 to 30 days	**3,700**	978
31 to 60 days	**12**	–
61 to 90 days	**10**	1
Over 90 days	**35**	844
	3,757	1,823

17 SALES

The Group is principally engaged in the research and development, production and distribution of organic fertilizers and biological pesticides. Revenue recognised during the year is as follows:

	2006	2005
	RMB'000	RMB'000
Sale of organic fertilizers	**301,026**	183,818
Sale of biological pesticides	**11,669**	7,185
	312,695	191,003

18 EXPENSES BY NATURE

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

	2006	2005
	RMB'000	RMB'000
Cost of inventories (Note 10)	**136,416**	83,594
Employee benefit expense (Note 19)	**15,478**	12,234
Depreciation and amortisation expense (Notes 6, 7 and 8)	**15,442**	9,480
Advertising costs	**4,750**	2,381
Research and development expense	**3,837**	983
Transportation expenses	**1,553**	518
Operating lease payments (Note 6)	**787**	673
Exchange losses – net	**2,296**	–
Auditors' remuneration	**895**	742
Other expenses	**5,222**	3,526
	186,676	114,131

19 EMPLOYEE BENEFIT EXPENSE

	2006 RMB'000	2005 RMB'000
Wages and salaries	**10,991**	7,831
Share options granted to directors and employees (Note 14(a))	**4,276**	4,280
Pension costs – defined contribution plans (Note a)	**211**	123
	15,478	12,234

Notes:

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

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

During the year ended 31 December 2006, the aggregate amount of the Group's contributions to the aforementioned pension schemes was approximately RMB211,000 (2005: RMB123,000). As at 31 December 2006, the Group was not entitled to any forfeited contributions to reduce the Group's future contributions (2005: Nil).

19 EMPLOYEE BENEFIT EXPENSE (Continued)

(b) Directors' emoluments

The remuneration of each director for the year ended 31 December 2006 is set out below:

Name of Director	Fees RMB	Salary RMB	Discretionary bonuses RMB	Inducement fees RMB	Other benefits RMB	Employer's contribution to pension scheme RMB	Compensation for loss of office as director RMB	Total RMB
Chi Wen Fu	66,800	60,000	–	–	–	–	–	126,800
Shum Sai Chit	–	321,680	–	–	–	12,320	–	334,000
Zhou Xin Dun	–	63,600	–	–	73,784	–	–	137,384
Wu Wen Jin, Benjamin	–	–	–	–	194,205	–	–	194,205
Zou Li	–	36,000	–	–	–	–	–	36,000
Chi Bi Fen	–	36,000	–	–	79,054	–	–	115,054
Wong Mei Yuk	–	–	–	–	–	–	–	–
Cheung Sound Poon	20,500	–	–	–	86,688	–	–	107,188
Shen Yi Min	20,500	–	–	–	–	–	–	20,500
Kwong Ping Man	20,500	–	–	–	86,688	–	–	107,188
Total	128,300	517,280	–	–	520,419	12,320	–	1,178,319

19 EMPLOYEE BENEFIT EXPENSE (Continued)

(b) Directors' emoluments (Continued)

The remuneration of each director for the year ended 31 December 2005 is set out below:

Name of Director	Fees RMB	Salary RMB	Discretionary bonuses RMB	Inducement fees RMB	Other benefits RMB	Employer's contribution to pension scheme RMB	Compensation for loss of office as director RMB	Total RMB
Chi Wen Fu	74,200	59,996	–	–	–	–	–	134,196
Shum Sai Chit	–	349,800	–	–	–	12,720	–	362,520
Zhou Xin Dun	–	63,600	–	–	191,853	–	–	255,453
Wu Wen Jin, Benjamin	–	–	–	–	108,109	–	–	108,109
Zou Li	–	36,040	–	–	–	–	–	36,040
Wong Mei Yuk	–	–	–	–	–	–	–	–
Cheung Sound Poon	21,200	–	–	–	54,054	–	–	75,254
Shen Yi Min	21,200	–	–	–	–	–	–	21,200
Kwong Ping Man	21,200	–	–	–	54,054	–	–	75,254
Total	137,800	509,436	–	–	408,070	12,720	–	1,068,026

Other benefits represent benefits from share option scheme.

During the year, no options were granted to the directors of the Company under the Share Option Scheme approved on 11 October 2004 (2005: 2,000,000).

None of the directors of the Company waived or agreed to waive any emoluments paid by the Group during the year (2005: Nil).

The emoluments of each director of the Company were below HK$1,000,000 (equivalent to RMB1,000,000) for the years ended 31 December 2005 and 2006.

