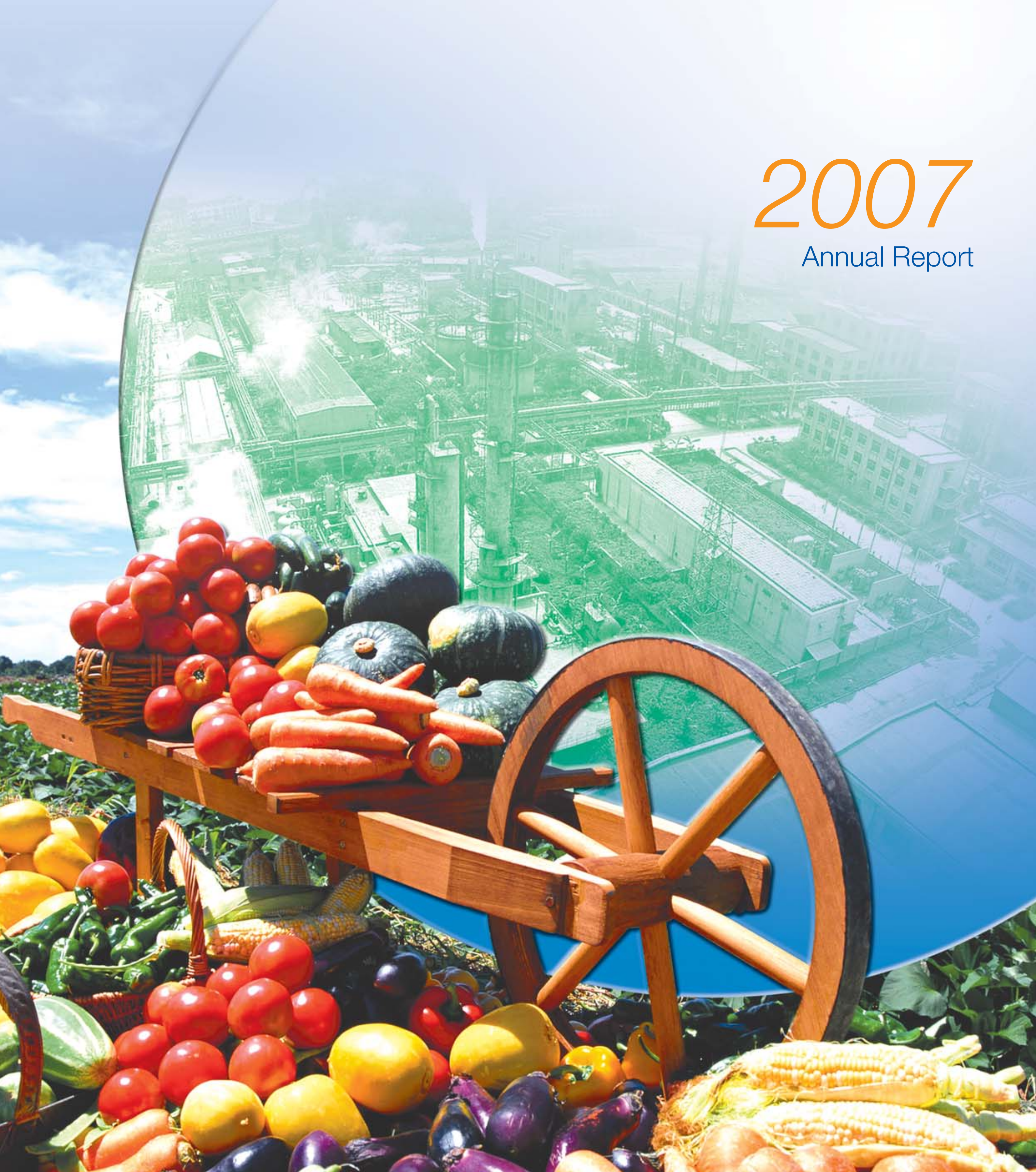
玖源生態農業科技(集團)有限公司

Ko Yo Ecological Agrotech (Group) Limited

(incorporated in the Cayman Islands with limited liability)

(Stock code: 8042)



2007

Annual Report

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This report, for which the Directors of Ko Yo Ecological Agrotech (Group) Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to Ko Yo Ecological Agrotech (Group) Limited. The Directors of Ko Yo Ecological Agrotech (Group) Limited, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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Corporate Information

DIRECTORS

Executive directors

Mr. Li Weiruo
Mr. Yuan Bai
Ms. Chi Chuan
Ms. Man Au Vivian
Mr. Li Shengdi

Independent non-executive directors

Mr. Hu Xiaoping
Mr. Woo Che-wor, Alex
Mr. Qian Laizhong

COMPANY SECRETARY

Mr. Chung Tin Ming, HKICPA, ACCA

QUALIFIED ACCOUNTANT

Mr. Chung Tin Ming, HKICPA, ACCA

AUDIT COMMITTEE

Mr. Hu Xiaoping
Mr. Woo Che-wor, Alex
Mr. Qian Laizhong

AUTHORIZED REPRESENTATIVES

Mr. Li Weiruo
Ms. Man Au Vivian

COMPLIANCE OFFICER

Ms. Chi Chuan

REGISTERED OFFICE

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Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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255-257 Gloucester Road
Causeway Bay
Hong Kong

SHARE REGISTRAR

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Room 1901-02, Fook Lee Commercial Centre, Town Place,
33 Lockhart Road
Wanchai
Hong Kong

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants
22nd Floor
Prince's Building
Central
Hong Kong

PRINCIPAL BANKERS

Industrial and Commercial Bank of China
-Chengdu City Xindu Branch

Agricultural Bank of China
-Chengdu City Wuhou Branch

Shanghai Pudong Development Bank
-Chengdu Branch

The Bank of East Asia, Limited
-Chengdu Branch

Standard Chartered Bank
-Central Branch

Industrial and Commercial Bank of China (Asia)
-Central Branch

GEM STOCK CODE

8042

WEBSITE

www.koyochem.com

Highlights

— For the year ended 31st December 2007, the profit attributable to shareholders increased to approximately RMB41 million, which represents an increase of 45% as compared to year 2006.

— Basic earnings per share was approximately RMB1.6 cents for the year ended 31st December 2007.

— For the year ended 31st December 2007, sale turnover was approximately RMB775 million, which represents an increased of 26.9% as compared to year 2006.

— The sale amount and quantities of BB Fertilizers and compound fertilizers of the Group increased to approximately RMB300 million and 182,173 tonnes respectively, which represents a growth of 20.2% and 16.4% respectively as compared with year 2006.

— The Directors have proposed to pay a final dividend of HKD0.08 cents per share for the year ended 31st December 2007.

Chairman's Statement

TO SHAREHOLDERS

I am pleased to present the annual report of Ko Yo Agrotech (Group) Limited (the "Company") and its subsidiaries (Collectively the "Group") for the year ended 31st December 2007 for shareholders to peruse and review.

BUSINESS REVIEW

During the year under review, the Group was benefited from sustained growth of the economy of the People's Republic of China (the "PRC"), an obvious increase was obtained by the turnover and the profit attributable to shareholders.

The financial results for the year ended 31st December 2007, the turnover of the Group was approximately RMB775,000,000 (2006: RMB611,000,000), which represented an increase of 26.9%. The total sales volume of BB Fertilizer and compound fertilizer of the Group was approximately 182,173 tonnes (2006: 156,571 tonnes), which represented an increase of 16.4%. Audited profit attributable to shareholders of the Company was approximately RMB41 million, representing an increase of 45% compared to that of last year. Basic earnings per share reached approximately RMB1.6 cents.

During the year under review, the Group recorded a sustained increase in turnover and profit throughout the year. It was mainly benefited from the following reasons:

1. Under the influence of the rise in raw material cost and international fertilizer prices, the Group made adjustment to the selling price of the products according to the market trend; the maximum increase rate of selling price reached 18.2%.

2. In order to stem out the deficiencies in the previous two quarters, the Group took proactive action. With help of that, the Group's production facilities were operated in high stability. The sales grew steadily and reached RMB775 million with an increase of 26.9% compared with the same period of last year.

3. The Group made good use of resource, ensured decent supply of coal, electricity and natural gases during the third and the fourth quarters. These efforts provided supportive force to meet the ultimate target of increase in production.

After reviewing the results for the year ended 31st December 2007, the directors of the Company (the "Directors") proposed a final dividend of HKD0.08 cents per share for the year ended 31st December 2007 (2006: HKD0.14 cents after adjustment for the effect of shares subdivision (the "Share Subdivision") of 1 into 5 on 27th December 2007).

PROSPECTS

Industry Review

Demand for Fertilizers Continues to Increase

Demand for fertilizers in the PRC will continue to increase. Followings are the main reasons: 1) the population in the PRC will continue to increase before 2030; 2) the area of cultivated lands is diminishing; 3) the growing speed of the cash crops is relatively faster; 4) since the amount of food stock worldwide falls and the demand for food increases, the international food price and the food price in the PRC was pushed up and the demand for fertilizers enlarges; 5) the price of agricultural products goes up and the PRC government increases the allowance for the peasants, which enable peasants to invest more in fertilizers; 6) due to rise in oil price, the open up of biofuels will further increase the demand for fertilizers.

Stable National Policy Creates Favorable Environment for the Growth of Fertilizer Industry

PRC is a big agricultural country, countryside makes up 70% of the population of the entire nation. This has determined the importance of agriculture to the PRC. The PRC government is devoted to give an impetus to embody the "San Nong" (「三農」) policy concretely in two aspects.

First, Increase the direct comprehensive allowance for the peasants. In 2007, the PRC government further increased the allowance for agricultural production. Direct allowance for food and comprehensive allowance for agricultural industry has reached RMB42.7 billions, represents an increase of 63% compared to that of last year. The national policy proves the strong determination of the PRC government to increase peasants' income and slow down the rising of crop production cost.

Second, national policy continues to support the agriculture related industries (支農行業), such as chemical fertilizer industry where it is the production raw material of agriculture. Facing the pressure of high cost, some favourable national policies will be retained.

Industry policy introduced by the PRC government recently

Since 30 June 2006, for the nation-wide chemical fertilizer industry, the price of electricity usage in chemical fertilizer increased RMB2.5 cents per kilowatt-hour on average. After this adjustment, favourable national electric power policy targeted at chemical fertilizer industry was still adopted in many provinces in 2007. The practice ensured a favourable price for the use of electric power in the industry. In August 2007, "The Policy of Natural Gas Usage" was formulated. 'In particular for the chemical fertilizer projects approved by the Government, the supply of natural gas must remain stable in long term' is clearly stated in the policy. Subsequently, a decree was issued by the National Development and Reform Commission. The decree stated that starting from 10 November, the standard price for manufacturing of natural gas for industrial use (including power generation and transportation) increased RMB0.4 per cubic metre, and the price of chemical fertilizer use natural gas remained unchanged. 24 December 2007, China Customs published the Decree No.74 (year 2007); from 1 January to 31 December 2008, the export duties of certain kinds of chemical fertilizer and raw materials for fertilizer industry were adjusted. December 2007, the National Development and Reform Commission stated that the price system of petroleum and natural gas would be revised in 2008; the price of power and new energy would be taken into consideration when adjusting the new price of petroleum. During a relevant meeting, an officer from the National Development and Reform Commission stated that national policy would stabilize the price of agricultural-economic products like chemical fertilizer and continue to provide chemical fertilizer use electric power, water and transportation fee at a favourable price. The increase in production cost of agriculture-economic products resulted from increased price of oil products, natural gas and power would be compensated through increasing the comprehensive direct compensation for agricultural-economic products.

According to the above mentioned decrees issued by the government, favourable national policy for the industry has been modified. Similar to the recently issued Chinese Chemical Fertilizer Export Duties Decree 2008, these measures provide a way to protect the resources of the industry and speeding up the integration of the industry; such measures would contribute to rapid development of the promotion of the industry.

With the encouragement and support from the above mentioned favourable national policy, the Directors believe that the steady growth of agricultural economy, food production and peasants' income would help stabilizing the demand for chemical fertilizer.

Objectives and Strategies

Strengthen Administration and Strive Hard to Lower Cost and Expenses through Increasing Overall Efficiency

In the coming year, the Group will further strengthen its administration and management standard, technology and product invention, in order to maintain its high efficiency in production facilities. Therefore, these can fulfil the objective of lowering costs and expenses and increasing overall efficiency.

Do the utmost to carry out Dazhou New Urea Plant Project in order to enhance competitiveness

The rising cost of raw material and resource shortage would be the two most concerned problems of chemical fertilizers industry. Some small and medium enterprises with low profit-earning power can possibly be eliminated from the market. The trend of integration of chemical fertilizer industry has become more obvious. During the current integration of chemical fertilizer industry, the factor of resource shall have a leading effect. In the coming few years, resources oriented vertical integration shall be more important.

In accordance with the trend in industry integration and to enhance the Group's position and strength in the fertilizer and chemical industry, the board of Directors brought up the plan to take advantage of the rich natural gas resources in Sichuan in 2006. The Group initiated a project with annual productivity of ammonia compound and urea of approximately 400,000 tonnes and 450,000 tonnes in the Natural Gas Energy Industrial Area of Dazhou city, Sichuan. The project located near in the largest natural gasfield, Puguang Gasfield, in China for the time being. The cumulative proved reserves of the natural gasfield reaches 251 billion cubic metres; technically accessible proved reserves of the natural gasfield reaches 188 billion cubic metres. The Group's large scale chemical engineering project can be secured by sufficient natural resources, with natural gas as the important raw material for production of nitrogen fertilizers and with the open up and use of the new gas fields in Puguang.

Currently, the Group is carrying out the Dazhou New Urea Plant Project at full speed. The project went into full operation, and the progress was as achieved as scheduled. At the time being, the underground pipe network is already built. The first batch, the second batch and the third batch of dismantling equipments were delivered to the project sites in January, February and March 2008 respectively. It is estimated that the maintenance and installation work of dismantling equipments shall be carried out in April 2008. Meanwhile, the project has been listed in the focused construction projects of the Sichuan province's "eleventh five-year plan" and the focused construction projects of Sichuan province in 2007, and has achieved the affirmation of the Development and Reform Committee of Sichuan and China Petrochemical Corporation on natural gas supply of 450 million cubic metres per year. As the project processes rich natural gas and electricity supply, resources and power needed for production facilities shall be soundly secured.

The Board expects there shall be sustained growth in turnover and profit of the Group in the future after the project goes into operation. After the new plant with annual capacity of 400,000 tonnes of ammonia and 450,000 tonnes of urea go into operation, the Group plans to expand the annual production capacity of urea to 800,000 tonnes, matching to the production volume of ammonia. Therefore, to enhance the competitiveness and profit, the Group shall work to its best ability and speed up the construction progress of the project and put it into production as soon as possible.

APPRECIATION

Last year was a year full of opportunities and challenges. The dramatic change in macroeconomic in the PRC, appreciation of RMB, rise of interest rate, increase of Consumer Price Index, continuous rise in crude oil spot price and other factors affected the chemical fertilizer industry and markets. With the efforts of all staff, we overcome the difficulties and achieved the annual sales target.

We hope to retain support from our shareholders, and dedicate our utmost to reach a brand new milestone for the Group in the coming new year. The board of Directors (the "Board"), the management and all staff will continue to work diligently to achieve greater success for the Group and to provide shareholders with returns.

I wish to express my appreciation to all shareholders for their trust and continuous support for the Group, and my sincere thanks to all staff for their dedication and efforts throughout the year and valuable contribution to the Group's operating results for the year.

Li Weiruo
Chairman

Hong Kong, 28th March 2008

FINANCIAL PERFORMANCE

Results

For the year ended 31st December 2007, the Group remained focused on manufacture and distribution of chemical fertilizers and chemical products, including BB Fertilizers and complex fertilizers, sodium carbonate, urea, ammonium chloride, ammonium bicarbonate and ammonia.

During the year under review, the Group recorded turnover of approximately RMB775 million, an increase of 26.9% over the previous year. During the year under review, the Group recorded a sustained increase in turnover and profit throughout the year. The Group was mainly benefited from the following reasons:

1. Under the influence of the rise in raw material cost and international fertilizers price, the Group made adjustment to the selling price of the products according to the market trend; the maximum increase rate of selling price reached 18.2%.

2. The proactive adjustment and remedial policies carried out by the Group's management to stem out the deficiencies in the previous two quarters. With help of that, the Group's production facilities were operated in high stability. The sales of the Group were growing steadily as well with 26.9% increase compared with the same period of last year.

3. The company coordinated the supply of raw materials, ensured decent supply of coal, electricity and natural gases during the third and the fourth quarters. These efforts provided supportive force to meet the final target of increase in production.

The profit attributable to shareholders of the Company amounted to approximately RMB41 million, representing a growth of approximately 45% as compared to last year. Basic earnings per share amounted to approximately RMB1.6 cents.

Dividends

The Directors proposed a final dividend of HKD0.08 cents per share for the year ended 31st December 2007 (2006: HKD0.7 cents and HKD0.14 cents per share before and after adjustment for the effect of Share Subdivision respectively). A total of HKD0.14 cents per share were declared for the year ended 31st December 2007 after adjustment for the effect of Share Subdivision (2006: HKD0.24 cents per share after adjustment for the effect of Share Subdivision).

Cost and Profit Margin

Cost of sales of the Group amounted to approximately RMB652 million, representing an increase of 27.1% as compared to the figure in 2006. The reasons of increase in cost of sale were increase in sales quantities.

Gross profit margin of the Group decreased approximately from 15.9% in 2006 to 15.8% in 2007. The slightly decrease in the gross profit margin was due to the increase of trading portion in the sales mix.

During the year under review, distribution costs increased approximately by 26.9% as compared with last year and such increase was due to the increase in sales. The ratio of the distribution costs over sales was 0.036 in 2007 which was at the same level as in 2006.

FINANCIAL PERFORMANCE *(Continued)*

Cost and Profit Margin *(Continued)*

In comparison with last year, there was an increase in administrative expenses of the Group by approximately 1.19% from RMB41.3 million in 2006 to RMB41.8 million in 2007.

Starting from the year under review, the Group accrued provision of Enterprise Income Tax amounting to approximately RMB5.2 million. Details of tax schemes are set out in Note 28 to consolidated financial statements.

PRODUCTS

BB Fertilizers and Compound Fertilizers

Net sales of BB Fertilizers and compound fertilizers of the Group amounted to approximately RMB300 million, representing a growth of approximately 20.2% as compared to last year, and accounted for approximately 38.8% of the Group's aggregate net sales.

Sodium Carbonate and Ammonium Chloride

The net sales of sodium carbonate and ammonium chloride amounted to approximately RMB113 million and RMB46 million, which increase approximately by 14.9% and 10.8% respectively as compared to previous year, which accounted for approximately 14.5% and 6.0% of the Group's aggregate net sales respectively.

Urea

The net sales of urea increased by 5.2% to RMB213 million in 2007 as compared to last year, which accounted for approximately 27.5% of the Group's aggregate net sales.

Ammonia and Ammonium Bicarbonate

The net sales of ammonia increased approximately by 15.8% to RMB12 million in 2007 as compared to last year, which accounted for 1.5% of the Group's aggregate net sales. The net sales of ammonium bicarbonate increased by 29.0% to RMB3.9 million of sales as compared to last year, which accounted for approximately 0.5% of the Group's aggregate net sales.

Others

The net sales of other products including foliar fertilizer, highly water soluble fertilizer, trading of ammonium sulfate, ammonium di-hydrogen phosphate, mono-ammonium phosphate and urea was approximately RMB87million, which accounted for approximately 11.2% of the Group's aggregate net sales.

PRODUCTS *(Continued)*

Enhance Productivity

During the year under review, the Group did the best in saving energy, boosting production capacity, and increasing turnover and profit. The Group invested in projects of technical enhancement, equipment renovation and maintenance with internal resources. The main projects carried out included:

The Group completed the project of cyclic catalytic regenerative reforming (CCR) and the operation of the technical enhancement commenced on 15th February 2007. The project was operated in Xindu District, Sichuan Province in China. Currently, the manufacturing facilities are operated in high stability and with remarkable energy efficiency. The stable performance of the facilities contributed to the outstanding business achievement of the Group and a promising guarantee for the increment in production for the coming year.

The experimental operation in the compound fertilizer manufacturing facilities in Qingdao has commenced. This will meet the demand for fertilizers in Shandong province and the northern market effectively , and the Group's strategies shall be more reasonable.

The Dazhou New Urea Plant Project in Dazhou, Sichuan went into full operation. The production progress achieved as scheduled. The first batch, the second batch, and the third batch of dismantling equipments were delivered to project sites in January, February, and March 2008 respectively. It is estimated the maintenance and installation work of the dismantling equipment shall be carried out in April. Meanwhile, the project has been included in the focused construction projects of the Sichuan province's, and has achieved the affirmation of the Development and Reform Committee of Sichuan and China Petrochemical Corporation on natural gas supply of 450 million cubic metres per year. As the project possesses rich natural gasfield and electricity supply, resources and power needed for production facilities shall be soundly secured. With the advantage of low production cost, the production of the project shall certainly increase the profit of the Group.

Research and Development

In the aspect of technology and product research and development, the Group is allied with Chinese Academy of Science in Sichuan and Chinese Academy of Science in Shangdong; the Group shall put the effort of the specialized fertilizers for cash crops such as rapes, peanuts, garlic and onions which are cultivated in Sichuan Province and Shandong Province, the PRC. The Group will continue the effort on the research of new BB fertilizer formula, show release fertilizer and controlled release fertilizer and undergo the preliminary research of producing compound fertilizer by extruding-prilling method.

Awards & Recognitions

During the period under review, Chengdu Ko Yo Compound Fertilisers Co., Limited, the subsidiary of the Group, was accredited the award of "Asia 10 Most Innovative Brand Award" (「亞洲十大最具創新品牌獎」) by "Asia Brand Ceremony Organizing Committee" (「亞洲品牌盛典組委會」) in September 2007. Mr Li Weiruo, Chairman of the Group was also accredited as "Asia 10 Brand Innovative Personality Award" (「亞洲品牌十大創新人物獎」).

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31st December 2007, the Group had net current liabilities of approximately RMB44,542,000. Current assets as at 31st December 2007 comprised cash and bank deposits of approximately RMB19,201,000, pledged bank deposits of approximately RMB46,215,000, inventories of approximately RMB64,130,000, trade receivables of approximately RMB7,915,000 and prepayments and other current assets of approximately RMB58,959,000. Current liabilities as at 31st December 2007 comprised short-term bank loans of approximately RMB159,500,000, trade and notes payables of approximately RMB31,603,000, deposits from customers of approximately RMB27,430,000 and accrued charges and other payables of approximately 22,429,000. Details of the Group's adoption of going concern basis in preparing the consolidated financial statements is set out in Note 2.1 to the consolidated financial statements.

CAPITAL COMMITMENTS

As at 31st December 2007, the Group had outstanding capital commitments of approximately RMB259,396,000. Details of the Group's capital commitments are set out in Note 33 to the consolidated financial statements.

FINANCIAL RESOURCES

As at 31st December 2007, the Group had cash and bank deposits of approximately RMB19,201,000 and pledged bank deposits of approximately RMB46,215,000. The Company intends to finance the Group's future operations, capital expenditure and other capital requirements with the existing bank balances and the capital market.

As at 31st December 2007, the total bank loans and notes payable balances of the Group amounted to RMB284,198,000.

GEARING RATIO

The Group's gearing ratios were approximately 76% and 79% as at 31st December 2007 and 31st December 2006 respectively. The gearing ratios were calculated based on total liabilities over total equity as at the respective balance sheet dates. Details of the Group's gearing ratio is set out in Note 3.2 to the consolidated financial statements.

CONTINGENT LIABILITIES

The Group had no significant contingent liabilities as at 31st December 2007.

MATERIAL ACQUISITION/DISPOSAL

Other than the acquisition of 100% equity interest in Hong Kong Cuyo Investment Limited, which is principally engaged in exploration and evaluation of a phosphate mine located in Sichuan, PRC as per announcement dated 21st September 2007 and as disclosed in Note 34 to the consolidated financial statements, there was no other material acquisition in the year 2007 which would have been required to be disclosed under the Rules Governing the Listing of Securities on Growth Enterprise Market of the Stock Exchange ("GEM Listing Rules").

SEGMENTAL INFORMATION

The Group activities are primarily conducted in the PRC. The Group's turnover and profit are generated from manufacturing and sale of chemical products and chemical fertilisers, no segment information is therefore present in the consolidated financial statements. In the year under review the total sales of export was approximately RMB159,083,000, which represents 20.5% of the total sales. The sales of export comprised of sales of complex fertilizers (66.6%) and trading of phosphate fertilizers (33.4%).

DETAILS OF FUTURE PLANS FOR MATERIAL INVESTMENT OR CAPITAL ASSETS

Other than the investment of new urea plant with an annual capacity of 400,000 tonnes of ammonia in and 450,000 tonnes of urea as per announcement dated 5th October 2006, the Directors do not have any future plans for material investment or capital assets.

EXPOSURE ON EXCHANGE RATE FLUCTUATION

Details of the Group's foreign currency exchange risk are set out in Note 3.1 to the consolidated financial statements.

CHARGES ON THE GROUP'S ASSETS

As at 31st December 2007, certain land use rights and buildings with a total net book value of approximately RMB60,502,000 (2006: RMB83,390,000), plant and machinery with a total net book value of approximately RMB29,930,000 (2006: RMB24,296,000) and bank deposits approximately RMB46,215,000 (2006: RMB20,801,000) were pledged as collateral for the Group's bank loans and notes payable.

DIVIDEND

The Directors recommend the payment of a final dividend of HKD0.08 cents per share to the shareholders whose names appear on the register of members of the Company as at the close of business on 25th April 2008. The dividend will be payable on 24th May 2008. The register of members of the Company will be closed from 22nd April 2008 to 25th April 2008, both days inclusive, during which period no share transfer shall be effected. In order to qualify for the final dividend, all instruments of transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar, Union Registrars Limited, Room 1901-02, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong for registration by no later than 4:00 p.m. on 21st April 2008.

NUMBER OF EMPLOYEES

As at 31st December 2007, the Group had 1,796 (2006: 1,822) employees, comprising 6 (2006: 6) in management, 97 (2006: 168) in finance and administration, 1,594 (2006: 1,555) in production, 93 (2006: 87) in sales and marketing and 6 (2006: 6) in research and development. 1,790 (2006: 1,816) of these employees were located in the PRC and 6 (2006: 6) were located in Hong Kong.

Pension schemes of the Group are set out in Note 2.19 to consolidated financial statements.

EXECUTIVE DIRECTORS

Mr. Li Weiruo, aged 54, is the Chairman of the Board and the founder of the Group. He graduated from Sichuan Institute of Finance and Economics with a certificate in economics in 1985. Mr. Li has over 20 years' experience in corporate management in the PRC. He was awarded a certificate for "Chief Economists of Large-to-Medium Sized Enterprises in the PRC" after completing "The Study Course for Chief Economists of Large-to-Medium Sized Enterprises" commissioned by the State Economics Commission at the Southwest University of Finance and Economics in 1986. He is one of the authors of "Modern Corporate Management" which was published by the Sichuan Education Publisher. Mr. Li was the former Vice-director of China Nonferrous Metal Corporation in Chengdu. Mr. Li moved to Hong Kong in 1994 and became a permanent resident of Hong Kong in 2001. He was appointed as an invited member of the Chinese People's Political Consultative Conference of Sichuan Province in 2003. Mr. Li is responsible for the overall management, strategic planning and business development of the Group.

Mr. Yuan Bai, aged 49, is the Chief Executive Officer of the Group. Mr. Yuan is responsible for the cost management and general operations and research and development of the Group. Mr. Yuan graduated from Northeast Institute of Technology with a bachelor degree in engineering in 1982 and obtained a certificate as Senior Engineer in 1992. Mr. Yuan studied economy management in Qinghua University from September 1995 to March 1996. Prior to joining the Group in August 1999, Mr. Yuan was the Deputy General Manager of Chongqing Sanjiu Industrial Co., Ltd., which focused on the manufacture and trading of non-ferrous metal. Mr. Yuan was elected as a people's delegate of the first session of the People's Congress of Chongqing in 1997.

Ms. Chi Chuan, aged 52, is the Compliance Officer of the Group. She graduated from Sichuan Normal College with a bachelor degree in science in 1982. Ms. Chi has over 10 years' experience in finance and accounting. Prior to joining the Group in July 1999, Ms. Chi was the finance manager of Leshan Economic and Trade General Company, a trading company in the PRC. Ms. Chi is primarily responsible for the financial management and general operations of the Group since she joined the Group in July 1999.

Ms. Man Au Vivian, aged 44, is responsible for business development and investment activities of the Group. Ms. Man graduated from the University of International Business and Economics with a bachelor degree in economics in 1986. Ms. Man has over 15 years' experience in international trade. She formerly worked for China National Light Industrial Products Import and Export Corporation of MOFTEC. She joined the Group in January 1997.

Mr. Li Shengdi, aged 55, is a director of Chengdu Ko Yo Chemical and Chengdu Ko Yo Compound respectively. He graduated from Chinese Communist Party School with a degree majoring economics and was entitled as an economist. Prior to joining the Group, he was the deputy manager of China Nonferrous Huludao Zinc Corporation, from 1983 to 1993, general manager of Hainan Hui Yuantang Medicine Co., Ltd. from 1996 to 1999 and general manager of Shanghai Haos Water Rectified Co., Ltd., a Sino-US joint venture from 2000 to 2002. Mr. Li joined the Group in October 2002 and was appointed as a Director of the Company on 29th April 2004. He is currently responsible for the administration and production operations of the Group.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Hu Xiaoping, aged 57, is an independent non-executive director. He obtained a bachelor degree in Economics from Sichuan Institute of Finance and Economics in 1982 and a master degree in Economics from Southwest University of Finance and Economics in 1987. Mr. Hu is currently the head of the Economics Research Centre of the Southwest University of Finance and Economics. Mr. Hu has been involved in various research projects at both the provincial and state level and has published numerous articles in financial and economics publications in the PRC. He was appointed as an independent non-executive director in June 2003.

Mr. Woo Che-wor, Alex, aged 55, is an independent non-executive director. Mr. Woo has been the Chairman and Chief Executive Director of STI Certified Products Inc., a private company in California, U.S.A. since February 1988. From January 1976 to December 1988, Mr. Woo was the corporate treasurer of Fairchild Semiconductor Corporation, a multi-national semiconductor company with its headquarters in California, U.S.A.. Mr. Woo is qualified as Certified Management Accountant from Chartered Institute of Management Accountants of England and obtained an M.B.A. from San Jose State University of the U.S.A. in 1987. He was appointed as an independent non-executive director in June 2003.

Mr. Qian Laizhong, aged 65, is an independent non-executive director. Mr. Qian graduated from Sichuan Fine Arts Institute in 1968. Over the past 20 years, Mr. Qian actively participated in cultural and economical researches and publishes in Sichuan province, the PRC. Currently, Mr. Qian is a member of Sichuan Provincial Committee of Chinese Peoples Political Consultative Conference. He was appointed as an independent non-executive director on 16th August 2004.

SENIOR MANAGEMENT

Mr. Zhu Changhou, aged 69, is chief engineer of the Group. He obtained a certificate of chemistry in Luzhou Chemical College and has over 18 years' experience in developing and analyzing chemical products. Mr. Zhu is also a director of Sichuan Chemical Association and the PRC Chemical Association. Prior to joining the Group, Mr. Zhu was the deputy chief engineer of Luzhou Natural Gas Chemical Corporation, which focused on the manufacture of chemical products. Mr. Zhu is primarily responsible for Chengdu Ko Yo Chemical's production and product research and development. He joined the Group in 1999.

Mr. Mai Zixun, aged 60, is the general manager of Chengdu Ko Yo Compound. He graduated from Sichuan Broadcasting and Television University. Mr. Mai was formerly the General Manager of Zhuhai Gree Magneto-Electronic Co., Ltd., which focused on the manufacture of electronics products. He joined the Group in June 2001 and is responsible for the sales and marketing activities of Chengdu Ko Yo Compound.

Mr Jiao Kang Di, aged 56, the vice president of the Group and responsible person of the new urea plant in Dazhou city. Mr. Jiao is responsible for managing and coordinating the Group's large-scale chemical engineering projects. He graduated from Sichuan University of Science and Engineering (四川輕化工學院) in 1980, and further studied Economics at Sichuan Professional College of Finance & Economics (四川財經學院) in 1983. Mr. Jiao was given the name "Excellent Entrepreneur" (優秀企業家) by the People's Government of Zigong City (自貢市人民政府); he became a Senior Engineer in 1993; he was given the name "Labour Model" (勞動模範) by the Human Resources Department of the National Light Industry Department (國家輕工部人事部). Mr. Jiao joined the Koyo Group in 2005, before joining the Group, he was the Chief Executive Officer of Zigong Tongming Lighting Appliances Company Limited (自貢通明照具有限公司), and has outstanding ability in cost control and corporate management experiences.

Mr. Chung Tin Ming, aged 37, is the company secretary and qualified accountant of the Group and is responsible for financial management of the Group. He graduated from Chinese University of Hong Kong with a bachelor degree in science and City University of Hong Kong with a master degree in financial engineering. He is an associate member of each of the Hong Kong Institute of Certified Public Accountants and Association of Chartered Certified Accountants. Prior to joining the Group in January 2006, he was a director of Keen Ocean Industrial Limited in Hong Kong.

Report of the Directors

The Directors have the pleasure of presenting their report together with the audited financial statements of the Company and its subsidiaries for the year ended 31st December 2007.

GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 11th February 2002 as an exempted company with limited liability under the Companies Law Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

The Group reorganized its structure on 10th June 2003 in preparation for the listing of the Company's shares on Growth Enterprise Market ("GEM") of the Stock Exchange of Hong Kong. The Company became the holding company of the companies now comprising the Group. Details of the reorganization are set out in the prospectus of the Company dated 30th June 2003. The shares of the Company were listed on GEM of the Stock Exchange on 10th July 2003.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Its subsidiaries are principally engaged in the research and development, manufacture, marketing and distribution of chemical products, chemical fertilizers and BB Fertilizers.

RESULTS AND APPROPRIATIONS

Details of the Group's profits for the year ended 31st December 2007 are set out in the consolidated income statement.

The Directors recommend the payment of a final dividend of HKD0.08 cents per share, totalling approximately RMB3,922,000 for the year ended 31st December 2007 (2006: RMB3,541,000).

SHARE CAPITAL

Details of movements in share capital of the Company are set out in Note 14 to the consolidated financial statements.

RESERVES

Movements in the reserves of the Group and of the Company during the year are set out in Note 15 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31st December 2007 amounted to approximately RMB335,093,000 (2006: RMB114,975,000).

RIGHTS OF DIRECTORS AND EMPLOYEES TO ACQUIRE SHARES OR DEBENTURES

On 10th June 2003, the Company adopted a share option scheme and amended at an extraordinary general meeting on 28th July 2004 (the "Share Option Scheme"). A summary of the principle terms and conditions of the Share Option Scheme is set out under the section headed "Share Option Scheme" in Appendix IV of the prospectus of the Company dated 30th June 2003. The amendments of the Share Option Scheme are explained in the announcement and circular of the Company dated 12th July 2004.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association and there is no restriction against such rights under the Company Law (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out in page 94.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in fixed assets of the Group during the year are set out in Note 6 to the consolidated financial statements.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The Directors who held office during the year ended 31st December 2007 and up to the date of this report are:

Executive directors

Mr. Li Weiruo
Mr. Yuan Bai
Ms. Chi Chuan
Ms. Man Au Vivian
Mr. Li Shengdi

Independent non-executive directors

Mr. Hu Xiaoping
Mr. Woo Che-wor, Alex
Mr. Qian Laizhong

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS *(Continued)*

In accordance with Article 87 of the articles of association of the Company, at each annual general meeting, one-third of directors for the time being shall retire from office by rotation and, will be eligible for re-election. Chairman of the Board will not be subject to retirement by rotation. As Mr. Yuan Bai and Mr. Li Shengdi have been longest in office, Mr. Yuan Bai and Mr. Li Shengdi will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

Each of the executive directors has entered into a service contract with the Company for initial fixed term of three years, and will continue thereafter for successive terms of one year until terminated by not less than three months' notice in writing served by either party on the other. Each of the executive directors is entitled to a basic salary and director's fee subject to an annual review by the Board. In addition, the executive directors are also entitled to a discretionary bonus, which may not exceed 3% of the audited consolidated net profit of the Group attributable to shareholders in respect of that financial year of the Company. The percentage rate of discretionary bonus is subject to annual review by the Board.

The independent non-executive directors of the Company are appointed with specific terms inside the letter of appointment for initial fixed terms of two years.

None of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the company which is not determinable within one year without payment of compensation, other than statutory compensation.

SHARE OPTIONS

Share options are granted to directors, employees and consultants of the Company or its subsidiaries under the Share Option Scheme approved by written resolutions of shareholders of the Company on 10th June 2003 and amended at an extraordinary general meeting on 28th July 2004. The purpose of the Share Option Scheme is to recognize the contribution of employees and consultants to the Company and its subsidiaries, and to provide a performance related incentive to them. Currently under the Share Option Scheme the maximum number of shares which may fall to be issued pursuant to the exercise of all the share options granted and to be granted is 210,000,000 shares after the adjustment for the effect of Share Subdivision, representing 10% of the total number of issued shares upon listing on 10th July 2003. Unless approved by shareholders, the total number of shares issued and which may fall to be issued upon the exercise of the options granted to each participant may not exceed 21,000,000 after the adjustment for the effect of Share Subdivision, such options being exercisable for 10 years from the date of grant of such option. Participants are required to pay an option price of HKD10 for each acceptance of option offer. The subscription price shall be at least the highest of (i) the closing price of a share on the option offer date, (ii) the average closing price of a share for the five business days immediately preceding the option offer date and (iii) the nominal value of a share. The Share Option Scheme will remain valid for a period of ten years commencing from 10th June 2003.

SHARE OPTIONS *(Continued)*

Under the Share Option Scheme and after adjustment for the effect of Share Subdivision, no share options were exercised or cancelled, 30,000,000 share options were granted and 4,000,000 share options were lapsed during the year ended 31st December 2007. The details of option outstanding and movements are disclosed in the following table:

	Number of options							Number of options		
	Held at 1 January 2007	Grant during period	Exercised during period	Cancelled during period	Held at 31 Dec 2007	Grant date	Exercise price (HK$)	Exercisable from grant date until 22 September 2013	Exercisable from grant date until 10 April 2016	Exercisable from grant date until 9 September 2017
Directors										
Li Weiruo	2,100,000	—	—	—	2,100,000	16 May 2006	0.150	—	2,100,000	
Yuen Bai	2,000,000	—	—	—	2,000,000	16 May 2006	0.150	—	2,000,000	
Chi Chuan	21,000,000	—	—	—	21,000,000	23 September 2003	0.124	21,000,000	—	
Man Au Vivian	19,000,000	—	—	—	19,000,000	23 September 2003	0.124	19,000,000	—	
Li Shengdi	21,000,000	—	—	—	21,000,000	23 September 2003	0.124	21,000,000	—	
Hu Xiaoping	2,000,000	—	—	—	2,000,000	23 September 2003	0.124	2,000,000	—	
Woo Che-wor Alex	2,000,000	—	—	—	2,000,000	23 September 2003	0.124	2,000,000	—	
Qian Laizhong	2,100,000	—	—	—	2,100,000	16 May 2006	0.150		2,100,000	
Employees	57,000,000	—	—	—	57,000,000	23 September 2003	0.124	57,000,000		
	52,500,000	—	—	4,000,000	48,500,000	11 April 2006	0.150		48,500,000	
	—	30,000,000	—	—	30,000,000	10 September 2007	0.116			30,000,000
Total	180,700,000	30,000,000	—	4,000,000	206,700,000			122,000,000	54,700,000	30,000,000

The weighted average fair value of 30,000,000 option, granted during the year determined using the Black-Scholes valuation was approximately RMB0.044 per option and the total fair value of those options was RMB1,322,000, which was recognised as administrative expenses and a corresponding increase in reserve. The parameters input into the model were the share prices at the grant date, the volatility of the share price return, expected life of options, expected dividend paid out rate and annual risk-free interest rate. The fair values calculated are inherently subjective and uncertain due to the assumptions made and the limitations of the model used. The value of an option varies with different variables of certain subjective assumptions. Any change in variables so adopted may materially affect the estimation of the fair value of an option.

DIRECTORS' INTERESTS IN SHARES

As at 31st December 2007, the interests and short positions of the Directors and chief executives in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) to be recorded in the register required to be kept under section 352 of the SFO; or (c) to be notified to the Company and the Stock Exchange pursuant to the minimum standards of dealings by directors referred to in Rule 5.46 of the GEM Listing Rules were as follows:

(i) Long positions in the shares and the underlying shares of the Company

Directors	Personal long position in shares (beneficial owner)	Personal long position in share options (beneficial owner)	Aggregate long position in shares and underlying shares	Total interests in the issued share capital
Li Weiruo	2,924,440,000	2,100,000	2,926,540,000	59.79%
Yuan Bai	366,464,000	2,000,000	368,464,000	7.53%
Chi Chuan	62,640,000	21,000,000	83,640,000	1.71%
Man Au Vivian	31,320,000	19,000,000	50,320,000	1.03%
Li Shengdi	—	21,000,000	21,000,000	0.43%
Hu Xiaoping	—	2,000,000	2,000,000	0.04%
Woo Che-wor, Alex	—	2,000,000	2,000,000	0.04%
Qian Laizhong	—	2,100,000	2,100,000	0.04%

(ii) Interests in shares of an associated corporation of the Company

Name of Director	Name of company	Number of non-voting deferred shares	Capacity	Type of interest	Approximate interests in holding
Li Weiruo	Ko Yo Hong Kong	2,100,000	Beneficial Owner	Personal	70%
Yuan Bai	Ko Yo Hong Kong	420,000	Beneficial Owner	Personal	14%
Chi Chuan	Ko Yo Hong Kong	120,000	Beneficial Owner	Personal	4%
Man Au Vivian	Ko Yo Hong Kong	60,000	Beneficial Owner	Personal	2%

Note: a wholly-owned subsidiary of the Company

DIRECTORS' INTERESTS IN SHARES *(Continued)*

(iii) Short positions in the shares of an associated corporation of the Company

Name of Director	Name of company	Number of non-voting deferred shares	Capacity	Type of interest	Approximate interests in holding of such class
Li Weiruo	Ko Yo Hong Kong	2,100,000	Beneficial Owner	Personal	70%
Yuan Bai	Ko Yo Hong Kong	420,000	Beneficial Owner	Personal	14%
Chi Chuan	Ko Yo Hong Kong	120,000	Beneficial Owner	Personal	4%
Man Au Vivian	Ko Yo Hong Kong	60,000	Beneficial Owner	Personal	2%

SUBSTANTIAL SHAREHOLDERS

As at 31st December 2007, there was no substantial shareholder (not being a director or a chief executive of the Company) who had any interests or short positions in the shares or underlying shares of the Company which are required to be notified to the Company and the Stock Exchange under Divisions 2 and 3 of Part XV of the SFO and recorded in the register required to be kept under section 336 of the SFO, and who were directly or indirectly deemed to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company.

INTEREST OF OTHER PERSONS IN THE COMPANY

(i) Long positions in the shares of the Company

As at 31st December 2007, so far as is known to any Director or chief executive of the Company, no person had an interest or short positions in the shares or underlying shares of the Company which are required to be notified to the Company and the Stock Exchange under Divisions 2 and 3 of Part XV of the SFO and recorded in the register required to be kept under section 336 of the SFO, and who were directly or indirectly deemed to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company.

INTEREST OF OTHER PERSONS IN THE COMPANY *(Continued)*

(ii) Long position in the underlying shares of the Company

No long positions of other persons in the underlying shares of equity derivatives of the Company were recorded in the register

(iii) Interests in shares of an associated corporation of the Company

Name	Name of company	Number and description of shares	Capacity	Type of interest	Approximate percentage of holding
Tang Shiguo *(Note)*	Ko Yo Hong Kong	300,000 non-voting deferred shares	Beneficial owner	Personal	10

Note: Mr. Tang Shiguo ceased to be a director of the Company with effect from 29th April 2004.

(iv) Short positions in the shares of an associated corporation of the Company

Name	Capacity	Name of company	Number and description of shares
Tang Shiguo	Beneficial owner	Ko Yo Hong Kong	300,000 non-voting deferred shares

SUFFICIENCY OF PUBLIC FLOAT

Based on the public information available to and within the knowledge of the Directors, it is confirmed that there is sufficient public float of more than 25% of the Company's issued shares at 27th March 2008.

DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the Directors or the management shareholders of the Company and their respective associates (as defined under the GEM Listing Rules) had any interest in a business which competes or may compete, directly or indirectly with the business of the Company during the year under review.

DIRECTORS' INTERESTS IN CONTRACTS

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

MANAGEMENT CONTRACTS

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

AUDIT COMMITTEE

The Company established an audit committee on 10th June 2003 with written terms of reference pursuant to the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Company and provide advice and comments to the Directors. The audit committee has three members comprising the three independent non-executive directors, namely, Mr. Hu Xiaoping, Mr. Woo Che-wor, Alex and Mr. Qian Laizhong.

The audit committee has reviewed with management the accounting principles and practices adopted by the Company and the Group and discussed internal controls and financial reporting matters including a review of the audited financial statements of the Company and the Group for the year ended 31st December 2007.

PURCHASE, SALE OR REDEMPTION OF SHARES

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

SHARE PLACING

On 18th February 2008, 500,000,000 existing ordinary shares of HKD0.02 each in the share capital of the Company (the "Shares") were placed at HKD0.145 per share (the "Placing Price") through the share placement (the "Share Placement") and on 29th February 2008, the Company issued 500,000,000 new Shares with the aggregate nominal value of HKD10,000,000 (the "New Shares"). The placees were professional, institutional and private investors who were independent of and not connected with the directors, chief executive, management shareholders or substantial shareholders of the Company or any of its subsidiaries. The Placing Price represented a discount of approximately 8.81% to the closing price of HKD0.159 per Share as quoted on the Stock Exchange on 18th February 2008. The New Shares represented approximately 10.2% of the issued Shares prior to the Share Placement. A net proceed of approximately HKD69 million in aggregate after expenses and commissions was received and the net price for New Shares was approximately HKD0.138. Such proceeds was applied to the new urea plant with an annual production capacity of 400,000 tonnes of ammonia and 450,000 tonnes of urea in Dazhou, Sichuan Province, the PRC as per announcement dated 19th February 2008.

CUSTOMERS AND SUPPLIERS

For the year ended 31st December 2007, the five largest customers accounted for approximately 27.3% of the Group's total turnover and the five largest suppliers of the Group accounted for approximately 46.2% of the Group's total purchases. The largest customer of the Group accounted for approximately 6.9% of the Group's total turnover and the largest supplier accounted for approximately 13.7% of the Group's total purchases.

None of the Directors, their associates, or any shareholders (which, to the knowledge of the Directors, owned more than 5% of the Company's share capital) had a beneficial interest in the Group's five largest customers and suppliers.

SUBSEQUENT EVENTS

Details of subsequent events of the Company are set out in Note 36 to the consolidated financial statement.

CORPORATE GOVERNANCE

A report on the corporate governance practices adopted by the Company is set out on pages 26 to 30 of the annual report.

AUDITORS

The financial statements have been audited by PricewaterhouseCoopers who shall retire and, being eligible, will offer themselves for re-appointment at the forthcoming annual general meeting.

On behalf of the Board,

Li Weiruo
Chairman

28th March 2008

CORPORATE GOVERNANCE PRACTICES

The Board of directors believes that by adopting high standard of corporate governance practices can improve the transparency and accountability of the Company, and instill confidence of shareholders and the public in the Group. The board had adopted the Code on Corporate Governance Practices (the "Code") as set out in Appendix 15 of the GEM Listing Rules since 1st January 2005. Throughout the year under review, the Company had complied with the Code.

THE BOARD OF DIRECTORS

Board Composition

The Board of directors currently comprises eight directors of which five are executive directors and three are independent non-executive directors. The detail is as follow:

Executive directors
Mr. Li Weiruo (Chairman)
Mr. Yuan Bai
Ms. Chi Chuan
Ms. Man Au Vivian
Mr. Li Shengdi

Independent non-executive directors
Mr. Hu Xiaoping
Mr. Woo Che-wor, Alex
Mr. Qian Laizhong

The independent non-executive directors represent over one-third of the Board. Among the three independent non-executive directors, at least one has appropriate professional qualifications or accounting or related financial management expertise which satisfies the requirement under the rule 5.05(1) and (2) of the GEM Listing Rules. An annual confirmation of the independence of each independent non-executive director had been received in accordance with each and every guideline set out in rule 5.09 of the GEM Listing Rules. No independent non-executive director has served the Group for more than nine years. All independent non-executive directors are identified as such in all corporate communications that disclose the names of the directors. There is no family or other material relationship among members of the Board.

The Board is responsible for the strategic development of the Group's business. Daily operations and execution of strategic plans are delegated to management. The Audit Committee, Remuneration Committee and the Nomination Committee have specific terms of reference clearly defining the powers and responsibilities of the respective committees. All committees are required to report to the Board in relation to their decisions and recommendations for seeking the Board's approval.

THE BOARD OF DIRECTORS *(Continued)*

Board Meeting

The Board meets regularly and board meetings are held at least four times a year. The board meetings involved the active participation in persons or through other electronic means of communication. At least 14 days notice of all board meetings were given to all directors to ensure all directors, who were given an opportunity to attend and include matters in the agenda for discussion. Agenda and accompanying board papers are sent to all directors at least one day prior to the meeting. Draft and final versions of minutes of board meetings were sent within a reasonable time to all directors for comment and record. All the committee meetings follow the applicable practices and procedures used in board meetings.

In the financial year ended 31st December 2007, eight board meetings were held and the attendance record for the meetings by each director is as follow:

Attendants	**Number of meetings attended/Total**	**Attendance percentage**
Executive Directors		
Mr. Li Weiruo	8/8	100%
Mr. Yuan Bai	8/8	100%
Ms. Chi Chuan	8/8	100%
Ms. Man Au Vivian	8/8	100%
Mr. Li Shengdi	8/8	100%
Independent Non-Executive Directors		
Mr. Hu Xiaoping	6/8	75%
Mr. Woo Che-wor, Alex	6/8	75%
Mr. Qian Laizhong	6/8	75%

Chairman and Chief Executive Officer

The Chairman of the Group is Mr. Li Weiruo, primarily responsible for the management of the Board and ensuring the Board functions effectively, smoothly and following a good corporate governance practices. Mr. Li Weiruo, the Chairman and Mr. Yuan Bai, the Chief Executive Officer of the Group together with the other three executive directors are responsible for monitoring the day to day operation of the Group. Segregation of duties is among the executive directors and each executive director has specific area to focus on. Mr. Li Weiruo is responsible for the development of the Group. Mr. Yuan Bai and Mr. Li Shengdi is responsible for the operational matters of the Group. Ms. Chi Chuan is responsible for the financial matters of the Group. Ms. Man Au Vivian is responsible for the affairs and administration of the office in Hong Kong.

DIRECTORS' SECURITIES TRANSACTION

The Group adopted a code of conduct of regarding directors' securities transactions as the required standard of dealings set out in rules 5.48 to 5.67 of the GEM Listing Rules. Specific enquiry had been made to all directors and each director confirmed that during the year under review, he had fully complied with the required standard of the dealings and there was no event of non-compliance with the required standard of dealings.

REMUNERATION OF DIRECTORS

Remuneration Committee was established in January 2005 and one meeting was held during the financial year under review. The members of the committee and the attendance record are as follow:

Attendants	**Number of meetings attended/Total**	**Attendance percentage**
Independent Non-Executive Directors		
Mr. Hu Xiaoping (Chairman)	1/1	100%
Mr. Qian Laizhong	1/1	100%
Executive Directors		
Ms. Chi Chuan	1/1	100%

The majority of the members of the remuneration committee are independent non-executive directors.

The Remuneration Committee is responsible for the reviewing and recommending the Board for the remuneration policy of the directors and assessing performance of executive directors. The remuneration terms and policies recommended by the Remuneration Committee were reported to the Board for approval. The Remuneration Committee is provided with sufficient resources for discharging its duties.

NOMINATION OF DIRECTORS

Nomination Committee was established in January 2005 and one meeting was held during the financial year under review. The members of the committee and the attendance record are as follow:

Attendants	**Number of meetings attended/Total**	**Attendance percentage**
Independent Non-Executive Directors		
Mr. Qian Laizhong (Chairman)	1/1	100%
Mr. Woo Che-wor, Alex	1/1	100%
Executive Directors		
Mr. Li Shengdi	1/1	100%

NOMINATION OF DIRECTORS *(Continued)*

The majority of the members of the Nomination Committee are independent non-executive directors.

The Nomination Committee is responsible for the formulating the nomination policy of the directors and recommending the Board on nomination and appointment of directors. The Nomination Committee is provided with sufficient resources for discharging its duties.

TERM OF APPOINTMENT AND RE-ELECTION

Each of the executive directors has entered into a service contract with the Company for initial fixed term of three years, and will continue thereafter for successive terms of three year until terminated by not less than three months' notice in writing served by either party on the other. The independent non-executive directors of the Company are appointed with specific terms inside the letter of appointment for initial fixed terms of two years.

In accordance with Article 87 of the articles of association of the Company, at each annual general meeting, one-third of directors for the time being shall retire from office by rotation and, will be eligible for re-election. Chairman of the Board will not be subject to retirement by rotation. Mr. Yuan Bai and Mr. Li Shengdi will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

AUDIT COMMITTEE

Audit Committee was established in June 2003 with written terms of reference compliance with Rule 5.28 of the GEM Listing Rules and five meetings were held during the financial year under review. The members of the committee and the attendance record are as follow:

Attendants	Number of meetings attended/Total	Attendance percentage
Independent Non-Executive Directors		
Mr. Hu Xiaoping (Chairman)	5/5	100%
Mr. Qian Laizhong	5/5	100%
Mr. Woo Che-wor, Alex	5/5	100%

The members of the Audit Committee are independent non-executive directors. No former partner of the Company's existing auditing firm acted as a member of the Audit Committee within one year on the date of his ceasing to be a partner or had any financial interests in the auditing firm.

The Board and the Audit Committee had reviewed the remuneration, independence and scope of work of the external auditors. There was no disagreement between the Board and the Audit Committee on the selection, appointment, resignation or dismissal of the external auditors.

AUDIT COMMITTEE *(Continued)*

The Audit Committee is responsible for reviewing the accounting principles and practices adopted by the Group, recommending the Board on the Group's internal control and risk management system, and ensuring the Group's financial statements present a true and fair view of the Group's financial position. The Audit Committee had reviewed with management the accounting principles and practices and discussed internal controls and financial reporting matters including a review of the audited financial statements of the Company and Group for the year ended 31st December 2007.

The Audit Committee is provided with sufficient resources for discharging its duties.

INTERNAL CONTROL

The internal audit department of the Company is responsible for the financial control and operational control of the Group. The Board from time to time reviewed the effectiveness of the Group's internal control system and an external accounting firm had been appointed for reviewing and giving recommendations on the Group's internal control system during the year under review.

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong
Telephone (852) 2289 8888
Facsimile (852) 2810 9888

TO THE SHAREHOLDERS OF

KO YO ECOLOGICAL AGROTECH (GROUP) LIMITED

(Incorporated in Cayman Islands with limited liability)

We have audited the consolidated financial statements of Ko Yo Ecological Agrotech (Group) Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 33 to 93, which comprise the consolidated and company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 28 March 2008

Consolidated Balance Sheet

	Note	As at 31 December 2007 RMB'000	As at 31 December 2006 RMB'000
ASSETS			
Non-current assets			
Land use rights	5	**43,315**	44,346
Property, plant and equipment	6	**450,701**	304,351
Exploration and evaluation assets	7	**331,099**	—
Goodwill	8	**8,900**	—
Deferred income tax assets	19	**2,409**	771
		836,424	349,468
Current assets			
Inventories	10	**64,130**	76,804
Trade and other receivables	11	**66,874**	64,378
Pledged bank deposits	12	**46,215**	20,801
Cash and cash equivalents	13	**19,201**	12,839
		196,420	174,822
Total assets		**1,032,844**	524,290
EQUITY			
Capital and reserves attributable to the equity holders of the Company			
Share capital	14	**97,746**	53,449
Reserves			
– Proposed final dividend	15, 31	**3,922**	3,541
– Others	15	**485,771**	235,872
Total equity		**587,439**	292,862

	Note	As at 31 December 2007 RMB'000	2006 RMB'000
LIABILITIES			
Non-current liabilities			
Long-term bank loans, secured	16	**117,568**	—
Provision for staff compensation	17	**—**	4,573
Deferred subsidy income	18	**6,008**	767
Deferred income tax liabilities	19	**80,867**	—
		204,443	5,340
Current liabilities			
Trade and other payables	20	**81,397**	90,152
Current income tax liabilities		**65**	1,660
Current portion of long-term bank loans, secured	16	**—**	8,800
Short-term bank loans, secured	21	**159,500**	125,476
		240,962	226,088
Total liabilities		**445,405**	231,428
Total equity and liabilities		**1,032,844**	524,290
Net current liabilities		**(44,542)**	(51,266)
Total assets less current liabilities		**791,882**	298,202

Li Weiruo
Director

Yuan Bai
Director

The notes on pages 39 to 93 are an integral part of these consolidated financial statements.

Balance Sheet

	Note	As at 31 December 2007 RMB'000	2006 RMB'000
ASSETS			
Non-current assets			
Investments in subsidiaries	9	**502,409**	132,310
Current assets			
Other receivables	11	**54,327**	39,509
Cash		**20**	20
		54,347	39,529
Total assets		**556,756**	171,839
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	14	**97,746**	53,449
Reserves			
– Proposed final dividend	15, 31	**3,922**	3,541
– Others	15	**331,171**	111,434
Total equity		**432,839**	168,424
LIABILITIES			
Non-current liabilities			
Long-term bank loans, secured	16	**117,568**	—
Current liabilities			
Accruals and other payables	20	**6,349**	3,415
Total liabilities		**123,917**	3,415
Total equity and liabilities		**556,756**	171,839
Net current assets		**47,998**	36,114
Total assets less current liabilities		**550,407**	168,424

Li Weiruo
Director

Yuan Bai
Director

The notes on pages 39 to 93 are an integral part of these consolidated financial statements.

Consolidated Income Statement

	Note	Year ended 31 December 2007 RMB'000	2006 RMB'000
Turnover	22	**774,919**	610,587
Cost of sales	23	**(652,342)**	(513,212)
Gross profit		**122,577**	97,375
Distribution costs	23	**(28,156)**	(22,182)
Administrative expenses	23	**(41,772)**	(41,282)
Other income	26	**4,898**	6,322
Operating profit		**57,547**	40,233
Finance costs - net	27	**(12,624)**	(6,909)
Profit before income tax		**44,923**	33,324
Income tax expense	28	**(3,534)**	(4,728)
Profit attributable to equity holders of the Company		**41,389**	28,596
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in RMB per share)	30		(Restated)
– Basic		**0.016**	0.012
– Diluted		**0.016**	0.012
Dividends	31	**5,439**	6,172

The notes on pages 39 to 93 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

	Note	Share capital RMB'000	Reserves RMB'000	Total RMB'000
Balance at 1 January 2006		44,713	158,214	202,927
Issue of ordinary shares	14	8,736	57,626	66,362
Fair value of employee share options	15	—	4,188	4,188
Profit for the year		—	28,596	28,596
Dividends	31	—	(9,211)	(9,211)
Balance at 31 December 2006		53,449	239,413	292,862
Balance at 1 January 2007		53,449	239,413	292,862
Issue of ordinary shares	14	44,297	212,627	256,924
Fair value of employee share options	15	—	1,322	1,322
Profit for the year		—	41,389	41,389
Dividends	31	—	(5,058)	(5,058)
Balance at 31 December 2007		97,746	489,693	587,439

The notes on pages 39 to 93 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

	Note	2007 RMB'000	2006 RMB'000
		Year ended 31 December	
Cash generated from operating activities	32	**76,626**	1,513
Income tax paid		**(6,767)**	(7,098)
Interest paid		**(13,244)**	(7,905)
Net cash inflow/(outflow) from operating activities		**56,615**	(13,490)
Cash flows from investing activities			
Acquisition of subsidiary, net of cash acquired	34	**(2,813)**	—
Payments for land use rights		**—**	(183)
Purchases of property, plant and equipment and payments for construction-in-progress		**(161,208)**	(119,235)
Proceeds from disposal of property, plant and equipment	32	**127**	77
Proceeds from disposal of available-for-sale investment		**—**	1,733
Interest income received		**1,321**	1,423
Net cash used in investing activities		**(162,573)**	(116,185)
Cash flows from financing activities			
(Increase)/decrease in pledged bank deposits		**(25,414)**	56,999
Issue of ordinary shares		**—**	66,362
Proceeds from bank loans		**277,068**	125,476
Repayment of bank loans		**(134,276)**	(144,870)
Dividends paid	31	**(5,058)**	(9,211)
Net cash inflow from financing activities		**112,320**	94,756
Net increase/(decrease) in cash and cash equivalents		**6,362**	(34,919)
Cash and cash equivalents at beginning of the year		**12,839**	47,758
Cash and cash equivalents at end of the year	13	**19,201**	12,839

The notes on pages 39 to 93 are an integral part of these consolidated financial statements.

1 GENERAL INFORMATION

Ko Yo Ecological Agrotech (Group) Limited (the "Company") was incorporated in the Cayman Islands on 11 February 2002 as an exempted company with limited liability under the Companies Law Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Its shares have been listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 10 July 2003. The address of the registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Caymen KY1-1111, Cayman Islands and the principal place of business of the Company is Suite No. 02, 31st Floor, Sina Plaza, 255-257 Gloucester Road, Causeway Bay, Hong Kong.

The Company is an investment holding company. The Company and its subsidiaries (the "Group") are principally engaged in the manufacture and sale of chemical products and chemical fertilisers in Mainland China. During the year, the Group acquired 100% equity interest in Hong Kong Cuyo Investment Limited ("Hong Kong Cuyo"). Hong Kong Cuyo and its subsidiary ("Cuyo Group") is principally engaged in the exploration and evaluation of a phosphorous mine located in the PRC (Note 34).

These consolidated financial statements are presented in Renminbi ("RMB"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 28 March 2008.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

The Group had net current liabilities of RMB44,542,000 as at 31 December 2007 (2006: RMB51,266,000). The directors of the Company have given due consideration to the liquidity of the Group and have adopted the going concern basis in preparing the consolidated financial statements for the year ended 31 December 2007 on the basis that the Group has profitable operations and that it will succeed in obtaining financing through the issue of new shares and roll-over of the outstanding bank loans. As described in Note 36, subsequent to the balance sheet date, net proceeds from the issue of new shares of approximately RMB64 million have been received by the Company, bank loans of RMB39 million have been rolled over for a further year and new additional bank loans of RMB8 million have been granted with a term of one year. On this basis the directors are of the opinion that the Group will have sufficient working capital to finance its operation. Accordingly, the directors are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss, which are carried at fair value.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

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

(a) Standards, amendment and interpretations effective in 2007

- HKFRS 7, "Financial instruments: Disclosures", and the complementary amendment to HKAS 1, "Presentation of financial statements – Capital disclosures", introduces new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the Group's financial instruments, or the disclosures relating to taxation and trade and other payables.

- HK(IFRIC) – Int 8, "Scope of HKFRS 2", requires consideration of transactions involving the issuance of equity instruments, where the identifiable consideration received is less than the fair value of the equity instruments issued in order to establish whether or not they fall within the scope of HKFRS 2. This standard does not have any impact on the Group's financial statements.

- HK(IFRIC) – Int 10, "Interim financial reporting and impairment", prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. This standard does not have any impact on the Group's financial statements.

(b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 March 2007 or later periods, but the Group has not early adopted them:

- HK(IFRIC) – Int 11, "HKFRS 2 – Group and treasury share transactions" (effective for annual period beginning on or after 1 March 2007). HK(IFRIC) – Int 11 provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies. This interpretation does not have any impact on the Group's consolidated financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group *(Continued)*

- HK(IFRIC) – Int 14, "HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction" (effective from 1 January 2008). HK(IFRIC) - Int 14 provides guidance on assessing the limit in HKAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. The Group will apply HK(IFRIC) - Int 14 from 1 January 2008, but it is not expected to have material impact on the Group's consolidated financial statements

- HKAS 1 (Revised), "Presentation of Financial Statements" (effective from 1 January 2009). HKAS 1 (Revised) requires all owner changes in equity to be presented in a statement of changes in equity. All comprehensive income is presented in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). It requires presenting a statement of financial position as at the beginning of the earliest comparative period in a complete set of financial statements when there are retrospective adjustments or reclassification adjustments. However, it does not change the recognition, measurement or disclosure of specific transactions and other events required by other HKFRSs. The Group will apply HKAS 1 (Revised) from 1 January 2009.

- HKAS 23 (Amendment), "Borrowing costs" (effective from 1 January 2009). The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Group will apply HKAS 23 (Amended) from 1 January 2009, but it is not expected to have material impact on the Group's consolidated financial statements.

- HKFRS 8, "Operating segments" (effective from 1 January 2009). HKFRS 8 replaces HKAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, "Disclosures about segments of an enterprise and related information". The new standard requires a "management approach", under which segment information is presented on the same basis as that used for internal reporting purposes. The Group will apply HKFRS 8 from 1 January 2009, but it is not expected to have material impact on the Group's consolidated financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(c) Standards, amendments and interpretations effective in 2007 but not relevant for the Group's operations

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2007 but are not relevant to the Group's operations:

- HK(IFRIC) – Int 7, "Applying the restatement approach under HKAS 29, Financial reporting in hyper-inflationary economies"; and
- HK(IFRIC) – Int 9, "Re-assessment of embedded derivatives".

2.2 Consolidation

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

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

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

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

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

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses (Note 2.9). The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.3 Segment reporting

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

2.4 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

(c) Group companies

The results and financial position of all the group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

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

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

— all resulting exchange differences are recognised as a separate component of equity.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.5 Property, plant and equipment

Construction-in-progress represents plant and properties under construction and is stated at cost, which includes development and construction expenditure incurred and other direct costs attributable to the construction, less accumulated impairment losses. Construction-in-progress is not depreciated until such time as the assets are completed and put into operational use.

Other assets, comprising buildings, plant and machinery, motor vehicles, office equipment and others, are stated at cost less accumulated depreciation and accumulated impairment losses.

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

Depreciation of other assets is calculated using the straight-line method to allocate their costs or revalue amounts to their residual values over their estimated useful lives, as follows:

— Buildings	35 years
— Plant and machinery	12 - 14 years
— Motor vehicles	10 years
— Office equipment and others	7 years

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the income statement.

2.6 Land use rights

Land use rights are up-front payments to acquire a long-term interest in land, which are regarded as operating leases. These payments are stated at cost and amortised over their respective lease terms on a straight-line basis, net of accumulated impairment charge.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.7 Exploration and evaluation assets

Exploration and evaluation assets are recognised at cost on initial recognition. Subsequent to initial recognition, exploration and evaluation assets are stated at cost less any accumulated impairment losses.

Exploration and evaluation assets include the cost of exploration rights and the expenditures incurred in the search for mineral resources as well as the determination of the technical feasibility and commercial viability of extracting those resources.

When the technical feasibility and commercial viability of extracting a mineral resource becomes demonstrable, any previously recognised exploration and evaluation assets are reclassified as property, plant and equipment, mining rights or other intangible assets. These assets are assessed for impairment and any impairment loss is recognised before reclassification.

2.8 Intangible assets

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.10 Impairment of exploration and evaluation assets

In the following cases, or similar cases, the Group shall test exploration and evaluation assets for impairment.

(a) The period for which the Group has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;

(b) substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;

(c) exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area;

(d) sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

For the purpose of impairment testing, exploration and evaluation assets are allocated to the relevant cash-generating units expected to benefit from the assets. Cash-generating units to which exploration and evaluation assets have been allocated are tested for impairment when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of exploration and evaluation assets allocated to the unit.

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

2.11 Financial assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale investments. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date. During 2006 and 2007, other than loans and receivables and available-for-sale investment, the Group did not hold any financial assets in other categories.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.11 Financial assets *(Continued)*

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as "trade and other receivables" in the balance sheet.

Loans and receivables are carried at amortised cost using the effective interest method.

(b) Available-for-sale investments

Available-for-sale investments are non-derivatives equity securities that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Regular purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Available for-sale investment are subsequently carried at fair value. Dividends on available-for-sale equity instruments are recognised in the income statement as part of other income when the Group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. Impairment testing of trade receivables is described in Note 2.13.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.12 Inventories

Inventories comprise stocks and work in progress and are stated at the lower of cost and net realisable value. Cost, calculated on the weighted average basis, comprises materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.13 Trade and other receivables

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

2.14 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

2.15 Share capital

Ordinary shares are classified as equity.

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

2.16 Trade payables

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.17 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

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

All borrowing costs are charged to the income statement in the year in which they are incurred.

2.18 Current and deferred income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.19 Employee benefits

(a) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance sheet date.

(b) Pension obligations

Pursuant to laws and regulations in the People's Republic of China ("Mainland China"), contributions to the basic old age insurance for the Group's Mainland China employees are made monthly to a government agency based on 25% of the standard salary set by the provincial government, of which 20% is borne by the Group and the remainder is borne by the employees. Except for the monthly contribution of 20% on standard salary to the government agency, the Group has no further obligation in connection with Mainland China employees' retirement benefits. The government agency is responsible for the pension liabilities relating to such employees on their retirement. The Group accounts for these contributions on an accrual basis.

The subsidiary in Hong Kong operates a defined contribution scheme which is available to qualified employees. The assets of the scheme are held separately from those of the subsidiary in independently administered funds. Monthly contributions made by the subsidiary are calculated based on certain percentages of the applicable payroll costs or HKD1,000, whichever is lower.

Contributions to the above retirement schemes are charged to the income statement as incurred.

(c) Share-based compensation

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.20 Provisions

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

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

2.21 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that the outflow becomes probable, it will then be recognised as a provision.

2.22 Revenue recognition

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

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

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

Interest income is recognised on a time-proportion basis, using the effective interest method.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.23 Government grants and tax refund

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

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

Government grants relating to the purchase of fixed assets are included in non-current liabilities as deferred subsidy income and are recognised in the income statement on a straight-line basis over the expected lives of the related assets.

Government grants and tax refund are recognised in the income statement as part of other income.

2.24 Leases

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

2.25 Dividend distribution

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

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(a) Foreign exchange risk

The Group exposes to foreign exchange risks as certain portion of cash and cash equivalent, trade and other payables, long-term bank loans and future commercial transactions are denominated in foreign currencies, primarily with respect to the US dollar ("USD") and Hong Kong dollar ("HKD"). The Group currently does not have a foreign currency hedging policy as the directors are of the opinion that the Group's exposure to foreign exchange risk is insignificant because most of the future export sales denominated in foreign currencies are guaranteed by letter of credit and the related trade receivables are collected when the goods are delivered. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

At 31 December 2007, if RMB had weakened/strengthened by 5% against the US Dollar with all other variables held constant, post-tax profit for the year would have been RMB4,820,000 (2006: nil) lower/higher, mainly as a result of foreign exchange losses/gains on translation of the USD-denominated long-term bank loan.

At 31 December 2007, if RMB had weakened/strengthened by 5% against the HKD with all other variables held constant, post-tax profit for the year would have been RMB31,000 lower/higher (2006: RMB112,000 higher/lower), mainly as a result of foreign exchange gains/losses on translation of HKD-denominated trade and other payables.

(b) Cash flow and fair value interest rate risk

The Group's interest rate risk mainly arises from pledged bank deposits and bank loans. The Group's long-term bank loans were issued at variable rates and exposed the Group to cash flow interest-rate risk. The Group's pledged bank deposits and short-term bank loans were issued at fixed rates and exposed the Group to fair value interest-rate risk. The Group's long-term bank loans at variable rate were denominated in USD.

The contractual repricing dates or maturity dates (whichever are shorter) of the Group's pledged bank deposit and bank loans are less than 1 year. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

At 31 December 2007, if interest rates on USD-denominated long-term bank loans had been 20 basis points higher/lower with all other variables held constant, post-tax profit for the year would have been RMB20,000 lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(c) Price risk

The Group is not exposed to commodity price risk.

(d) Credit risk

The Group has no significant concentrations of credit risk. Credit risk arises from cash and cash equivalents, pledged bank deposit and trade and other receivables.

For bank deposits, management manages the credit risk by placing all the bank deposits in the large state-controlled PRC banks and other high quality non-PRC banks without significant credit risk.

For trade and other receivables, the credit quality of the counterparties is assessed by taking into account their financial position, credit history and other factors. Individual credit limits are set based on the assessment of the credit quality. Given the constant repayment history, the directors are of the opinion that the risk of default by these counterparties is low.

(e) Liquidity risk

The Group guarantees a sufficient liquidity by efficient cash management and by keeping adequate committed and uncommitted credit line available.

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(e) Liquidity risk *(Continued)*

	Less than 1 year	Between 1 and 2 years	Over 2 years
	RMB'000	RMB'000	RMB'000
Group			
At 31 December 2007			
Trade and other payables	81,397	—	—
Current income tax liabilities	65	—	—
Short-term bank loans, secured	159,500	—	—
Long-term bank loans, secured	—	35,270	82,298
Interest payment on bank loans	13,457	8,998	5,922
At 31 December 2006			
Trade and other payables	90,152	—	—
Current income tax liabilities	1,660	—	—
Short-term bank loans, secured	125,476	—	—
Current portion of long-term loans, secured	8,800	—	—
Provision for staff compensation	—	—	4,573
Interest payment on bank loans	4,009	—	—
Company			
At 31 December 2007			
Accruals and other payables	6,348	—	—
Long-term bank loans, secured	—	35,270	82,298
Interest payment on long-term bank loans	9,229	8,998	5,922
At 31 December 2006			
Accruals and other payables	3,415	—	—

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Capital risk management

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

In order to maintain or adjust the capital structure, the Group may issue new shares, borrow or repay debts or adjust the amount of dividends paid to shareholders.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total liabilities divided by total equity, as shown in the consolidated balance sheet.

During 2007, the Group's strategy, which was unchanged from 2006, was to maintain a gearing ratio within 75% to 80%. The gearing ratios as at 31 December 2006 and 2007 were as follows:

	2007	2006
	RMB'000	RMB'000
Total liabilities	**445,405**	231,428
Total equity	**587,439**	292,862
Gearing ratio	**76%**	79%

The decrease in the gearing ratio from 79% in 2006 to 76% in 2007 resulted mainly from the combination of the effects of the acquisition of subsidiaries (Note 34) and increase of long-term bank loans.

3.3 Fair value estimation

The fair value of long term borrowing for disclosure purposes is estimated by discounting the future contractual cash flows at the contractual interest rate defined in the contract.

The carrying values less impairment provision of cash and cash equivalents, pledged bank deposits, trade and other receivables, trade and other payables, current income tax liabilities and short term bank loans approximates their fair values due to their short maturities.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

4.1 Estimates

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

(a) Useful lives of fixed assets

The estimate of useful lives of fixed assets was made by the directors with reference to the established industry practices, technical assessments made on the durability of the assets, as well as the historical magnitude and trend of repair and maintenance expenses incurred by the Group. It could change significantly as a result of technical innovations and competitor actions in responses to severe industry cycles. Management will increase the deprecation charge where useful lives are less than previously estimated lives, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

(b) Provision for impairment of trade receivables

The Group makes provision for impairment of trade receivables based on the assessment of the recoverability of trade receivables with reference to the extent and duration that the amount will be recovered. Provisions are applied to trade receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of impairment requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of receivables and impairment expenses in the period in which such estimate has been changed.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

4.2 Judgements

In the process of applying the Group's accounting policies, management has made the judgements on impairment of assets and recognition of share-based compensation expenses, apart from those involving estimations as discussed above, which have the most significant effect on the amounts recognised in the financial statements.

(a) Impairment of exploration and evaluation assets

In determining whether the Group's exploration and evaluation assets are impaired, management has to exercise judgement in the area of asset impairment, particularly in assessing: (1) whether the Group is able to obtain the right to exploit in the specific mining site; (2) whether carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale. In any such case, the Group shall perform an impairment test in accordance with the accounting policy stated in Note 2.10.

(b) Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in Note 2.8. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (Note 8).

(c) Impairment of assets (other than exploration and evaluation assets and goodwill)

In determining whether an asset is impaired or the event previously causing the impairment no longer exists, management has to exercise judgement in the area of asset impairment, particularly in assessing: (1) whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by the net present value of future cash flows which are estimated based upon the continued use of the asset or derecognition; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

(d) Recognition of share-based compensation expenses

As mentioned in Note 14(d), the Company has granted share options to employees. Management has used the Black-Scholes valuation model to determine the total fair value of the options granted, which is to be expensed over the vesting period. Significant judgement, such as risk free rate, dividend yield, expected volatility and option life, is required to be made by management as the parameters for applying the Black-Scholes valuation model.

5 LAND USE RIGHTS - GROUP

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

	2007	2006
	RMB'000	RMB'000
Opening net book value	**44,346**	45,124
Additions	**—**	183
Amortisation of prepaid operating lease payment	**(1,031)**	(961)
	43,315	44,346

All the Group's land use rights are located in Mainland China. The remaining lease periods of the land use rights are between 9 to 49 years (2006: 10 to 50 years).

As at 31 December 2007, certain land use rights with a total net book value of approximately RMB29,357,000 (2006: RMB42,872,000) were pledged as collateral for the Group's short-term bank loans (Note 21).

6 PROPERTY, PLANT AND EQUIPMENT - GROUP

	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Office equipment and others RMB'000	Construction -in-progress RMB'000	Total RMB'000
At 1 January 2006						
Cost	64,449	121,535	5,137	12,858	29,022	233,001
Accumulated depreciation	(8,285)	(29,237)	(1,030)	(4,921)	—	(43,473)
Net book amount	56,164	92,298	4,107	7,937	29,022	189,528
Year ended 31 December 2006						
Opening net book amount	56,164	92,298	4,107	7,937	29,022	189,528
Transfers	8,969	9,609	—	530	(19,108)	—
Additions	—	765	947	402	126,389	128,503
Disposals *(Note 32)*	—	(220)	(33)	(21)	—	(274)
Depreciation *(Note 23)*	(1,443)	(9,724)	(484)	(1,755)	—	(13,406)
Closing net book amount	63,690	92,728	4,537	7,093	136,303	304,351
At 31 December 2006						
Cost	73,418	131,588	6,047	13,731	136,303	361,087
Accumulated depreciation	(9,728)	(38,860)	(1,510)	(6,638)	—	(56,736)
Net book amount	63,690	92,728	4,537	7,093	136,303	304,351
Year ended 31 December 2007						
Opening net book amount	63,690	92,728	4,537	7,093	136,303	304,351
Acquisition of subsidiaries *(Note 34)*	—	4	315	37	—	356
Transfers	1,458	29,489	—	2,144	(33,091)	—
Additions	—	1,852	52	377	158,927	161,208
Disposals *(Note 32)*	(147)	(1,099)	(19)	(16)	—	(1,281)
Depreciation *(Note 23)*	(1,991)	(10,396)	(541)	(1,005)	—	(13,933)
Closing net book amount	63,010	112,578	4,344	8,630	262,139	450,701
At 31 December 2007						
Cost	74,453	159,859	6,223	16,260	262,139	518,934
Accumulated depreciation	(11,443)	(47,281)	(1,879)	(7,630)	—	(68,233)
Net book amount	63,010	112,578	4,344	8,630	262,139	450,701

6 PROPERTY, PLANT AND EQUIPMENT - GROUP *(Continued)*

Depreciation expense of RMB12,292,000 (2006: RMB12,209,000) had been charged in cost of goods sold and RMB1,641,000 (2006: RMB1,197,000) in administrative expenses.

All the Group's buildings are located in Mainland China. As at 31 December 2007, certain buildings with a total net book value of approximately RMB31,145,000 (2006: RMB40,518,000) and plant and machinery with a total net book value of approximately RMB29,930,000 (2006: RMB24,296,000) were pledged as collateral for the Group's short-term bank loans (Note 21).

7 EXPLORATION AND EVALUATION ASSETS - GROUP

	Exploration rights	**Evaluation expenditure**	**Total**
	RMB'000	RMB'000	RMB'000
Balance at 31 December 2006 and 1 January 2007	—	—	—
Acquisition of subsidiaries *(Note 34)*	326,090	5,009	331,099
Balance at 31 December 2007	326,090	5,009	331,099

The exploration rights represent the fair value of the rights for exploration in a phosphate mine located in Sichuan, PRC. The application for the exploitation license of the mine for 30 years has been submitted by Cuyo Group and is subject to the final approval of PRC Ministry of Land and Resources. The directors of the Company believe that the exploitation license of the mine will be obtained by March 2009.

8 GOODWILL

	Total
Balance at 31 December 2006 and 1 January 2007	—
Acquisition of subsidiaries *(Note 34)*	8,900
Balance at 31 December 2007	8,900

Impairment tests for goodwill

The above goodwill is allocated to the Group's cash-generating unit ("CGU") in relation to the exploration and exploitation of the phosphate mine located in Sichuan, PRC.

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated by assuming the growth rate is zero.

The key assumptions used for value-in-use calculations are as follows:

Gross margin (budgeted gross margin)	54%
Growth rate (growth rate used to extrapolate cash flows beyond the budget period)	0%
Discount rate (pre-tax discount rate applied to the cash flow projections)	17%
Years of cash flows projection (expected mining period of the phosphate mine)	30 years

Management determined budgeted gross margin based on past market price of the phosphate fertilizers and management's estimation of production costs. The discount rate used is pre-tax and reflects specific risks relating to the relevant CGU. Expected mining period of the phosphate mine is determined based on extractable reserve of the phosphate mine and the Group's production capacity. Management of the Group determines that there are no impairment of the CGU containing goodwill.

9 INVESTMENTS IN SUBSIDIARIES - COMPANY

	2007 RMB'000	2006 RMB'000
Unlisted investments, at cost	**332,113**	70,361
Investment arising from share-based compensation *(Note a)*	**5,510**	4,188
Amounts due from subsidiaries *(Note b)*	**170,569**	63,544
Amounts due to subsidiaries *(Note b)*	**(5,783)**	(5,783)
	502,409	132,310

(a) The amount represents share-based compensation expenses arising from the granting of share options of the Company to employees of subsidiaries in exchange for their services offered to the subsidiaries.

(b) The amounts due from/to subsidiaries are unsecured, non-interest bearing and have no fixed repayment term.

The following is a list of the subsidiaries as at 31 December 2007:

Name	Place of incorporation/ establishment and kind of legal entity	Principal activities and place of operation	Particulars of issued, registered and fully paid up capital	Interest held
Ko Yo Ecological Agrotech (BVI) Limited ("Ko Yo BVI") *(Note a)*	British Virgin Islands ("BVI"), limited liability company	Investment holding in BVI	100 ordinary shares of USD1 each	100%
Bright Bridge Investments Limited *(Note a)*	BVI, limited liability company	Investment holding in BVI	1 ordinary share of USD1 each	100%
Ko Yo Development Company Limited ("Ko Yo Hong Kong") *(Note b)*	Hong Kong, limited liability company	Investment holding in Hong Kong	3,000,000 non-voting deferred shares and 100 ordinary shares of HKD1 each	100%
Chengdu Ko Yo Chemical Industry Co., Ltd. ("Chengdu Ko Yo Chemical")	Mainland China, wholly foreign owned enterprise	Manufacture and sale of chemical products including sodium carbonate, ammonia, and chemical fertilisers including urea and ammonium chloride in Mainland China	RMB27,000,000	100%

9 INVESTMENTS IN SUBSIDIARIES - COMPANY *(Continued)*

Name	Place of incorporation/ establishment and kind of legal entity	Principal activities and place of operation	Particulars of issued, registered and fully paid up capital	Interest held
Chengdu Ko Yo Compound Fertilisers Co., Ltd. ("Chengdu Ko Yo Compound")	Mainland China, wholly foreign owned enterprise	Manufacture, research, development and sale of bulk blended fertilisers in Mainland China	RMB15,000,000	100%
Dezhou Ko Yo Compound Fertilisers Co., Ltd. ("Dezhou Ko Yo Compound")	Mainland China, wholly foreign owned enterprise	Manufacture, research, development and sale of bulk blended fertilisers in Mainland China	RMB3,000,000	100%
Dazhou city Dazhu Ko Yo Chemical Industry Co., Ltd. ("Dazhu Ko Yo Chemical") *(Note b)*	Mainland China, wholly foreign owned enterprise	Manufacture and sale of chemical products including ammonia, ammonia carbonate and urea in Mainland China	RMB268,000,000 *(Note c)*	100%
Qingdao Ko Yo Chemical Industry Co., Ltd. ("Qingdao Ko Yo Chemical")	Mainland China, wholly foreign owned enterprise	Manufacture, research, development and sale of bulk blended fertilisers in Mainland China	USD2,100,000	100%
Hong Kong Cuyo *(Note d)*	Hong Kong, limited liability company	Investment holding in Hong Kong	5,000,000 ordinary shares of HKD1 each	100%
Sichuan Chengyuan Chemical Industry Company Limited ("Sichuan Cuyo") *(Note d)*	Mainland China, wholly foreign-owned enterprise	Exploration and exploitation of a phosphorous mine in the PRC	RMB5,000,000	100%

9 INVESTMENTS IN SUBSIDIARIES - COMPANY *(Continued)*

Notes:

(a) Shares held directly by the Company.

(b) 100% equity interest of Ko Yo Hong Kong and Dazhu Ko Yo Chemical were pledged as collateral for the Company's long-term bank loans (Note 16).

(c) During the year, RMB155,676,604 were injected in Dazhu Ko Yo Chemical as paid-in capital, by Ko Yo Hong Kong.

(d) During the year, the Group acquired 100% equity interest in Hong Kong Cuyo and Sichuan Cuyo. The details of the acquisition are disclosed in Note 34.

10 INVENTORIES - GROUP

	2007	2006
	RMB'000	RMB'000
Raw materials	**56,571**	53,511
Work in progress	**2,796**	4,585
Finished goods	**4,763**	18,708
	64,130	76,804

The cost of inventories recognised as expense and included in cost of goods sold amounted to RMB464,547,000 (2006: RMB333,057,000).

At 31 December 2007, there were no inventories stated at net realisable value (2006: Nil).

11 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade receivables	**13,562**	19,341	**—**	—
Less: provision for impairment of trade receivables	**(5,647)**	(5,380)	**—**	—
Trade receivables - net	**7,915**	13,961	**—**	—
Prepayments	**48,152**	41,186	**150**	332
Notes receivable	**5,021**	808	**—**	—
Due from employees	**4,398**	4,852	**—**	—
Dividends receivable from a subsidiary	**—**	—	**54,177**	39,177
Others	**1,388**	3,571	**—**	—
	66,874	64,378	**54,327**	39,509

As at 31 December 2007, the fair value of trade and other receivables of the Group approximated their carrying amounts.

The credit terms of trade receivables granted by the Group are normally within 3 months. The ageing analysis of trade receivables is as follows:

	Group	
	2007	2006
	RMB'000	RMB'000
Less than 3 months	**7,758**	8,648
More than 3 months but not exceeding 1 year	**287**	7,896
More than 1 year but not exceeding 2 years	**4,641**	534
More than 2 years but not exceeding 3 years	**370**	1,607
More than 3 years	**506**	656
	13,562	19,341
Less: provision for doubtful receivables	**(5,647)**	(5,380)
	7,915	13,961

11 TRADE AND OTHER RECEIVABLES *(Continued)*

Trade receivables that are less than three months past due are not considered impaired. As of 31 December 2007, trade receivables of RMB36,000 (2006: RMB3,085,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	Group	
	2007	2006
	RMB'000	RMB'000
More than 3 months but not exceeding 1 year	**36**	3,023
More than 2 years but not exceeding 3 years	**—**	62
	36	3,085

As at 31 December 2007, trade receivables of RMB5,768,000 (2006: RMB7,608,000) were impaired. The amount of the provision was RMB5,647,000 as of 31 December 2007 (2006: RMB5,380,000). The individually impaired receivables mainly relate to wholesalers, which are in unexpected difficult economic situations. It was assessed that a portion of the receivables is expected to be recovered. The ageing of these receivables is as follows:

	Group	
	2007	2006
	RMB'000	RMB'000
More than 3 months but not exceeding 1 year	**251**	4,873
More than 1 year but not exceeding 2 years	**4,641**	534
More than 2 years but not exceeding 3 years	**370**	1,545
More than 3 years	**506**	656
	5,768	7,608

The carrying amounts of the Group's trade and other receivables are denominated in Renminbi.

11 TRADE AND OTHER RECEIVABLES *(Continued)*

Movements on the provision for impairment of trade receivables are as follows:

	2007	2006
	RMB'000	RMB'000
At 1 January	**5,380**	3,582
Provision for receivable impairment	**3,121**	1,798
Unused amounts reversed	**(2,854)**	—
At 31 December	**5,647**	5,380

The creation and release of provision for impaired receivables have been included in administrative expenses in the consolidated income statements (Note 23).

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. The Group does not hold any collateral as security.

12 PLEDGED BANK DEPOSITS - GROUP

The deposits comprise the pledged deposits for short-term bank loans and bank acceptance notes issued by the Group. The effective interest rates on pledged bank deposits are ranging from 2.79% to 3.78% (2006: 1.13% to 2.27%).

13 CASH AND CASH EQUIVALENTS

	Group		**Company**	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash at bank and in hand	**19,201**	12,839	**20**	20
Maximum exposure to credit risk	**19,015**	12,796	**20**	20

The effective interest rate on cash and cash equivalents is 0.77% (2006: 0.72%).

14 SHARE CAPITAL

Movements of the share capital of the Company are as follows:

	Notes	Number of shares of HK$0.1each		Number of shares of HK$0.02each		Share capital	
		2007	2006	**2007**	2006	**2007**	2006
		'000	'000	**'000**	'000	**HKD'000**	HKD'000
Authorised:							
Ordinary shares at beginning of year		**1,000,000**	1,000,000	**—**	—	**100,000**	100,000
Increase of authorised share capital	(a)	**1,000,000**	—	**—**	—	**100,000**	—
Share subdivision	(c)	**(2,000,000)**	—	**10,000,000**	—	**—**	—
Ordinary shares at end of year		**—**	100,000	**10,000,000**	—	**200,000**	100,000

	Notes	Number of shares of HK$0.1each		Number of shares of HK$0.02each		Share capital	
		2007	2006	**2007**	2006	**2007**	2006
		'000	'000	**'000**	'000	**RMB'000**	RMB'000
Issued and fully paid:							
Ordinary shares at beginning of year		**505,820**	421,820	**—**	—	**53,449**	44,713
Issue of ordinary shares	(b)	**473,060**	84,000	**—**	—	**44,297**	8,736
Share subdivision	(c)	**(978,880)**	—	**4,894,400**	—	**—**	—
Ordinary shares at end of year		**—**	505,820	**4,894,400**	—	**97,746**	53,449

14 SHARE CAPITAL *(Continued)*

(a) Increase of authorised share capital

Pursuant to a resolution passed at the extraordinary general meeting held on 24 December 2007, the authorised share capital of the Company of HK$100,000,000, divided into 1,000,000,000 shares of HK$0.1 each, was increased to HK$200,000,000 divided into 2,000,000,000 shares of HK$0.1 each, by the creation of an additional 1,000,000,000 shares of HK$0.1 each.

(b) Issue of ordinary shares

On 17 May 2006, 84,000,000 shares of HK$0.1 per share were issued by the Company at HK$0.78 per share pursuant to the Placing and Subscription Agreement. These shares rank pari passu with existing shares. The difference between the amount recognized in the share capital and net proceeds from share subscription, amounting to approximately RMB57,606,000, was credited to the share premium account (Note 15).

On 24 December 2007, 473,060,000 shares of HK$0.1 per share were issued by the Company as the consideration for the acquisition of Cuyo Group (Note 34). These shares rank pari passu with existing shares. The fair value of the shares issued amounted to approximately RMB256,924,000, which was determined by reference to the closing price of approximately HK$0.58 (approximately RMB0.54) as quoted on the Stock Exchange on 24 December 2007. The difference between the amount recognised in share capital and fair value of the shares, amounting to approximately RMB212,627,000, was credited to the share premium account (Note 15).

(c) Share subdivision

Pursuant to a resolution passed at the extraordinary general meeting held on 24 December 2007, with effect from 27 December 2007, the issued and unissued shares of HK$0.1 each were subdivided into five subdivided shares of HK$0.02 each.

14 SHARE CAPITAL *(Continued)*

(d) Share options

The details of share options outstanding, after adjustment for the effect of share subdivision, are as follows:

Date of grant	23 September 2003	11 April 2006	16 May 2006	10 September 2007	
Exercise price (HKD per option, on post-subdivision basis)	0.12	0.15	0.15	0.12	
Granted to	2 executive directors, 2 independent directors and 6 employees	18 employees	2 executive directors and 1 independent director	7 employees	
Exercisable period	10 years (Note i)	10 years	10 years (Note ii)	10 years	
					Total
At 1 January 2006	126,000,000	—	—	—	126,000,000
Granted	—	52,500,000	6,200,000	—	58,700,000
Lapsed due to resignation of employees	(4,000,000)	—	—	—	(4,000,000)
At 31 December 2006	122,000,000	52,500,000	6,200,000	—	180,700,000
Granted	—	—	—	30,000,000	30,000,000
Lapsed due to resignation of employees	—	(4,000,000)	—	—	(4,000,000)
At 31 December 2007	**122,000,000**	**48,500,000**	**6,200,000**	**30,000,000**	**206,700,000**

The Company has a share option scheme adopted on 10 June 2003 (the "Share Option Scheme"). The purpose of the Share Option Scheme is to recognise the contribution of the eligible participants, and to provide a performance related incentive to them. The eligible participants include the employees (including executive and non-executive directors) and consultants of the Group.

The number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other schemes must not exceed 30% of the shares in issue from time to time. The total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes must not exceed 210,000,000 shares (on post-subdivision basis), 10% of the shares of the Company at the date of commencement of dealings of the Company's shares on GEM.

14 SHARE CAPITAL *(Continued)*

(d) Share options *(Continued)*

Each participant is entitled to a maximum of 21,000,000 share options (on post-subdivision basis), which are valid for a period of 10 years from the date of grant. The subscription price will be determined by the Company's board of directors, and will not be less than the highest of (a) the closing price of the shares quoted on the GEM of the Stock Exchange on the date of the offer; (b) the average closing price of the shares quoted on the GEM of the Stock Exchange for the five business days immediately preceding the date of the offer and (c) the nominal value of the shares.

(i) Share options that were granted on 23 September 2003 and remained outstanding at end of year were held by the following employees (including executive and non-executive directors),

Exercise period	Directors	Number of options (on post-subdivision basis) 2007
23 September 2004 to 22 September 2013	Ms. Chi Chuan	21,000,000
23 September 2004 to 22 September 2013	Mr. Li Shengdi	21,000,000
23 September 2004 to 22 September 2013	Ms. Man Yu, Vivian	19,000,000
23 September 2004 to 22 September 2013	Mr. Hu Xiaoping	2,000,000
23 September 2004 to 22 September 2013	Mr. Woo Che-wor, Alex	2,000,000
		65,000,000
23 September 2004 to 22 September 2013	Other employees	57,000,000
		122,000,000

14 SHARE CAPITAL *(Continued)*

(d) Share options *(Continued)*

(ii) Share options that were granted on 16 May 2006 and remained outstanding at end of year were held by the following executive and non-executive directors,

Exercise period	Directors	Number of options (on post-subdivision basis) 2007
16 May 2006 to 15 May 2016	Mr. Li Weiruo	2,100,000
16 May 2006 to 15 May 2016	Mr. Yuan Bai	2,000,000
16 May 2006 to 15 May 2016	Mr. Qian Laizhong	2,100,000
		6,200,000

The fair value of options granted during the year, determined using the Black-Scholes valuation model, was HKD0.046* (approximately RMB0.044*) (2006: HKD0.072*, approximately RMB0.072*) per share. The significant inputs into the model were share price of HKD0.12* (2006: HKD0.15*) at the grant date , the exercise price shown above, volatility of 43.7% (2006: 68.7%), dividend yield of 3.41% (2006: 4.75%), an expected option life of ten years and on annual risk-free interest rate of 4.4% (2006: 4.8%). The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of daily share prices over the last one year. Given that the total number of share options granted in 2007 is 30,000,000* (2006: 58,700,000*), the total fair value was approximately HKD1,406,000 (approximately RMB1,322,000) (2006: HKD4,188,000, approximately RMB4,188,000), which was recognised as administrative expense and a corresponding increase in share-based compensation reserve (Note 15).

(*: Adjusted for the effect of share subdivision.)

15 RESERVES

Movements of the Group's reserves are as follows:

	Share premium RMB'000	Merger reserve RMB'000 *(Note a)*	Share-based compensation reserve RMB'000	Reserve fund RMB'000 *(Note b)*	Enterprise expansion fund RMB'000 *(Note b)*	Retained earnings RMB'000	Total RMB'000
At 1 January 2007	76,830	(22,041)	4,188	14,614	943	164,879	239,413
Issue of ordinary shares *(Note 14 (b))*	212,627	—	—	—	—	—	212,627
Fair value of employee share options *(Note 14 (d))*	—	—	1,322	—	—	—	1,322
Profit for the year	—	—	—	—	—	41,389	41,389
Appropriation *(Note b)*	—	—	—	711	188	(899)	—
Dividends *(Note 31)*	—	—	—	—	—	(5,058)	(5,058)
At 31 December 2007	289,457	(22,041)	5,510	15,325	1,131	200,311	489,693
Representing:							
2007 final dividend proposed						3,922	3,922
Others						196,389	485,771
						200,311	489,693

15 RESERVES *(Continued)*

Movements of the Company's reserves are as follows:

	Share premium	Share-based compensation reserve	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2007	113,992	4,188	(3,205)	114,975
Issue of ordinary shares *(Note 14 (b))*	212,627	—	—	212,627
Fair value of employee share options *(Note 14 (d))*	—	1,322	—	1,322
Profit attributable to the equity holders of the Company	—	—	11,227	11,227
Dividends *(Note 31)*	—	—	(5,058)	(5,058)
At 31 December 2007	326,619	5,510	2,964	335,093
Representing:				
2007 final dividend proposed			3,922	3,922
Others			(958)	331,171
			2,964	335,093

(a) Merger reserve

Merger reserve of the Group represents the difference between the nominal value of the share capital issued by the Company and share capital and share premium of a subsidiary acquired through an exchange of shares.

(b) Statutory reserves

The Company's subsidiaries established in Mainland China are governed by the laws and regulations of Mainland China and their articles of association. They are required to provide for certain statutory funds, namely, reserve fund and enterprise expansion fund which are appropriated from net profit after taxation but before dividend distribution based on the local statutory financial statements prepared in accordance with accounting principles and relevant financial regulations applicable to enterprises established in Mainland China. They are required to allocate at least 10% of their net profit to the reserve fund until the balance of such fund has reached 50% of its registered capital. Appropriation of enterprise expansion fund is determined at the discretion of its directors. The reserve fund can only be used, upon approval by the relevant authorities, to offset accumulated losses or increase capital. The enterprise expansion fund can only be used to increase capital upon approval by the relevant authorities.

16 LONG-TERM BANK LOANS, SECURED

At 31 December 2007, the Group's long-term bank loans were repayable as follows:

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 1 year	**—**	8,800	**—**	—
Between 1 and 2 years	**35,270**	—	**35,270**	—
Between 2 and 3 years	**82,298**	—	**82,298**	—
	117,568	8,800	**117,568**	—
Within 1 year included in current liabilities	**—**	(8,800)	**—**	—
	117,568	—	**117,568**	—

The long-term bank loans are secured by 100% equity interest in Ko Yo Hong Kong and Ko Yo Dazhu Chemical (Note 9), which effectively owned by the Company, and guaranteed by Mr. Li Weiruo, a shareholder and director of the Company.

An analysis of the carrying amounts of the long-term bank loans by type and currency is as follows:

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
At floating rates in USD	**117,568**	—	**117,568**	—
At floating rates in RMB	**—**	8,800	**—**	—
	117,568	8,800	**117,568**	—

The effective interest rate at the balance sheet date was 7.85% (2006: the weighted average interest rate was 6.19%).

The carrying amounts of the long-term bank loans approximate their fair value as the market bank borrowing interest rate approximates the effective interest rate of the long-term bank loans.

17 PROVISION FOR STAFF COMPENSATION

	2007 RMB'000	2006 RMB'000
At 1 January	**4,573**	7,330
Payments	**(4,573)**	(2,757)
At 31 December	**—**	4,573

Upon the establishment of Chengdu Ko Yo Chemical, certain government loans made to Xin Du Fertilisers Company, the predecessor of Chengdu Ko Yo Chemical, and certain payables related to staff benefits were conditionally assigned to the former employees of Xin Du Fertilisers Company as provision for staff compensation. Under the arrangement, Chengdu Ko Yo Chemical is required to pay an amount of compensation predetermined at the date of its establishment to these employees if they are laid off by Chengdu Ko Yo Chemical or if they resign before their retirement.

Upon retirement, these employees will be covered by the defined contribution retirement schemes organised by the relevant local government authorities in Mainland China (Note 2.19), and will not be entitled to the repayment of the provision for staff compensation assigned to them.

In 2007, Chengdu Ko Yo Chemical paid the remaining outstanding compensation to the relevant employees and terminated the arrangement.

18 DEFERRED SUBSIDY INCOME

	Government grant for production facilities RMB'000
At 1 January 2006	—
Addition	1,350
Amortisation	(583)
At 31 December 2006	767
At 1 January 2007	767
Addition	6,100
Amortisation	(859)
At 31 December 2007	6,008

18 DEFERRED SUBSIDY INCOME *(Continued)*

In 2007, the Group received government grants of approximately RMB6,100,000 (2006: RMB1,350,000) from the finance bureau of Xindu county and Dazhu county, Sichuan Province for the energy saving and environment protection projects. These grants were recorded as deferred subsidy income and were credited to the income statement on the straight-line basis over the expected useful lives of the related equipments.

19 DEFERRED INCOME TAX - GROUP

There were no offsetting of deferred income tax assets and liabilities in 2006 and 2007.

	2007	2006
	RMB'000	RMB'000
Deferred tax assets:		
– To be recovered after more than 12 months	**2,335**	532
– To be recovered within 12 months	**74**	239
	2,409	771
Deferred tax liabilities:		
– To be settled after more than 12 months	**(80,867)**	—
– To be settled within 12 months	**—**	—
	(80,867)	—

The movements in deferred income tax assets and liabilities are as follows:

Deferred income tax assets:

	Impairment of assets	**Deferred subsidy income**	**Total**
	RMB'000	RMB'000	RMB'000
At 1 January 2006	462	—	462
Credited to income statement	171	138	309
At 31 December 2006	633	138	771
At 1 January 2007	633	138	771
Credited to income statement	416	1,222	1,638
At 31 December 2007	1,049	1,360	2,409

19 DEFERRED INCOME TAX - GROUP *(Continued)*

Deferred income tax liabilities:

	Evaluation and exploration assets	Difference in tax depreciation	Total
	RMB'000	RMB'000	RMB'000
At 1 January 2006	—	(624)	(624)
Credited to income statement	—	624	624
At 31 December 2006	—	—	—
At 1 January 2007	—	—	—
Acquisition of subsidiary *(Note 34)*	(80,867)	—	(80,867)
At 31 December 2007	(80,867)	—	(80,867)

As at 31 December 2007, the Group had unused tax losses of approximately RMB11,408,000 (31 December 2006: RMB5,455,000) available to offset against future profits. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams.

20 TRADE AND OTHER PAYABLES

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade payables *(Note a)*	**24,473**	30,450	**—**	—
Notes payable *(Note b)*	**7,130**	12,000	**—**	—
Advances from customers	**27,430**	29,582	**—**	—
Accrued expenses	**9,874**	6,361	**6,349**	3,415
Deposits from suppliers	**3,379**	2,530	**—**	—
Other taxes payable	**1,601**	2,571	**—**	—
Others	**7,510**	6,658	**—**	—
	81,397	90,152	**6,349**	3,415

(a) Trade payables

The ageing analysis of trade payables of the Group is as follows:

	2007	2006
	RMB'000	RMB'000
Aged:		
Less than 1 year	**23,877**	29,898
More than 1 year but not exceeding 2 years	**368**	552
More than 2 years but not exceeding 3 years	**228**	—
	24,473	30,450

(b) Notes payable

Notes payable represented bank acceptance notes issued by the Group and were interest-free and with maturity dates of less than one year. As at 31 December 2007, notes payable of approximately RMB7,130,000 (2006: RMB12,000,000) were pledged by bank deposits of RMB2,139,000 (2006: RMB5,601,000).

21 SHORT-TERM BANK LOANS, SECURED

The short-term bank loans are denominated in RMB and were issued at fixed interest rates which range from 5.48 % to 9.71% (2006: 4.80% to 7.50%) per annum and are secured by bank deposits of RMB44,076,000 (2006: RMB15,200,000) and certain land use rights and property, plant and equipment of the Group (Notes 5 and 6).

The fair values of short-term bank loans approximate their carrying amounts, as the impact of discounting is not significant.

The exposure of the short-term bank loans to the contractual repricing dates are as follows:

	2007	2006
	RMB'000	RMB'000
6 months or less	**99,100**	61,076
Between 6 months to 1 year	**60,400**	64,400
	159,500	125,476

22 TURNOVER

Turnover represents invoiced value of sale of chemical products and chemical fertilisers to customers in Mainland China, net of goods returned and value-added tax ("VAT"), where applicable.

The Group's sales made in Mainland China are subject to VAT ("output VAT"). Such output VAT is payable after offsetting VAT paid by the Group on purchases. The applicable rates of output VAT range from 0% to 17%.

The Group's turnover and profit are generated from manufacturing and sale of chemical products and chemical fertilisers in Mailand China, no segment information is therefore presented.

23 EXPENSES BY NATURE

	2007 RMB'000	2006 RMB'000
Changes in inventories of finished goods and work in progress	**15,734**	987
Raw materials and consumables used	**448,813**	332,070
Power and natural gas consumed	**140,803**	128,600
Maintenance expenses	**7,349**	9,596
Customs duty	**—**	1,237
Staff costs *(Note 24)*	**48,949**	47,024
Depreciation, amortisation and impairment charges *(Notes 5 and 6)*	**14,964**	14,367
Provisions for doubtful receivables *(Note 11)*	**267**	1,798
Loss on disposal of property, plant and equipment *(Note 32)*	**1,154**	197
Transportation expenses	**19,117**	15,822
Advertisement expenses	**4,659**	3,602
Operating lease payments	**1,251**	1,130
Auditors' remuneration	**2,007**	1,561
Other expenses	**17,203**	18,685
Total cost of sales, distribution costs and administrative expenses	**722,270**	576,676

24 STAFF COSTS

	2007 RMB'000	2006 RMB'000
Wages and salaries	**39,423**	36,207
Pension costs-defined contribution plans	**4,920**	3,977
Social security costs	**3,284**	2,652
Share options granted to directors and employees *(Note 14 (d))*	**1,322**	4,188
	48,949	47,024

25 DIRECTORS' AND SENIOR MANAGEMENT's EMOLUMENTS

(a) Directors' emoluments

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

Name of director	Fees	Salaries, allowances, and benefits in kind	Bonuses	Contributions to pension schemes	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive Directors					
Mr. Li Weiruo	600	250	200	21	1,071
Mr. Yuan Bai	120	220	150	12	502
Ms. Chi Chuan	120	220	150	12	502
Mr. Li Shengdi	120	250	150	12	536
Ms. Man Yu, Vivian	120	360	150	16	642
Independent non-executive directors					
Mr. Hu Xiaoping	60	—	20	—	80
Mr. