Annual Report 2006

Sungreen International Holdings Limited
綠陽國際控股有限公司
(Incorporated in Bermuda with limited liability)
(Stock Code: 8306)

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

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

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

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

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

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EXECUTIVE DIRECTORS
Mr. ZHUO Ze Fan
Ms. XIE Yi Ping

NON-EXECUTIVE DIRECTOR
Mr. WU Jing Jin

INDEPENDENT NON-EXECUTIVE DIRECTORS
Mr. ZHAO Shou Guo
Mr. YUE Kwai Wa, Ken
Mr. NG Tang

COMPLIANCE OFFICER
Mr. ZHUO Ze Fan

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

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

AUTHORISED REPRESENTATIVES
Mr. ZHUO Ze Fan
Ms. XIE Yi Ping

STOCK CODE
8306

COMPANY WEBSITE
www.jc-sino.com

COMPLIANCE ADVISER
Hantec Capital Limited

LEGAL ADVISERS
Sit, Fung, Kwong & Shum

AUDITORS
SHINEWING (HK) CPA Limited

PRINCIPAL BANKERS
Citic Industrial Bank, Xi'an Branch
Bank of Communications, Xi'an Branch

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

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

REGISTERED OFFICE
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG
Rooms 2014–15,
20/F, Hutchison House
10 Harcourt Road Central
Hong Kong

FINANCIAL HIGHLIGHTS

	2006 *RMB'000*	2005 *RMB'000*	2004 *RMB'000*	2003 *RMB'000*	2002 *RMB'000*
Revenue	**135,545**	129,969	116,155	88,739	60,178
Gross profit	**53,628**	46,576	43,823	35,034	25,951
Profit attributable to equity holders of the parent	**7,915**	769	7,845	9,964	6,852
Equity attributable to equity holders of the parent	**105,129**	97,272	12,770	41,499	42,732
Total assets	**213,518**	187,606	164,735	167,519	125,150
Total liabilities	**108,389**	90,334	151,965	126,020	82,418

	2006 *RMB*	2005 *RMB*	2004 *RMB*	2003 *RMB*	2002 *RMB*
Earnings per share, basic *(cents)*	**9.89**	1.09	9.81	12.46	8.56
Net asset value per share	**1.31**	1.22	0.16	0.52	0.53

CHAIRMAN'S STATEMENT

On behalf of the board of directors (the "Board"), I am pleased to present the annual results of Sungreen International Holdings Limited and its subsidiaries (collectively, the "Group") for the year ended 31 December 2006 for your consideration. I greatly appreciate this opportunity to share the achievements with shareholders.

BUSINESS REVIEW

For the year ended 31 December 2006, the turnover of the Group increased by approximately 4.3% to approximately RMB135.5 million whereas the audited profit attributable to equity holders of the parent increased by approximately 929.6% to approximately RMB7.9 million comparing with the same period last year. The significant increase in profit attributable to equity holders of the parent was primarily due to the one-off listing expenses amounted to approximately RMB7.8 million being charged to consolidated income statement in last year. If no listing expenses were charged to consolidated income statement, the profit attributable to equity holders of the parent in 2005 would be approximately RMB8.6 million. Excluding the one-off transaction effect in last year, the audited profit attributable to equity holders of the parent in 2006 recorded a decrease of approximately 8.0% comparing with the same period last year. The decrease was caused by the slowing down of turnover growth in the second half year of 2006 and the increase in the selling and distribution costs.

In the year of 2006, the turnover growth was satisfactory in the first half year of 2006 but slowed down in the second half year. The turnover growth slowed down in the second half year of 2006 was primarily affected by frequent typhoon in the area of Southern China and serious earthquake happened in the People's Republic of China (the "PRC") in 2006 that affected the customer's needs to our products. As a result of the slowing down of turnover growth in addition to the Group keep investing in expansion sales network and advertising products that increased the selling and distribution costs, the Group recorded a slight decrease in profit attributable to equity holders of the parent comparing with the same period last year that excluding the one-off transaction effect.

During 2006, we continued to enhance our efforts in marketing our products and expanding our PRC sales network. In addition, we continued to strengthen our brand name of "Fuwanjia" (富萬稼) by advertising on television, radio broadcast, mass transportation, public place and holding field demonstrations. Other than the PRC market, the Group kept exploring overseas business opportunity during 2006 and at the beginning of 2007, the Group marked a significant milestone in overseas market that signed a sales contract with a Russian company and established a business cooperative relationship with a USA company which will assist our Group to develop our products and search market opportunities in USA, Canada and Europe.

In respect of product development, we continued to put strong efforts in developing new products to satisfy different customer needs. During 2006, we developed three more types of specific use fertilizers namely, ramie use, golden orange use and watermelon use. The Group will continue to expand product range in order to capture more customers with different needs and maintain our leading position in the industry of organic potash fertilizers.

PROSPECT

Looking forward, the Group will continue to give top priority to keep expanding the sales network in the PRC and searching overseas business opportunities. In product development, the Group will maintain its advantage in the technology development of organic potash fertilizers and keep expansion of product range in order to capture variety of customers.

APPRECIATION

I would like to take this opportunity to thank all our employees for their contribution to the Group's performance. I would also like to extend my gratitude to our shareholders for their support and confidence in the Group.

Zhuo Ze Fan
Chairman

23 March 2007

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Zhuo Ze Fan (卓澤凡先生), aged 35, is the chairman of the Board, executive Director, and general manager of the Company and the founder of the Group. Mr. Zhuo is responsible for strategic planning, overall management and business development of the Group. He has over nine years of experience in organic fertilisers since Xi'an Juchuan International Investments Ltd (西安巨川國際投資有限公司) ("Juchuan Investments") commenced market study of the PRC fertiliser industry in late 1996. Mr. Zhuo has been overseeing the development process and the mass production of Fuwanjia Organic Potash Fertilisers. Mr. Zhuo established Shaanxi Fuwanjia Chemical Co. Ltd. (陝西富萬鉀化工有限責任公司) ("SF Chemical "), the predecessor company of Shaanxi Juchuan Fuwanjia Co., Ltd. (陝西巨川富萬鉀股份有限公司) ("Juchuan Fuwanjia"), since June 1998 as chairman and general manager. Under Mr. Zhuo's leadership, the Group completed various achievements, including national prizes of State Major High-tech Industrialised Project in 1999, Special Gold Prize of Ninth PRC Patented New-tech and New-product Exhibition in 2000, State Major New Product in 2001, the State Provisional Certificates (2002), (2003) and (2004). In 1999, Mr. Zhuo obtained a Master of Business Administration degree, which was jointly organised by North West University and Shaanxi MBA College.

Ms. Xie Yi Ping (解益平女士), aged 43, is an executive Director and finance Director of the Company. Ms. Xie joined as a manager of finance department of SF Chemical, the predecessor company of Juchuan Fuwanjia, since November 1999, and she is principally responsible for the accounting and finance activities of the Group. Being a qualified accountant in the PRC, Ms. Xie had more than 20 years of experience working at finance department of several companies before she joined the Group. Ms. Xie graduated from Shaanxi University of Finance and Economics with a bachelor degree in accounting in 1997.

Non-executive Director

Mr. Wu Jing Jin (吳敬進先生), aged 47, is a non-executive Director. He is a senior economic analyst and currently working at Shenzhen Eastern Cyber Port Technology Development Ltd. (深圳市東方數碼港科技開發有限公司), the then shareholder of Juchuan Fuwanjia. Mr. Wu has approximately 16 years' experience in practicing corporate finance and another two years teaching experiences in the PRC. Mr. Wu obtained a Master of Business Administration degree from State University of New York in 1987. Mr. Wu joined the Group in July 2000.

Independent non-executive Directors

Mr. Zhao Shou Guo (趙守國先生), aged 43, is an independent non-executive Director. Mr. Zhao has been working at Northwest University since 1992, including six years in the Economic Administration Division and another six years in Enterprise Development Research Center. Mr. Zhao is also an independent non-executive directors of other five listed companies in the PRC. The names and principal activities of these five listed companies are Shaanxi Qinling Cement (Group) Co., Ltd. (陝西秦嶺水泥(集團)股份有限公司) which produces cement and related products, Xi'an Minsheng Group Co., Ltd., (西安民生集團股份有限公司) which carries on commercial retail activities, Xi'an Tourism (Group) Co., Ltd. (西安旅遊(集團)股份有限公司), which provides scenic spots, hotels and beverage services, Irico Display Devices Co., Ltd. (彩虹顯示器件股份有限公司) which produces display tube and related products and Tunefulhome Co., Ltd. (天地源股份有限公司) which develops real estate. Mr. Zhao graduated from Northwest University with a doctorate in economics in 1995. Mr. Zhao has 15 years of experience in research of economic science. Mr. Zhao joined the Group as an independent non-executive director of Juchuan Fuwanjia in July 2000.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Yue Kwai Wa, Ken（余季華先生）, aged 41, is the executive director of Winkas Capital Limited, a financial and management consulting company. Mr. Yue is currently an independent non-executive director of Byford International Limited, a company listed on GEM of the Stock Exchange. Mr. Yue is a Certified Public Accountant with 15 years of experience in the accounting and auditing business. Mr. Yue is a member of the American Institute of Certified Public Accountants, a member of the Colorado State Society of Certified Public Accountants and a member of the Hong Kong Securities Institute holding a specialist certificate in corporate finance and a practising certificate in corporate finance. Mr. Yue joined the Group in November 2005.

Mr. Ng Tang（吳騰先生）, aged 45, is an executive director of China Best Group Holding Limited, the shares of which are listed on the Stock Exchange and the principal activities of which include, according to its latest published annual report, international air and sea freight forwarding (including provision of related global logistics services) and development of biotechnological genetic products and securities investment. Mr. Ng has over 13 years' experience in corporate management both in Hong Kong and the PRC. He graduated from East China University of Politics and Law. He joined the Group in February 2005.

SENIOR MANAGEMENT

Mr. Zheng Hai Feng（鄭海峰先生）, aged 54, is the chief production officer responsible for production management of the Group. In 1973, Mr. Zheng graduated from Technical Reconnaissance Battalion of Lanzhou Military District of PRC People's Liberation Army with a bachelor degree in Russian. He joined the Group in June 1998 and has eight years of experience in fertiliser industry. Prior to joining the Group, Mr. Zheng had approximately 27 years work experience, among which he spent approximately two years working as chairman of an agriculture company that was engaged in production and sale of fertilisers in the PRC. Mr. Zheng then spent another years in a PRC securities company as a deputy general manager responsible for the overall management and operation.

Mr. Liu Chang You（劉長有先生）, aged 59, is the chief technology officer of the Company who is responsible for overall research and development of the Group. Mr. Liu joined the research and development of the Company in October 2000 and before that he had more than 30 years' experience in fertiliser industry, including two years in production workshop of nitrogen-phosphate compound fertilizers and another thirty years in nitrogenous fertiliser factory, in which factory Mr. Liu was promoted as a chief engineer and stayed at the post for seven years. Mr. Liu had numerous fertiliser related publications and received various honours in the industry on these publications. Mr. Liu graduated from Zhengzhou University with a major in chemical engineering in 1968.

Mr. Li Ho Cheong（李浩昌先生）, aged 32, is the chief financial officer, qualified accountant and company secretary of the Company. He is responsible for the financial management and company secretarial matters of the Group. Mr. Li has over nine years of experience in the field of auditing and accounting. Prior to joining the Company, Mr. Li worked for an international accounting firm and a multinational retail company for approximately six and two years respectively. Mr. Li obtained a bachelor degree in accountancy from the Hong Kong Polytechnic University in 1997. Mr. Li is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants. He is an associate member of the Hong Kong Institute of Certified Public Accountants, Association of Chartered Certified Accountants, Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Company Secretaries. Mr. Li joined the Group in July 2005.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Zhang Yu Wei (張玉偉先生), aged 41, is the chief marketing officer of the Group who is responsible for sales and marketing of products. Mr. Zhang is a senior economist and a MBA holder. Mr. Zhang served as an officer in state-owned enterprise, corporate general manager and president of a private group company after his graduation in 1987. He was in-charged of share reform of large-size state-owned enterprise; established large-size corporate group and served as senior management in large-size group company. He worked for state-owned enterprises, group company, joint-stock company and listed company. He also has experiences in senior management for many years as well as comprehensive experience in operation management of large-size corporation. He is specialized in operation strategy; operation management; allocation of production, supply, sales, manpower, finance and material resources of company efficiently and reasonably which maximize the company's resources; and developing corporate team building which meets the modern corporation structure. Mr. Zhang joined the Group in March 2006.

FINANCIAL REVIEW

Turnover

Turnover of the Group for the year ended 31 December 2006 amounted to approximately RMB135.5 million, representing an increase of approximately 4.3% compared with the 2005 figure of approximately RMB130.0 million. In the year of 2006, the turnover growth was satisfactory in the first half year of 2006 but slowed down in the second half year. The turnover growth slowed down in the second half year of 2006 was primarily affected by frequent typhoon in the area of Southern China and serious earthquake happened in the People's Republic of China (the "PRC") in 2006 that affected the customer's needs to our products. As a result of the slowing down of turnover growth in the second half year of 2006, the Group recorded a slight increase in turnover in 2006.

Gross profit

The Group's gross profit for 2006 amounted to approximately RMB53.6 million, representing an increase of approximately 15.1% from 2005. Gross profit margin during the year ended 31 December 2006 was approximately 39.6%, representing an increase of approximately 3.8% compared with the 2005 figure of approximately 35.8%. The increase in gross profit margin was mainly contributed by the operating efficiency of the Group and the adjustment on selling price for some products.

Other operating income and operating expenses

The Group's other operating income mainly represents the refund on value-added tax.

The Group's operating expenses primarily consist of selling and distribution costs and administrative expenses. For selling and distribution costs of the Group, it amounted to approximately RMB34.1 million during the year ended 31 December 2006, representing an increase of approximately 34.3% from the same period of last year. The increase was due to continues expansion of point of sales and enhancement of brand name recognition by making advertisements and exhibitions.

Administrative expenses of the Group amounted to approximately RMB10.9 million during the year ended 31 December 2006. The Group maintained the administrative expenses at similar level comparing with last year as the Group implemented cost control strategy in this year.

Taxation

It represented a PRC Enterprise Income Tax ("EIT") which was charged at 15% per year pursuant to relevant laws and regulations in the PRC. No such tax was charged to the Group because the Group enjoyed full tax exemption in the year of 2004 and 2005. This is the first year that the Group is charged for EIT but the Group can still enjoy a 50% relief in 2006 and the next two years.

MANAGEMENT DISCUSSION AND ANALYSIS

Profit for the year attributable to equity holders of the parent

Profit for the year attributable to equity holders of the parent amounted to approximately RMB7.9 million, representing an increase of approximately 929.6% from 2005. The significant increase in profit attributable to equity holders of the parent was primarily due to the one-off listing expenses amounted to approximately RMB7.8 million being charged to consolidated income statement in last year. If no listing expenses were charged to consolidated income statement, the profit attributable to equity holders of the parent in 2005 will be approximately RMB8.6 million. Excluding the one-off transaction effect in last year, the audited profit attributable to equity holders of the parent in 2006 recorded a decrease of approximately 8.0% which was primarily caused by the slowing down of turnover growth in the second half year of 2006 in addition to the Group keep investing in expansion sales network and advertising products that increased the selling and distribution costs.

FINANCIAL RESOURCES AND LIQUIDITY

As at 31 December 2006, the Group had bank balances and cash of approximately RMB50.6 million (2005: RMB62.0 million).

As at 31 December 2006, the outstanding bank loan of the Group amounted to RMB35.0 million (2005: RMB33.0 million), comprising all short-term bank borrowings repayable within one year and no long term bank borrowings repayable after one year. As at 31 December 2006, the total asset value of the Group was approximately RMB213.5 million (2005: approximately RMB187.6 million) whereas the total liabilities was approximately RMB108.4 million (2005: RMB90.3 million). The gearing ratio of the Group, calculated as total liabilities excluding minority interests over total assets, was approximately 31.9% (2005: 30.0%).

FOREIGN EXCHANGE EXPOSURE

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

PLEDGE OF ASSETS

As at 31 December 2006, the Group has pledged its prepaid lease payments of approximately RMB25,010,000 for the banking facilities granted by the bank to the Group.

As at 31 December 2005, the Group had pledged its prepaid lease payments and buildings of approximately RMB11,541,000 for the banking facilities granted by the bank to the Group.

CAPITAL COMMITMENTS

As at 31 December 2006, the Group had approximately RMB19,806,000 (2005: RMB30,120,000) of capital expenditure authorised but not contracted for and approximately RMB22,855,000 (2005: RMB Nil) of capital expenditure contracted but not provide for in respect of the development project of additional plant and machinery for the expansion in the production capacity. The site of the development project is at Houji Road, Yang Ling Agricultural High-Tech Demonstration Zone, Xi'an, Shaanxi Province, the PRC ("the Second Yang Ling Site"). As at 31 December 2005, the Group also had RMB159,000 of capital expenditure contracted but not provided for in respect of purchase of property, plant and equipment.

CONTINGENT LIABILITIES

As at 31 December 2006, the financial guarantee given to banks in respect of banking facilities utilised by an independent third party amounted to RMB7 million (2005: RMB12 million).

ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

The Group did not have any material acquisition and disposal of subsidiaries and associated companies in the year ended 31 December 2006.

SIGNIFICANT INVESTMENTS

The Group had no significant investments held in the year ended 31 December 2006.

EMPLOYEE INFORMATION

As at 31 December 2006, the Group had approximately 181 employees. The Group has maintained good relations with its staff and has not experienced any disruption of its operations due to labour disputes. The Group provides fringe benefits in accordance with the relevant laws and regulations of the PRC and Hong Kong including contributions to society security scheme of the PRC and the contributions to the Mandatory Provident Fund Scheme of Hong Kong. The Group remunerated its employees in accordance with their work performance and experience. The Company has adopted a share option scheme. A summary of the principal terms and conditions of the share option scheme is set out in note 29 to the financial statements.

Total employees' remuneration incurred for the year ended 31 December 2006 amounted to approximately RMB7.3 million (2005: approximately RMB8.8 million). The Directors received remuneration of approximately RMB1.0 million during the year ended 31 December 2006 (2005: approximately RMB1.5 million).

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

The following is a summary of the Group's actual business progress to date compared with the business objectives set out in the Company's prospectus dated 21 February 2005 (the Prospectus) for the period from the date of commencement of dealings in the Shares on GEM (the "Listing Date") to 31 December 2006.

Business objectives as disclosed in the Prospectus	Actual business progress
To expand business into the Asia Pacific region	
To review sales record and make necessary changes to its overseas sales policy	The Group reviewed its overseas sales policy and made changes when necessary.
To expand the PRC sales network	
To implement more comprehensive training program and internal review of sales personnel, with the expectation that the direct sales to end users will continue to be the streamline of total turnover	Training program and internal review had been implemented as planned.
To enhance its research and development capability	
To complete research and development of organic compound fertilisers	The production of organic compound fertilisers has been postponed after market study. Specific use fertilisers for golden vegetable use has been developed instead to cope with the market needs.
To review and update the overall research and development policy of the Group	The overall research and development policy of the Group had been reviewed and updated when necessary.
To consider new technology development to enhance the effectiveness and efficiency of the Group's products	The Group kept close monitoring on new technology development and make adjustment on products if necessary.
To set up a new production plant on the Second Yang Ling Site	
To commence piling and necessary infrastructure works for trial plant	The design and layout plans are being revised in order to cope with the change in Company's needs. The revised design and layout plans reached final stage.
To enhance its brand name recognition	
To advertise on television, radio broadcast, mass transportation and public place	Advertisement has been conducted as planned.
To promote the Group's ultimate aim as a food chain partner in plant nutrients	The Group's ultimate aim has been promoted as planned.
To increase its production output	
Expecting to increase the production output on the Yang Ling Site	Production output was increased in line with sales.
To maintain the production output of organic acid on the Baoji Site	Production output of organic acid had been increased after expansion of production facilities in Baoji site.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

On the Listing Date, the Company obtained net proceeds, after deducting all relevant expenses, of approximately HK$39 million from the new issue of shares by way of public offer and placing. Up to 31 December 2006, the Group has applied the net proceeds as follows:

Business objectives	Planned uses of proceeds as set out in the Prospectus from the Listing Date to 31 December 2006 *(HK$million)*	Actual amount of proceeds used from the Listing Date to 31 December 2006 *(HK$million)*
To expand business into the Asia Pacific region	4.2	3.0
To expand the PRC sales network	5.0	5.0
To enhance research and development capability	5.1	2.7
To set up a new production plant on the Second Yang Ling Site	6.0	4.2
To enhance its brand name recognition	13.0	10.2
To strengthen the management team and international marketing team	2.8	2.0
To increase production output	1.5	2.7
Total	37.6	29.8

The remaining net proceeds as at 31 December 2006 have been placed as short-term interest bearing deposit with banks in Hong Kong and/or the PRC.

CORPORATE GOVERNANCE REPORT

The Company applied the principles and complied with all requirements of the new promulgated Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 15 of the GEM Listing Rules throughout 2006 with certain deviations in respect of the distinctive roles of chairman and chief executive officer. The following summarises the Company's corporate governance practices and explains deviations, if any, from the CG Code.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry, all Directors confirmed that they complied with the required standard of dealings and its code of conduct regarding directors' securities transactions throughout the year ended 31 December 2006.

BOARD OF DIRECTORS

The Board comprises six Directors, of whom two being executive Directors (including the Chairman of the Board), one being non-executive Director and three being independent non-executive Directors. The directors' profile is set out on pages 6 and 7 of the annual report. The Company has received confirmation from each independent non-executive Director about his independence under the GEM Listing Rules and continues to consider each of them to be independent.

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

The Board held four meetings in 2006. Details of the attendance of the Board are as follows:

	Attendance
Executive Directors	
Mr. Zhuo Ze Fan	4/4
Ms. Lv Xia (resigned on 30 June 2006)	2/2
Ms. Xie Yi Ping	4/4
Non-executive Director	
Mr. Wu Jing Jin	4/4
Independent non-executive Directors	
Mr. Yue Kwai Wa, Ken	4/4
Mr. Zhao Shou Guo	4/4
Mr. Ng Tang	4/4

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

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

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

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

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

NON-EXECUTIVE DIRECTORS

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

REMUNERATION OF DIRECTORS

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

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

CORPORATE GOVERNANCE REPORT

NOMINATION OF DIRECTORS

The Board is empowered under the Company's bye-laws to appoint any person as a Director either to fill a causal vacancy on or, subject to authorization by the shareholders of the Company in general meetings, as an addition member of the Board. Qualified candidates will be proposed to the Board for consideration and the selection criteria are mainly based on the assessment of their professional qualifications and experience. The Board selects and recommends candidates for directorship having regard to the balance of skills and experience appropriate to the Group's business.

INTERNAL CONTROLS

The Board has overall responsibility for the internal control system of the Company. The Board has developed its systems of internal control and risk management and is also responsible for reviewing and maintaining an adequate internal control system to safeguard the interests of the shareholders and the assets of the Company. During the year under review, the Board employed an external auditor to review the effectiveness of the internal control system of the main subsidiary of the Group.

AUDITORS' REMUNERATION

During 2006, the fees paid and payable to the Company's external auditors are all for audit service amounted to approximately RMB0.3 million.

AUDIT COMMITTEE

The Company set up an Audit Committee in February 2005. The Audit Committee comprises three members which are all independent non-executive Directors, namely Mr. Yue Kwai Wa, Ken, Mr. Zhao Shou Guo and Mr. Ng Tang. All the independent non-executive Directors confirmed their independence pursuant to Rule 5.09 of the GEM Listing Rules.

The Audit Committee met four times in the year of 2006, which were attended by all members. The Group's 2006 quarterly and interim reports and 2005 annual report have been reviewed by the Audit Committee. For 2005 annual report, the Audit Committee met with the external auditors to discuss auditing and internal control matters before recommending it to the Board for approval.

The Directors present their annual report together with the audited financial statements of the Company and the Group for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. Details of the principal activities of the Company's subsidiaries are set out in note 37 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

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

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2006 are set out in the consolidated income statement on page 27 of the annual report.

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

PROPERTY, PLANT AND EQUIPMENT

Details of movements during the year in the property, plant and equipment of the Group are set out in note 15 to the financial statements.

SHARE CAPITAL

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

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders at 31 December 2006 amounted to approximately RMB2.3 million (2005: RMB5.3 million).

DIRECTORS' REPORT

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

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

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

PRE-EMPTIVE RIGHTS

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

DIRECTORS

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

Executive directors:
Mr. Zhuo Ze Fan
Ms. Lv Xia (resigned on 30 June 2006)
Ms. Xie Yi Ping

Non-executive director:
Mr. Wu Jing Jin

Independent non-executive directors:
Mr. Yue Kwai Wa, Ken
Mr. Zhao Shou Guo
Mr. Ng Tang

In accordance with clause 87 of the Company's bye-laws, Ms. Xie Yi Ping and Mr. Zhao Shou Guo will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

DIRECTORS' PROFILE

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

DIRECTORS' SERVICE AGREEMENTS

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

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

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

EMOLUMENT POLICY

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

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

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme is set out in note 29 to the financial statements.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed above and in notes 21, 22, 25 and 35 to the financial statements, no Director had a material interests, whether directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its fellow subsidiaries and subsidiaries was a party subsisted at the end of the year or at any time during the year.

SHARE OPTION SCHEME

The Company has adopted a share option scheme. A summary of the principal terms and conditions of the share option scheme is set out in note 29 to the financial statements. Up to 31 December 2006, no option has been granted pursuant to such share option scheme.

DIRECTORS' REPORT

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2006, the interests and short positions of each director and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of the Hong Kong Special Administrative Region (the "SFO ")), as recorded in the register maintained by the Company under Section 352 of the SFO or as required to be notified to the Company and the Stock Exchange in accordance with Rules 5.46 to 5.67 of the GEM Listing Rules were as follows:

Long positions in the shares of the Company (the "Shares")

Name of director	Capacity	Number of Shares	Percentage of shareholding *(%)*
Zhuo Ze Fan	Held by controlled corporation *(Note)*	34,905,059	43.63
Wu Jing Jin	Beneficial owner	3,544,597	4.43

Note: These Shares were held by Callaway Group Limited which was beneficially owned as to 87.07% by Mr. Zhuo Ze Fan, 4.60% by Ms. Cui Yan Wen and 8.33% by True Assist Limited. Callaway Group Limited held 34,905,059 Shares on the Listing Date and up to 31 December 2006. By virtue of the SFO, Mr. Zhuo was deemed to be interested in the Shares held by Callaway Group Limited.

Save as disclosed herein, as at 31 December 2006, none of directors and chief executive of the Company had any interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or were required to notify the Company and the Stock Exchange in accordance with Rules 5.46 to 5.67 of the GEM Listing Rules.

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

As at 31 December 2006, the following persons or companies (other than the directors or chief executive of the Company) had an interest or short position in the shares and underlying shares of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of SFO:

Name of substantial shareholder	Capacity	Number of Shares	Percentage of shareholding *(%)*
Callaway Group Limited	Beneficial owner	34,905,059	43.63
Ms. Cui Yan Wen *(Note 1)*	Held by spouse	34,905,059	43.63
Mr. Wang Wen Ming	Beneficial owner	8,404,060	10.51
Ms. Chen Dong Jin *(Note 2)*	Held by spouse	8,404,060	10.51
Stichting Shell Pensioenfonds	Investment manager	6,000,000	7.50
Ms. An Yu	Beneficial owner	5,714,285	7.14
SW Kingsway Capital Holdings Limited *(Note 3)*	Held by controlled corporation	5,199,999	6.50
World Developments Limited *(Note 4)*	Held by controlled corporation	5,199,999	6.50
Innovative Assets Limited *(Note 4)*	Held by controlled corporation	5,199,999	6.50
Kingsway International Holdings Limited *(Note 4)*	Held by controlled corporation	5,199,999	6.50
Mr. Lam Ka Chung William *(Note 5)*	Held by controlled corporation	5,199,999	6.50
Ms. Lam Wong Yuk Sin Mary *(Note 5)*	Held by controlled corporation	5,199,999	6.50
Mr. Choi Koon Shum Jonathan *(Note 6)*	Held by controlled corporation	5,199,999	6.50
Ms. Kwan Wing Kum Janice *(Note 7)*	Held by spouse	5,199,999	6.50

Notes:

1. Callaway Group Limited was beneficially owned as to 87.07% by Mr. Zhuo Ze Fan, 4.60% by Ms. Cui Yan Wen and 8.33% by True Assist Limited. Mr. Zhuo Ze Fan was an executive Director and chairman of the Company and the spouse of Ms. Cui Yan Wen. True Assist Limited was beneficially owned as to 50% by Ms. Chen Dong Jin, 30% by Mr. Wang Wen Ming and 20% by Mr. Wu Jing Jin. Ms. Chen Dong Jin was the spouse of Mr. Wang Wen Ming. Mr. Wu Jing Jin was a non-executive Director of the Company. By virtue of the SFO, Ms. Cui was deemed to be interested in the Shares held by Mr. Zhuo.

2. Ms. Chen Dong Jin, being the spouse of Mr. Wang Wen Ming ("Mr. Wang") was deemed to have interest in the shares held by Mr. Wang by virtue of the SFO.

3. These Shares were held through wholly owned subsidiaries of SW Kingsway Capital Holdings Limited ("SW Kingsway"). By virtue of the SFO, SW Kingsway was deemed to have interest in the Shares held by its wholly owned subsidiaries.

4. World Developments Limited held 74% of interest in SW Kingsway and was a wholly owned subsidiary of Innovative Assets Limited which in turn was a wholly owned subsidiary of Kingsway International Holdings Limited ("Kingsway International"). By virtue of the SFO, World Development Limited, Innovative Assets Limited and Kingsway International were deemed to have interest in the Shares held by SW Kingsway.

DIRECTORS' REPORT

5. Mr. Lam Ka Chung William ("Mr. Lam ") (deceased) and his spouse, Ms. Lam Wong Yuk Sin Mary ("Mrs. Lam "), beneficially owned or controlled 41% of the issued share capital of Kingsway International and were deemed (by virtue of the SFO) to be interested in the Shares held by Kingsway International.

6. Mr. Choi Koon Shum Jonathan ("Mr. Choi ") beneficially owned or controlled 46% of the issued share capital of Kingsway International and was deemed (by virtue of the SFO) to be interested in the Shares held by Kingsway International.

7. Ms. Kwan Wing Kum Janice, being the spouse of Mr. Choi, was deemed to have interest in the Shares held by Mr. Choi by virtue of the SFO.

Save as disclosed herein, so far as known to any director or chief executive of the Company, no other person (other than the directors and chief executive of the Company) had any interest and short positions in the shares and underlying shares of the Company as required to be recorded in the register required to be kept under Section 336 of the SFO as at 31 December 2006.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate purchases attributable to the Group's five largest suppliers during the year accounted for approximately 91% of the total purchases of the Group and the largest supplier accounted for approximately 27% of the total purchases of the Group. The aggregate sales attributable to the Group's five largest customers during the year were less than 30% of the total sales of the Group.

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

CONNECTED TRANSACTIONS

Rental expenses to Juchuan Investments

During the year, rental charges and sub-charges of approximately RMB802,000 were charged from Juchuan Investments, a company in which Mr. Zhuo Ze Fan, the executive Director, of the Company have beneficial interests.

The rental charges and sub-charges payable by the Group constitute a continuing connected transaction under the GEM Listing Rules for the Company. Since the total consideration of the above continuing connected transaction for the year ended 31 December 2006 was less than HK$1,000,000 and represents less than 2.5% in each of the percentage ratios as set out in Rule 19.07 of the GEM Listing Rules, with reference to the figures for the year ended 31 December 2006 as disclosed in the annual report, the transaction fell within Rule 20.31(2) of the GEM Listing Rules and was exempted from disclosure and shareholders ' approval requirements under the GEM Listing Rules.

Consultancy fee to Shenzhen Guang Xin

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

For the year ended 2006, Shenzhen Guang Xin charged Juchuan Fuwanjia RMB655,000 for services rendered during the year. Such amount did not exceed the annual cap of RMB720,500 for the year ended 31 December 2006 approved under the relevant resolutions. The service will continue in 2007 and announcement will be made in accordance with the GEM Listing Rules when necessary.

The independent non-executive directors have confirmed that the above transactions were conducted (1) in the ordinary and usual course of business of the Company; (2) on normal commercial terms, (3) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

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

Details of connected transactions for the year, which are also related party transactions, are set out in note 35 to the financial statements.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

COMPLIANCE ADVISER'S INTERESTS

As at 31 December 2006, neither Hantec Capital Limited (the "compliance adviser") nor its directors or employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interests in the securities of the Company, including options or rights to subscribe for such securities.

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

DIRECTORS' REPORT

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

CORPORATE GOVERNANCE

A report on the principle corporate governance practices adopted by the Company is set out on pages 14 to 16 of the annual report.

AUDIT COMMITTEE

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

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

SUBSEQUENT EVENTS

There have been no material events which took place subsequent to 31 December 2006.

AUDITORS

A resolution will be submitted to the annual general meeting of the Company to re-appoint SHINEWING (HK) CPA Limited as auditors of the Company.

On behalf of the Board
Sungreen International Holdings Limited

ZHUO Ze Fan
Chairman

Xi'an City, Shaanxi Province, the PRC, 23 March 2007

信永中和
ShineWing

SHINEWING (HK) CPA Limited
20/F., Shui On Centre
6-8 Harbour Road, Hong Kong

TO THE SHAREHOLDERS OF SUNGREEN INTERNATIONAL HOLDINGS LIMITED
綠陽國際控股有限公司
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Sungreen International Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 27 to 58, which comprise the consolidated balance sheet as at 31 December 2006, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated 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, in accordance with section 90 of the Bermuda Companies Act 1981 of Bermuda, 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation and true and fair presentation of the consolidated 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 Group'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 consolidated financial statements.

INDEPENDENT AUDITORS' REPORT

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 Group as at 31 December 2006 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Lau Miu Man
Practicing Certificate Number: P03603

Hong Kong
23 March 2007

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2006

	Notes	**2006** **RMB**	2005 RMB
Revenue		**135,545,119**	129,969,287
Cost of sales		**(81,916,682)**	(83,392,895)
Gross profit		**53,628,437**	46,576,392
Other operating income	*7*	**8,921,944**	8,318,411
Selling and distribution costs		**(34,141,858)**	(25,420,789)
Administrative expenses		**(10,869,887)**	(10,867,815)
Listing expenses		**—**	(7,837,483)
Finance costs	*8*	**(2,310,379)**	(3,096,969)
Profit before taxation		**15,228,257**	7,671,747
Income tax expenses	*9*	**(983,975)**	—
Profit for the year	*10*	**14,244,282**	7,671,747
Attributable to:			
Equity holders of the parent		**7,915,105**	768,751
Minority interests		**6,329,177**	6,902,996
		14,244,282	7,671,747
Earnings per share, basic (RMB cents)	*13*	**9.89**	1.09

CONSOLIDATED BALANCE SHEET

As at 31 December 2006

	Notes	2006 RMB	2005 RMB
Non-current assets			
Intangible assets	14	**1,655,833**	2,620,833
Property, plant and equipment	15	**35,299,514**	36,082,090
Prepaid lease payments	16	**28,361,529**	28,870,275
Deposit paid for acquisition of property, plant and equipment	17	**21,399,600**	—
		86,716,476	67,573,198
Current assets			
Inventories	18	**9,750,382**	12,496,778
Trade receivables	19	**37,775,772**	29,800,027
Other receivables, deposits and prepayments		**27,426,460**	11,434,805
Held-for-trading investments	20	**—**	350,000
Prepaid lease payments	16	**633,180**	630,483
Amount due from a related company	21	**655,000**	1,310,000
Amount due from a director	22	**—**	3,950
Other advance	23	**—**	2,000,000
Bank balances and cash		**50,560,747**	62,006,821
		126,801,541	120,032,864
Current liabilities			
Trade payables	24	**1,607,901**	933,687
Other payables and accrued charges		**11,713,373**	4,381,370
Tax payable		**952,018**	—
Amount due to a related company	25	**1,601,686**	834,303
Dividend payable to the shareholders of a subsidiary		**17,225,492**	17,225,492
Bank borrowings — due within one year	26	**35,000,000**	33,000,000
		68,100,470	56,374,852
Net current assets		**58,701,071**	63,658,012
Net assets		**145,417,547**	131,231,210

CONSOLIDATED BALANCE SHEET

As at 31 December 2006

	Note	2006 RMB	2005 RMB
Capital and reserves			
Share capital	28	**848,000**	848,000
Reserves		**104,281,077**	96,423,917
Equity attributable to equity holders of the parent		**105,129,077**	97,271,917
Minority interests		**40,288,470**	33,959,293
Total equity		**145,417,547**	131,231,210

The consolidated financial statements on pages 27 to 58 were approved and authorised for issue by the Board of Directors on 23 March 2007 and are signed on its behalf by:

Zhuo Ze Fan
Director

Xie Yi Ping
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2006

	Attributable to equity holders of the parent									
	Share capital	**Share premium**	**Capital reserve**	**Statutory reserve**	**Translation reserve**	**Special reserve**	**Retained profits**	**Total**	**Minority interests**	**Total**
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
	(Note 28)		*(Note 30 (d))*	*(Note 30 (a) & (b))*		*(Note 30 (c))*				
At 1 January 2005	8,268	—	—	5,115,227	—	74,420	7,571,979	12,769,894	27,056,297	39,826,191
Exchange difference arising on translation of foreign operations recognised directly in equity	—	—	—	—	(885,884)	—	—	(885,884)	—	(885,884)
Profit for the year	—	—	—	—	—	—	768,751	768,751	6,902,996	7,671,747
Total recognised income and expense for the year	—	—	—	—	(885,884)	—	768,751	(117,133)	6,902,996	6,785,863
Arising in reorganisation	203,732	—	—	—	—	(203,732)	—	—	—	—
Arise upon conversion issue *(Note 28 (d))*	180,564	28,418,236	—	—	—	—	—	28,598,800	—	28,598,800
Shares issued on listing *(Note 28 (e))*	212,000	52,788,000	—	—	—	—	—	53,000,000	—	53,000,000
Capitalisation issue of shares *(Note 28 (f))*	243,436	(243,436)	—	—	—	—	—	—	—	—
Contribution from shareholders	—	—	6,782,518	—	—	—	—	6,782,518	—	6,782,518
Transaction costs attributable to issue of new shares	—	(3,762,162)	—	—	—	—	—	(3,762,162)	—	(3,762,162)
Appropriated from retained profits	—	—	—	1,752,840	—	—	(1,752,840)	—	—	—
At 31 December 2005 and 1 January 2006	848,000	77,200,638	6,782,518	6,868,067	(885,884)	(129,312)	6,587,890	97,271,917	33,959,293	131,231,210
Exchange difference arising on translation of foreign operations recognised directly in equity	—	—	—	—	(57,945)	—	—	(57,945)	—	(57,945)
Profit for the year	—	—	—	—	—	—	7,915,105	7,915,105	6,329,177	14,244,282
Total recognised income and expenses for the year	—	—	—	—	(57,945)	—	7,915,105	7,857,160	6,329,177	14,186,337
Appropriated from retained profits	—	—	—	867,598	—	—	(867,598)	—	—	—
At 31 December 2006	**848,000**	**77,200,638**	**6,782,518**	**7,735,665**	**(943,829)**	**(129,312)**	**13,635,397**	**105,129,077**	**40,288,470**	**145,417,547**

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2006

	2006 RMB	2005 RMB
OPERATING ACTIVITIES		
Profit before taxation	**15,228,257**	7,671,747
Adjustments for:		
Finance costs	**2,310,379**	3,096,969
Interest income	**(491,081)**	(150,367)
Depreciation of property, plant and equipment	**5,230,101**	6,429,147
Amortisation of prepaid lease payments	**66,277**	95,025
Amortisation of intangible assets	**905,000**	845,000
Gain on disposal of held-for-trading investments	**(2,894)**	—
Gain on changes in fair value of held-for-trading investments	**—**	(3,727)
Written off of property, plant and equipment	**69,906**	193,953
Allowances for bad and doubtful debts for trade receivables	**404,951**	4,232
(Recovery of)/allowances for bad and doubtful debts for other receivables	**(314,940)**	306,460
(Recovery of)/allowances for inventories	**(137,604)**	8,678
Written off of intangible asset	**60,000**	—
Operating cash flows before movements in working capital	**23,328,352**	18,497,117
Decrease/(increase) in inventories	**2,884,000**	(4,100,641)
Increase in trade receivables	**(8,380,696)**	(1,454,932)
(Increase)/decrease in other receivables and prepayments	**(15,676,715)**	2,095,807
Decrease/(increase) in other advance	**2,000,000**	(2,000,000)
Decrease in amount due from a director	**3,950**	2,050
Decrease/(increase) in amount due from a related company	**655,000**	(1,310,000)
Increase/(decrease) in amount due to a related company	**767,383**	(4,275,734)
Increase in trade payables	**674,214**	492,437
Increase/(decrease) in other payables and accrued charges	**7,332,003**	(2,369,357)
Cash generated from operations	**13,587,491**	5,576,747
Income tax paid	**(31,957)**	—
Interest paid	**(2,310,379)**	(3,096,969)
NET CASH FROM OPERATING ACTIVITIES	**11,245,155**	2,479,778

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2006

	2006 *RMB*	2005 *RMB*
INVESTING ACTIVITIES		
Deposits paid for acquisition of property, plant and equipment	**(21,399,600)**	—
Purchase of property, plant and equipment	**(4,009,111)**	(6,559,123)
Proceeds from disposal of held-for-trading investments	**952,894**	303,727
Purchase of held-for-trading investments	**(600,000)**	(50,000)
Interest received	**491,081**	150,367
Acquisition of prepaid lease payments	**(80,000)**	(1,792,875)
Purchase of intangible assets	**—**	(60,000)
NET CASH USED IN INVESTING ACTIVITIES	**(24,644,736)**	(8,007,904)
FINANCING ACTIVITIES		
New bank borrowings raised	**35,000,000**	13,000,000
Repayment of bank borrowings	**(33,000,000)**	(40,000,000)
Proceeds from issue of new shares	**—**	53,000,000
Expenditure on issue of new shares	**—**	(3,762,162)
NET CASH FROM FINANCING ACTIVITIES	**2,000,000**	22,237,838
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	**(11,399,581)**	16,709,712
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**62,006,821**	46,166,867
Effect of foreign exchange	**(46,493)**	(869,758)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by		
Bank balances and cash	**50,560,747**	62,006,821

1. GENERAL

Sungreen International Holdings Limited (the "Company") was incorporated in Bermuda on 14 April 2004 as an exempted company under the Companies Act 1981 of Bermuda (as amended). Its shares are listed on the Growth Enterprises Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 28 February 2005.

The directors consider that the Company's parent and ultimate holding company is Callaway Group Limited, a company incorporated in British Virgin Islands ("BVI"). The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" of the annual report.

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

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

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

Prior to 16 February 2005, the entire interests of the Company and the entities now controlled by the Company (the "Subsidiaries") were separately held by Callaway Group Limited. On 16 February 2005, Callaway Group Limited has transferred the entire interests in the subsidiaries to the Company.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS/ CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has adopted all of the new and revised standards and interpretations issued by the International Accounting Standards Board (the "IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB that are relevant to its operations and effective for accounting periods beginning on 1 January 2006. The adoption of these new and revised International Financial Reporting Standards and Interpretations ("IFRSs") has resulted in changes to the Group's accounting policy in the following area.

Accounting for financial guarantee contracts

The IASB has amended International Accounting Standard ("IAS") 39 Financial Instruments: Recognition and Measurement to require certain financial guarantee contracts issued by the Group to be accounted for in accordance with that standard. Financial guarantee contracts that are accounted for in accordance with IAS 39 are measured initially at their fair values, and subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies set out in note 3 below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2006

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS/ CHANGES IN ACCOUNTING POLICIES (Continued)

Accounting for financial guarantee contracts (Continued)

In relation to a financial guarantee granted to banks over the repayment of a loan by an independent third party. The directors consider that the fair value of the financial guarantee contract at the date of grant is insignificant with reference to the valuation carried out by an independent professional valuer. Accordingly, the adoption of this IAS 39 has no material effect on how the results for the current or prior accounting periods have been prepared and presented.

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

IFRIC 7	Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies[1]
IFRIC 8	Scope of IFRS 2[2]
IFRIC 9	Reassessment of Embedded Derivatives[3]
IFRIC 10	Interim Financial Reporting and Impairment[4]
IFRIC 11	Group and Treasury Share Transactions[5]
IFRIC 12	Service Concession Arrangements[6]
IFRS 7	Financial instruments: disclosures[7]
IFRS 8	Operating segments[8]

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

2 Effective for annual periods beginning on or after 1 May 2006.

3 Effective for annual periods beginning on or after 1 June 2006.

4 Effective for annual periods beginning on or after 1 November 2006.

5 Effective for annual periods beginning on or after 1 March 2007.

6 Effective for annual periods beginning on or after 1 January 2008.

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

8 Effective for annual periods beginning on or after 1 January 2009.

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

(a) Basis of consolidation

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

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

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

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

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

(b) Revenue recognition

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

(i) Sales of goods are recognised when goods are delivered and title has passed.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Leasing

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

The Group as lessee

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

(d) Foreign currencies

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

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

Exchange differences arising on the settlement of monetary items, and on retranslation of monetary items, are included in consolidated income statement for the period. Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, and which are recognised in the translation reserve and recognised in the consolidated income statement on disposal of the net investment. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in consolidated income statement for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Borrowing costs

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

(f) Government grants

Government grants are recognised as income over the periods necessary to match them with the related costs. Grants related to depreciable assets are presented as deferred income/a deduction from the carrying amount of the relevant asset and are released to income over the useful lives of the assets. Grants related to expense items are recognised in the same period as those expenses are charged in the consolidated income statement and are reported separately as other operating income.

(g) Retirement benefit costs

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

(h) Income tax

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

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

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

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

(i) Property, plant and equipment

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Property, plant and equipment (Continued)

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

(j) Leasehold land for future owner-occupied purpose

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

(k) Research and development expenditure

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

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

— an asset is created that can be identified;

— it is probable that the asset created will generate future economic benefits; and

— the development cost of the asset can be measured reliably.

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

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

(l) Patent and technical know-how

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

(m) Impairment of tangible and intangible assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any.) Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Impairment of tangible and intangible assets (Continued)

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

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

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

(n) Inventories

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

(o) Financial instruments

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

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

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

Held for trading investments

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Financial instruments (Continued)

Held for trading investments (Continued)

Investments other than held-to-maturity debt securities are classified as either held-for-trading or available-for-sale, and are measured at subsequent reporting dates at fair value. Where securities are held for trading purposes, gains and losses arising from changes in fair value are included in consolidated income statement for the period.

Financial liabilities and equity

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

Bank borrowings

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

Convertible notes

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Financial instruments (Continued)

Financial guarantee contract liabilities

Financial guarantee contract liabilities are measured initially at their fair values and are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies set out above.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Depreciation and amortisation

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

5. FINANCIAL RISKS AND MANAGEMENT

Credit risk

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

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

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

Significant concentrations of credit risk

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2006

5. FINANCIAL RISKS AND MANAGEMENT (Continued)

Foreign currency risk

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

Fair values of financial assets and financial liabilities

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

Fair value interest rate risk

The Group exposed to fair value interest rate risk through the fixed interest rate bank loans.

The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider other necessary actions when significant interest rate exposure is anticipated.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank borrowings. The Group's exposure to liquidity risk is minimal.

6. SEGMENT INFORMATION

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

7. OTHER OPERATING INCOME

	2006	2005
	RMB	*RMB*
Bank interest income *(Note a)*	**491,081**	150,367
Gain on disposal of held-for-trading investments	**2,894**	—
Gain on changes in fair value of held-for-trading investments	**—**	3,727
Government grants *(Note b)*	**150,000**	150,000
Refund on value-added tax *(Note c)*	**7,956,953**	8,014,317
Recovery of bad and doubtful debts for other receivables	**314,940**	—
Other income	**6,076**	—
	8,921,944	8,318,411

Note a: The deposits carried fixed interest rate ranged from 0.72%–2.25% (2005: 0.20%–2.45%) per annum.

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

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

8. FINANCE COSTS

	2006	2005
	RMB	*RMB*
Interest on bank borrowings wholly repayable within five years	**2,310,379**	3,096,969

9. INCOME TAX EXPENSES

	2006	2005
	RMB	*RMB*
The tax charge comprises:		
PRC Enterprise Income Tax ("EIT")	**983,975**	—

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

Shannxi Juchuan Fuwanjia Co., Ltd. ("Juchuan Fuwanjia"), a subsidiary established in the PRC, is regarded by the Xi'an Municipal Bureau of Science and Technology as a high technology enterprise located at the Xi'an National Hi-tech Industrial Development Zone. Pursuant to relevant laws and regulations in the PRC, Juchuan Fuwanjia is exempted from EIT for the two years starting from their first production year followed by a EIT rate of 15% in the remaining years of operation. Therefore, as confirmed with the local tax bureau, Juchuan Fuwanjia was exempted from EIT for the first two years since its production commenced in 2000 and is subject to a EIT payable of 15% thereafter.

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

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

	2006	2005
	RMB	*RMB*
Profit before taxation	**15,228,257**	7,671,747
Tax at the domestic income tax rate of 15%	**2,284,239**	1,150,762
Effect of preferential tax rate in the PRC	**(983,975)**	—
Tax effect of profit of subsidiary in the PRC under tax holiday	**—**	(2,958,427)
Tax effect of income not taxable for tax purpose	**(892,152)**	—
Tax effect of expenses not deductible for tax purpose	**575,863**	1,807,665
Tax expenses for the year	**983,975**	—

There was no significant unprovided deferred taxation for both years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2006

10. PROFIT FOR THE YEAR

	2006	2005
	RMB	*RMB*
Profit for the year has been arrived at after charging (crediting):		
Directors' emoluments *(note 11)*	**959,635**	1,483,417
Other staff costs	**6,308,551**	7,261,174
Retirement benefit schemes contributions (excluding those of directors)	**66,580**	68,019
Total staff costs	**7,334,766**	8,812,610
Less: Staff cost included in the research and development costs	**(504,413)**	(216,956)
	6,830,353	8,595,654
Amortisation of intangible assets (charged to administrative expenses)	**905,000**	845,000
Amortisation of prepaid lease payments		
— charged to consolidated income statement	**66,277**	95,025
— capitalised in properties under development	**519,772**	514,541
	586,049	609,566
Depreciation of property, plant and equipment	**5,230,101**	6,429,147
Less: Depreciation included in the research and development costs	**(86,766)**	(201,756)
	5,143,335	6,227,391
Cost of inventories recognised in the consolidated income statement	**81,916,682**	83,392,895
Auditors' remuneration		
— current year	**300,000**	610,400
— under/(over)-provision in prior year	**5,000**	(20,800)
Written off of property, plant and equipment	**69,906**	193,953
Written off of intangible assets	**60,000**	—
Research and development costs	**1,417,836**	930,790
Allowances for bad and doubtful debts for trade receivables	**404,951**	4,232
(Recovery of)/allowances for bad and doubtful debts for other receivables	**(314,940)**	306,460
(Recovery of)/allowances for inventories	**(137,604)**	8,678

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

The emoluments paid or payable to each of the 7 (2005: 8) directors were as follows:

	2006 *RMB*	2005 *RMB*
Executive Directors:		
Fees	**—**	—
Salaries and other benefits	**776,000**	1,335,017
Contributions to retirement benefits scheme	**3,635**	—
	779,635	1,335,017
Independent Non-Executive Directors:		
Fees	**180,000**	148,400
	959,635	1,483,417

The details of directors' remuneration of each director for the years ended 31 December 2006 and 2005 are set out below:

	2006			
Name of director	**Non-executive directors' fees** *RMB*	**Executive directors' salaries** *RMB*	**Contributions to retirement benefits scheme** *RMB*	**Total** *RMB*
Zhuo Ze Fan	**—**	**516,000**	**3,635**	**519,635**
Lv Xia *(Note 1)*	**—**	**60,000**	**—**	**60,000**
Xie Yi Ping	**—**	**200,000**	**—**	**200,000**
Wu Jing Jin *(Note 2)*	**—**	**—**	**—**	**—**
Zhao Shou Guo *(Note 3)*	**60,000**	**—**	**—**	**60,000**
Yue Kwai Wa, Ken *(Note 3)*	**60,000**	**—**	**—**	**60,000**
Ng Tang *(Note 3)*	**60,000**	**—**	**—**	**60,000**
	180,000	**776,000**	**3,635**	**959,635**

Notes:

1. Resigned on 30 June 2006.

2. The employee is non-executive director.

3. The employees are independent non-executive directors.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2006

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

(a) Directors' emoluments (Continued)

	2005			
Name of director	Non-executive directors' fees *RMB*	Executive directors' salaries *RMB*	Contributions to retirement benefits scheme *RMB*	Total *RMB*
Zhuo Ze Fan	—	732,617	—	732,617
Lv Xia	—	328,400	—	328,400
Xie Yi Ping *(Note 5)*	—	274,000	—	274,000
Wu Jing Jin *(Note 1 & 5)*	—	—	—	—
Zhao Shou Guo *(Note 2 & 5)*	53,000	—	—	53,000
Yue Kwai Wa, Ken *(Note 2 & 3)*	10,600	—	—	10,600
Ng Tang *(Note 2 & 5)*	53,000	—	—	53,000
Yam Tak Fai, Ronald *(Note 2, 4 & 5)*	31,800	—	—	31,800
	148,400	1,335,017	—	1,483,417

Notes:

1. The employees is non-executive director.
2. The employees are independent non-executive directors.
3. Appointed on 1 November 2005.
4. Resigned on 1 September 2005.
5. Appointed on 16 February 2005.

(b) Employees' emoluments

The five highest paid individuals included two (2005: three) directors during the year ended 31 December 2006, details of whose emoluments are included above. The emoluments of the remaining three (2005: two) individuals, which fall within the band of nil to HK$1,000,000 (equivalent to approximately RMB1,000,000) for the year ended 31 December 2006 are as follows:

	2006 ***RMB***	2005 *RMB*
Basic salaries, bonus and allowances	**876,651**	641,862
Retirement benefits scheme contributions	**30,161**	22,325
	906,812	664,187

During the year, no emoluments were paid by the Group to any of the directors or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors had waived any emoluments for the two years ended 31 December 2006 and 2005.

12. DIVIDEND

No dividend was paid or proposed during the years ended 31 December 2006 and 2005, nor has any dividend been proposed since the balance sheet date.

13. EARNINGS PER SHARE

The calculation of the basic earnings per share for the year attributable to the equity holders of the parent is based on the profit for the year attributable to the equity holders of the parent of RMB7,915,105 (2005: RMB768,751) and weighted average number of ordinary shares of 80,000,000 shares (2005: 70,383,562 shares) of the Company.

There was no diluted effect on the basis earnings per share for the years ended 31 December 2006 and 2005 as there was no diluted events during the year ended 31 December 2006 and no dilutive shares outstanding during the year ended 31 December 2005.

14. INTANGIBLE ASSETS

	Technical know-how	**Patent**	**Total**
	RMB	*RMB*	*RMB*
COST			
At 1 January 2005	3,600,000	1,250,000	4,850,000
Additions	60,000	—	60,000
At 31 December 2005 and at 1 January 2006	3,660,000	1,250,000	4,910,000
Written off	(60,000)	—	(60,000)
At 31 December 2006	3,600,000	1,250,000	4,850,000
AMORTISATION			
At 1 January 2005	840,000	604,167	1,444,167
Charge for the year	720,000	125,000	845,000
At 31 December 2005 and at 1 January 2006	1,560,000	729,167	2,289,167
Charge for the year	780,000	125,000	905,000
At 31 December 2006	2,340,000	854,167	3,194,167
CARRYING VALUES			
At 31 December 2006	1,260,000	395,833	1,655,833
At 31 December 2005	2,100,000	520,833	2,620,833

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

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15. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold improvement	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Properties under development	Total
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
COST							
At 1 January 2005	14,666,842	8,676,829	30,101,953	2,138,815	3,413,464	1,428,453	60,426,356
Exchange difference	—	(12,497)	—	(8,100)	—	—	(20,597)
Additions	334,871	42,099	816,562	14,947	401,483	5,463,702	7,073,664
Written off	—	—	—	(237,021)	—	—	(237,021)
Transfers	669,885	—	101,010	—	—	(770,895)	—
At 31 December 2005	15,671,598	8,706,431	31,019,525	1,908,641	3,814,947	6,121,260	67,242,402
Exchange difference	—	(26,615)	—	(7,189)	—	—	(33,804)
Additions	34,836	202,162	2,685,809	85,964	—	1,520,112	4,528,883
Transfer	1,409,860	—	33,225	—	—	(1,443,085)	—
Written off	—	(665,370)	(42,600)	(27,387)	—	—	(735,357)
At 31 December 2006	**17,116,294**	**8,216,608**	**33,695,959**	**1,960,029**	**3,814,947**	**6,198,287**	**71,002,124**
DEPRECIATION							
At 1 January 2005	4,476,413	7,010,145	10,818,053	886,511	1,587,582	—	24,778,704
Exchange difference	—	(3,551)	—	(920)	—	—	(4,471)
Provided for the year	1,081,904	1,531,365	3,074,908	298,873	442,097	—	6,429,147
Eliminated upon written off	—	—	—	(43,068)	—	—	(43,068)
At 31 December 2005	5,558,317	8,537,959	13,892,961	1,141,396	2,029,679	—	31,160,312
Exchange difference	—	(20,135)	—	(2,217)	—	—	(22,352)
Provided for the year	667,457	178,283	3,698,949	290,850	394,562	—	5,230,101
Eliminated upon written off	—	(614,272)	(41,322)	(9,857)	—	—	(665,451)
At 31 December 2006	**6,225,774**	**8,081,835**	**17,550,588**	**1,420,172**	**2,424,241**	**—**	**35,702,610**
CARRYING VALUES							
At 31 December 2006	**10,890,520**	**134,773**	**16,145,371**	**539,857**	**1,390,706**	**6,198,287**	**35,299,514**
At 31 December 2005	10,113,281	168,472	17,126,564	767,245	1,785,268	6,121,260	36,082,090

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

Buildings	Over the term of the leasehold interests in land
Leasehold improvements	20%–$33\frac{1}{3}$%
Plant and machinery	10%
Furniture, fixtures and equipment	20%
Motor vehicles	$12\frac{1}{2}$%

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

16. PREPAID LEASE PAYMENTS

	2006 *RMB*	2005 *RMB*
The Group's prepaid lease payments comprise:		
Leasehold interests in land in PRC held under medium-term of 50 years	**28,994,709**	29,500,758
Analysed for reporting purposes as:		
Current asset	**633,180**	630,483
Non-current asset	**28,361,529**	28,870,275
	28,994,709	29,500,758

17. DEPOSITS PAID FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

The amounts were paid for the acquisition of property, plant and equipment for the Group's development project in the PRC. In the opinion of the directors, the deposits are non-refundable and therefore classified as non-current assets.

18. INVENTORIES

	2006 *RMB*	2005 *RMB*
Raw materials	**2,259,087**	1,694,715
Work in progress	**1,998,187**	978,555
Finished goods	**5,493,108**	9,823,508
	9,750,382	12,496,778

During the year ended 31 December 2006, inventory were reprocessed and used for production. As a result, a reversal of write-down of inventories of RMB137,604 (2005 : Nil) has been recognised and included in administrative expenses in the current year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2006

19. TRADE RECEIVABLES

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

	2006 *RMB*	2005 *RMB*
0–60 days	**12,550,519**	14,003,875
61–120 days	**12,699,135**	6,342,147
121–180 days	**13,529,918**	9,786,399
181–365 days	**981,682**	1,250,854
Over 365 days	**2,717**	—
	39,763,971	31,383,275
Less: Allowances for bad and doubtful debts	**(1,988,199)**	(1,583,248)
	37,775,772	29,800,027

20. HELD-FOR-TRADING INVESTMENTS

	2006 *RMB*	2005 *RMB*
Unlisted investment fund — at fair value	**—**	350,000

The Group has not designated any financial assets that are not classified as held-for-trading as financial assets at fair value through consolidated income statement.

The investments at 31 December 2005 represented investments in an unlisted investment fund that offer the Group the opportunity for return through fair value gain. They had no fixed maturity or coupon rate. The fair values of these securities were provided by banks managing the fund.

21. AMOUNT DUE FROM A RELATED COMPANY

	2006 *RMB*	2005 *RMB*
Shenzhen Guang Xin Investment Co. Ltd. (深圳市廣信投資有限公司)	**655,000**	1,310,000

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

22. AMOUNT DUE FROM A DIRECTOR

Name of director	2006 *RMB*	2005 *RMB*	Maximum amount outstanding during the year *RMB*
Ms. Lv Xia	–	3,950	3,950

The amount is unsecured, interest-free and has been fully settled during the year ended 31 December 2006.

23. OTHER ADVANCE

	2006 *RMB*	2005 *RMB*
Other advance	–	2,000,000

The amount represents an advance to a third party which is unsecured, interest-free and has been fully settled during the year ended 31 December 2006.

24. TRADE PAYABLES

The aged analysis of trade payables is as follows:

	2006 *RMB*	2005 *RMB*
0–90 days	**1,606,441**	901,660
181–365 days	**1,460**	32,027
	1,607,901	933,687

25. AMOUNT DUE TO A RELATED COMPANY

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

	2006 *RMB*	2005 *RMB*
Xian Juchuan International Investments Ltd. ("Juchuan Investments")	**1,601,686**	834,303

The amount is unsecured, non-interest bearing and repayable on demand. Mr. Zhuo Ze Fan, the director of the Company, has beneficial interest in this related company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2006

26. BANK BORROWINGS

	2006 *RMB*	2005 *RMB*
Secured	**15,000,000**	13,000,000
Unsecured	**20,000,000**	20,000,000
	35,000,000	33,000,000
The bank borrowings are repayable as follows:		
Within one year and shown under current liabilities	**35,000,000**	33,000,000

All the Group's bank borrowings are denominated in RMB.

At 31 December 2006, the secured bank borrowing is secured by the Group's prepaid lease payment and personal guarantee by Mr. Zhuo Ze Fan, the director of the Company and a corporate guarantee by Juchuan Investments in which Mr. Zhuo Ze Fan has beneficial interests.

At 31 December 2005, the secured bank borrowing is secured by the Group's prepaid lease payment, buildings and personal guarantee by Mr. Zhuo Ze Fan, the director of the Company and a corporate guarantee by an independent third party, 西安成城經貿有限公司.

At 31 December 2006 and 2005, the unsecured bank borrowing was guaranteed by an independent third party, 陝西東科麥廸森醫藥科技股份有限公司. The Group also provided cross-guarantee to this independent third party for the bank borrowing of RMB7,000,000 (2005: RMB12,000,000).

For the year ended 31 December 2006, all the bank borrowings were arranged at fixed interest rates ranging from 5.7645% to 7.0200% (2005: 5.7645% to 6.1380%) per annum.

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

27. CONVERTIBLE NOTES

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

The convertible notes were fully converted on 28 February 2005.

28. SHARE CAPITAL

	Notes	Number of shares	Par value per share HK$	Amount HK$
Authorised:				
As at 1 January 2005	*a*	1,000,000	0.10	100,000
Effect of sub-division of shares of HK$0.1 each into 10 shares of HK$0.01 each	*a*	9,000,000	0.01	—
Share capital after sub-division		10,000,000	0.01	100,000
Increase on 16 February 2005	*b*	4,990,000,000	0.01	49,900,000
As at 31 December 2005 and 31 December 2006		5,000,000,000	0.01	50,000,000
Issued:				
At 1 January 2005	*a*	1,000,000	0.10	—
Effect of sub-division of shares of HK$0.1 each into 10 shares of HK$0.01 each on 16 February 2005	*a*	9,000,000	0.01	—
Share capital after sub-division		10,000,000	0.01	—
Credit the 10,000,000 ordinary shares issued nil paid as consideration for acquisition of subsidiary	*c*	—	—	100,000
Shares allotted and issued for acquisition of subsidiary	*c*	10,000,000	0.01	100,000
Conversion issue	*d*	17,034,284	0.01	170,343
Issuance of shares on listing	*e*	20,000,000	0.01	200,000
Capitalisation issue credited as fully paid conditional on share premium amount of the Company as a result of the placing of the Company's share	*f*	22,965,716	0.01	229,657
As at 31 December 2005 and 31 December 2006		80,000,000	0.01	800,000
In RMB equivalent				848,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2006

28. SHARE CAPITAL (Continued)

Notes:

(a) The Company was incorporated in Bermuda on 14 April 2004 with an authorised share capital of HK$100,000 divided into 1,000,000 shares of HK$0.1 each. On 16 February 2005, every issued and unissued share of the Company was subdivided into 10 shares of HK$0.01 each.

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

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

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

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

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

29. SHARE OPTION SCHEME

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

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

29. SHARE OPTION SCHEME (Continued)

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

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

The Share Option Scheme will remain valid and effective for a period of 10 years commencing on 16 February 2005, after which period no further Options will be granted but in respect of all Options which remain exercisable at the end of such period, the provisions of the Share Option Scheme shall remain in full force and effect. Unless otherwise determined by the directors of the company at their discretion, there is no requirement of minimum period of which a share option must be held.

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

30. RESERVES

(a) Statutory surplus reserve/general reserve fund/enterprise expansion fund

Upon the reorganisation of Juchuan Fuwanjia into a PRC sino-foreign equity joint venture company on 26 March 2004 (the "Reorganisation"), Juchuan Fuwanjia started to follow the relevant laws and regulations for the foreign investment enterprises in the PRC of which enterprise is not required to transfer any profit after taxation to statutory surplus reserve. Prior to the Reorganisation, Juchuan Fuwanjia was required in each year to appropriate 10% of its profit after taxation, as shown in the PRC statutory financial statements which are prepared in accordance with the accounting principles and financial regulations applicable to PRC enterprises ("PRC GAAP"), to the statutory surplus reserve until the balance reaches 50% of the registered share capital. According to the provision of the Articles of Association, in normal circumstances, the statutory surplus reserve shall only be used for making up losses, capitalisation into share capital and expansion of the production and operation of Juchuan Fuwanjia.

As stipulated by the relevant laws and regulations for foreign investment enterprises in the PRC, Juchuan Fuwanjia is required to maintain another two statutory reserves, being a general reserve fund and an enterprise expansion fund which are not distributable. Appropriations to such reserves are made out of profit for the year as per the PRC statutory financial statements and the amount and allocation basis are decided by its board of directors annually.

(b) Statutory public welfare fund

Prior to the Reorganisation, the Group is required in each year to transfer 5% to 10% of the profit after taxation as reported in the statutory accounts prepared in accordance with the PRC GAAP to the statutory public welfare fund. After the Reorganisation, the Group is not required to transfer any profit after taxation to statutory public welfare fund in accordance with the relevant laws and regulations for the foreign investment enterprises in the PRC. According to the amendment in the PRC Companies Ordinance, the Group transferred all the balances of the statutory public welfare fund as at 31 December 2005 to the statutory surplus reserve during the year.

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Year ended 31 December 2006

30. RESERVES (Continued)

(c) Special reserve

The special reserve represented the difference between the nominal value of share capital issued by the Company and the nominal value of share capital of the subsidiaries at the time of group reorganisation.

(d) Capital reserve

Capital reserve arose during the year 2005 represented the loan from shareholder have been waived pursuant to the deed of waiver prior to the listing of the shares of the Company on the GEM of the Stock Exchange.

31. OPERATING LEASE COMMITMENTS

Minimum lease payments paid under operating leases during the year:

	2006	2005
	RMB	*RMB*
Premises	**1,242,352**	1,184,566

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

	2006	2005
	RMB	*RMB*
Within one year	**700,704**	912,349
In the second to fifth year inclusive	**251,398**	131,500
	952,102	1,043,849

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

32. CAPITAL COMMITMENTS

	2006	2005
	RMB	*RMB*
Capital expenditure authorised but not contracted for in respect of development project of additional plant and machinery for the expansion in the production capacity	**19,805,540**	30,120,000
Capital expenditure contracted but not provided for in respect of :		
— purchase of property, plant and equipment	**–**	159,000
— development project of additional plant and machinery for the expansion in the production capacity	**22,854,860**	—

33. CONTINGENT LIABILITIES

As at 31 December 2006, the financial guarantee given to banks in respect of banking facilities utilised by an independent third party amounted to RMB7,000,000 (2005: RMB12,000,000).

34. PLEDGE OF ASSETS

As at 31 December 2006, the Group has pledged its prepaid lease payments of approximately RMB25,010,000 for the banking facilities granted by the bank to the Group.

As at 31 December 2005, the Group had pledged its prepaid lease payments and buildings of approximately RMB11,541,000 for the banking facilities granted by the bank to the Group.

35. RELATED PARTY DISCLOSURES

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

Nature of transactions	*Notes*	**2006** *RMB*	2005 *RMB*
Rental charges and sub-charges payable by the Group	*(i)*	**802,150**	834,236
Consultancy service fee paid by the Group	*(ii)*	**655,000**	655,000

Notes:

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

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

Also, the Group had certain balances with related parties, details of these are set out in notes 21, 22 and 25 to the consolidated financial statements.

In addition, certain bank borrowings of the Group are guaranteed by Mr. Zhuo Ze Fan, a director of the Company and a related party of the Group. Details of these transactions are set out in note 26 to the consolidated financial statements.

(b) Compensation of key management personnel

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

	2006 *RMB*	2005 *RMB*
Short-term benefits	**1,340,000**	2,125,279
Post-employment benefits	**15,635**	22,325
	1,355,635	2,147,604

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2006

36. RETIREMENT BENEFITS SECHEME

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

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

The total cost charged to the consolidated income statement of RMB70,215 (2005: RMB68,019) represents contribution payable to these schemes by the Group in respect of the current accounting year.

As at 31 December 2005 and 2006, the Group had no significant obligation apart form the contribution as stated above.

37. SUBSIDIARIES

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

Name of subsidiary	Place of incorporation/ registration and operation	Issued and fully paid up share capital/ registered capital	Attributable equity interest held by the Company Directly	Indirectly	Principal activities
Best Era Assets Limited	BVI	US$1	—	100%	Investment holding
Sungreen Agro Strategic Holdings Limited	BVI	US$10,000	—	100%	Investment holding
Sungreen Investment Limited	BVI	US$1,000	100%	—	Investment holding
陝西巨川富萬鉀股份有限公司 Junchuan Fuwanjia	The PRC	RMB50,000,000	—	65%	Manufacture and distribution of organic potash fertilizers

None of the subsidiaries had issued any debt securities at the end of the year.

NOTICE IS HEREBY GIVEN THAT the annual general meeting (the "AGM") of the members of Sungreen International Holdings Limited (the "Company") will be held at Meeting Room, Level 2, 23 Tuan Jie Nan Road, Xi 'an High-Tech Development Zone, Xi 'an City, Shananxi Province, The People 's Republic of China on Friday, 27 April 2007, at 3:00 p. m. for the following purposes:

1. As ordinary business, to consider and, if thought fit, pass the following resolutions:

   (A) to receive and adopt the audited financial statements and the reports of the directors and auditors of the Company and its subsidiaries for the year ended 31 December 2006;

   (B) to re-elect Ms. Xie Yi Ping as an executive director;

   (C) to re-elect Mr. Zhao Shou Guo as an independent non-executive director;

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

   (E) to re-appoint auditors for the ensuing year and authorise the board of directors of the Company to fix their remuneration.

2. As special business, to consider and, if thought fit, pass with or without amendments, the following resolutions as ordinary resolutions of the Company:

   (A) "**THAT**

      (a) subject to paragraph (c), the exercise by the board of directors of the Company during the Relevant Period of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options which might require the exercise of such power be and is hereby generally and unconditionally approved;

      (b) the approval in paragraph (a) shall authorise the board of directors of the Company during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such power after the end of the Relevant Period;

NOTICE OF ANNUAL GENERAL MEETING

(c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the board of directors of the Company pursuant to the approval in paragraph (a), otherwise than pursuant to a Rights Issue or the exercise of the subscription rights under the share option scheme of the Company adopted on 16 February 2005, shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of this resolution and the said approval shall be limited accordingly; and

(d) for the purpose of this resolution:

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

(I) the conclusion of the next annual general meeting of the Company;

(II) the expiration of the period within which the next annual general meeting of the Company is required by the bye-laws of the Company or any applicable law to be held; or

(III) the revocation or variation of this resolution by an ordinary resolution of the shareholders of the Company in a general meeting.

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

(B) "**THAT**

(a) the exercise by the board of directors of the Company during the Relevant Period of all powers of the Company to purchase its own shares, subject to and in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, be and is hereby generally and unconditionally approved;

(b) the aggregate nominal amount of shares of the Company to be purchased by the Company pursuant to the approval in paragraph (a) during the Relevant Period shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of this resolution and the authority pursuant to paragraph (a) of this resolution shall be limited accordingly; and

(c) for the purpose of this resolution,

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

(I) the conclusion of the next annual general meeting of the Company;

(II) the expiration of the period within which the next annual general meeting of the Company is required by the bye-laws of the Company or any other applicable law to be held; or

(III) the revocation or variation of this resolution by an ordinary resolution of the Shareholders in a general meeting. "

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

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

Xi' an City, Shaanxi Province, The PRC, 30 March 2007

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

Head office and principal place of business in Hong Kong:
Rooms 2014–15,
20/F, Hutchison House
10 Harcourt Road Central
Hong Kong

NOTICE OF ANNUAL GENERAL MEETING

As at the date of this report, the executive directors of the Company are Mr. Zhuo Ze Fan and Ms. Xie Yi Ping; the non-executive director of the Company is Mr. Wu Jing Jin; the independent non-executive directors of the Company are Mr. Zhao Shou Guo, Mr. Yue Kwai Wa, Ken and Mr. Ng Tang.

Notes:

1. Any member entitled to attend and vote at the AGM is entitled to appoint one or more than one proxy to attend and vote in his stead in accordance with the bye-laws of the Company. A proxy need not be a member of the Company.

2. Where there are joint registered holders of any share, any one of such persons may vote at the meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders shall be present at the meeting personally or by proxy, that one of the holders so present whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof.

3. The form of proxy and the power of attorney or other authority, if any, under which it is signed or a certified copy of such power of attorney or authority must be deposited at the Company 's Hong Kong branch share registrar, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen 's Road East, Wanchai, Hong Kong not less than 48 hours before the time for holding the AGM, and in default the form of proxy shall not be treated as valid. The completion and return of the form of proxy shall not preclude members from attending and voting in person at the AGM (or any adjourned meeting thereof) should they so wish.