19 EMPLOYEE BENEFIT EXPENSE (Continued)

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included three (2005: two) directors of the Company whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2005: three) individuals during the year are as follows:

	2006	2005
	RMB'000	RMB'000
Basic salaries, share options, other allowances and benefits in kind	**1,027**	931
Pension costs – defined contribution plan	**42**	42
	1,069	973

The emoluments of each of the highest paid individuals were below HK$1,000,000 (equivalent to RMB1,000,000) for the years ended 31 December 2005 and 2006.

(d) During the year, no emoluments were paid by the Group to any of the directors of the Company and the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office (2005: Nil).

20 FINANCE INCOME AND COSTS

	2006 RMB'000	2005 RMB'000
Finance income		
Interest income from bank deposits	**3,715**	528
Fair value gain on bank borrowings (Note 15)	**8,543**	–
	12,258	528
Finance costs		
Interest expense:		
– bank borrowings wholly repayable within five years	**243**	1,408
– bank borrowings wholly repayable after five years	**1,257**	–
Less: Government grant	**(120)**	(200)
Less: Amount capitalised in construction-in-progress (Note 6)	**(628)**	–
Net foreign exchange gains	**–**	(180)
Others	**15**	–
	767	1,028

The capitalisation rate was approximately 6.84% per annum, representing the weighted average rate of the cost of borrowings used to finance the Group's construction-in-progress.

21 INCOME TAX EXPENSE

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

	2006 **RMB'000**	2005 RMB'000
Current income tax		
– Hong Kong profits tax	**–**	–
– Mainland China enterprise income tax	**9,802**	4,997
	9,802	4,997

(a) Hong Kong profits tax

No provision for Hong Kong profits tax has been made as the Group had no assessable profit arising in or derived from Hong Kong during the year (2005: Nil).

(b) Mainland China enterprise income tax ("Mainland China EIT")

The subsidiaries established in Mainland China are subject to Mainland China EIT at rates ranging from 27% to 33%. Green Land Bio-Products Co., Ltd. ("Green Land"), Century Sunshine (Nan Ping) Biology Engineering Co., Ltd. ("Nan Ping") and Century Sunshine (Jiangxi) Ecological Technology Limited ("Jiangxi") are wholly foreign owned enterprises engaged in the production and sale of organic fertilizers with operating periods of more than ten years, and in accordance with the relevant income tax regulations of Mainland China, are fully exempted from Mainland EIT for two years starting from the first year of profitable operations after offsetting prior year tax losses, followed by a 50% reduction in Mainland China EIT for the next three years. The first profitable years after offsetting prior year tax losses of Greenland, Nan Ping and Jiangxi were 31 December 2003, 31 December 2004 and 31 December 2005, respectively. 世紀陽光（福建）農業科技發展有限公司, Century Sunshine (Zhangzhou) Ecological Technology Limited and Excellent Pesticide (Nanchang) Limited were loss making during the year ended 31 December 2006.

(c) Overseas income tax

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies law of Cayman Islands and, accordingly, is exempted from Cayman Island income tax. The Company's subsidiaries established in the British Virgin Islands were incorporated under the International Business Companies Act of the British Virgin Islands and, accordingly, are exempted from British Virgin Islands income tax. Century Sunshine (Australia) Ecological Technology Limited is incorporated in Australia and was loss making during the year ended 31 December 2006.

21 INCOME TAX EXPENSE (Continued)

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

	2006 **RMB'000**	2005 RMB'000
Profit before income tax	**137,510**	76,372
Calculated at a tax rate of 33% (2005: 33%)	**45,378**	25,203
Effect of different tax rates	**(7,191)**	(9,701)
Effect of tax exemption	**(31,003)**	(11,783)
Income not subject to tax	**(3,102)**	(1,729)
Expenses not deductible for tax purposes	**2,648**	1,090
Tax losses for which no deferred income tax asset was recognised	**3,072**	1,917
Income tax expense	**9,802**	4,997

As at 31 December 2006, the Group has unrecognised tax losses of approximately RMB29,907,000 (2005: RMB15,416,000), which can be carried forward to offset future taxable profit. Tax losses of RMB5,460,000 (2005: RMB1,645,000) will expire in 2009 while tax losses of RMB24,447,000 (2005: RMB13,264,000) can be carried forward indefinitely. The deferred tax benefit of such tax losses has not been recognised as it is not considered probable that future taxable profit will be available to utilise the unused tax losses.

22 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of RMB32,686,000 (2005: RMB20,383,000).

23 EARNINGS PER SHARE

Basic

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

	2006	2005
Profit attributable to equity holders of the Company (RMB'000)	**127,708**	71,375
Weighted average number of ordinary shares in issue, adjusted for the effect of the Share Subdivision (thousands)	**2,010,583**	1,641,505
Basic earnings per share (RMB per share)	**6.35 cents**	4.35 cents

Diluted

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

	2006	2005
Profit attributable to equity holders of the Company (RMB'000)	**127,708**	71,375
Weighted average number of ordinary shares in issue, as adjusted for the effect of the Share Subdivision (thousands)	**2,010,583**	1,641,505
Adjustment for share options (thousands)	**100,889**	69,665
Weighted average number of ordinary shares for diluted earnings per share, adjusted for the effect of the Share Subdivision (thousands)	**2,111,472**	1,711,170
Diluted earnings per share (RMB per share)	**6.05 cents**	4.17 cents

24 DIVIDENDS

Dividends paid during the year ended 31 December 2006 were RMB22,818,000 (HK$0.011 per ordinary share, adjusted for the effect of the Share Subdivision) (2005: RMB15,264,000, HK$0.009 per ordinary shares, adjusted for the effect of the Share Subdivision). A final dividend in respect of the year ended 31st December 2006 of HK$0.01 per ordinary share, adjusted for the effect of the Share Subdivision, amounting to a total of RMB22,970,000 is to be proposed at the Annual General Meeting on 30 April 2007. These financial statements do not reflect this dividend payable.

	2006	2005
	RMB'000	RMB'000
Interim dividend paid of HK$0.004 (2005: HK$0.003) per ordinary share, adjusted for the effect of Share Subdivision	**8,316**	5,088
Proposed final dividend of HK$0.01 (2005: HK$0.007) per ordinary share, adjusted for the effect of Share Subdivision	**22,970**	14,502
	31,286	19,590

25 CASH GENERATED FROM OPERATIONS

	2006	2005
	RMB'000	RMB'000
Profit for the year	**127,708**	71,375
Adjustment for:		
– Tax (Note 21)	**9,802**	4,997
– Depreciation (Note 6)	**13,813**	8,050
– Amortisation (Notes 7 and 8)	**1,629**	1,430
– Write-off of technical know-how (Note 8)	**–**	650
– Loss on disposal of a subsidiary	**–**	162
– Write-off of statutory reserves on disposal of a subsidiary	**–**	(244)
– Loss on sale of property, plant and equipment	**–**	190
– Employee share option costs	**4,276**	4,280
– Interest income (Note 20)	**(3,715)**	(528)
– Interest expense (Note 20)	**752**	1,208
– Fair value gain on bank borrowings (Note 20)	**(8,543)**	–
– Exchange losses-net	**2,296**	–
Changes in working capital (excluding the effects of acquisition and exchange differences on consolidation):	**148,018**	91,570
– Inventories	**2,138**	(3,162)
– Trade and other receivables	**(4,269)**	(2,241)
– Trade and other payables	**5,019**	(386)
Cash generated from operations	**150,906**	85,781

26 COMMITMENTS

(a) Capital Commitments

Capital expenditure contracted at the balance sheet date but not yet incurred is as follows:

	2006	2005
	RMB'000	RMB'000
Property, plant and equipment		
Contracted but not provided for	**35,343**	13,206

(b) Operating lease commitments

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

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

	2006	2005
	RMB'000	RMB'000
Not later than 1 year	**1,042**	518
Later than 1 year and not later than 5 years	**1,223**	1,001
Later than 5 years	**1,517**	1,695
	3,782	3,214

27 RELATED-PARTY TRANSACTIONS

The Group is controlled by Alpha Sino International Limited (incorporated in the British Virgin Islands), which owned 47.5% of the Company's shares as at 31 December 2006 (subsequently diluted to 40.25%, see Note 28). The remaining shares are widely held.

The following transactions were carried out with related parties:

(a) Key management compensation

	2006	2005
	RMB'000	RMB'000
Salaries and other short-term employee benefits	**657**	682
Share-based payments	**232**	590
	889	1,272

Key management compensation include an amount of RMB255,000 (2005: RMB484,000) paid to Mr. Chi Wen Qiang, a brother of Mr. Chi Wen Fu (a director and controlling shareholder of the Company), and Ms. Chi Bi Fen and Ms. Chi Bi Bing, sisters of Mr. Chi Wen Fu.

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

28 EVENTS AFTER THE BALANCE SHEET DATE

In February 2007, a majority shareholder, which is owned 90% by Mr. Chi Wen Fu and 10% by Mr. Shum Sai Chit, directors of the Company, entered into an agreement to place 300,000,000 ordinary shares of HK$0.02 each at HK$1.88 per share ("the Placing"). The completion of the Placing was conditional upon, among other things, a subscription agreement being entered into by the Company and the majority shareholder for the subscription of 250,000,000 ordinary shares of HK$0.02 each at HK$1.88 per share ("the Subscription"). The Placing and The Subscription were completed on 14 February 2007 and 23 February 2007, respectively. As a result, the Company received net cash proceeds of approximately RMB455,858,000 from the Subscription.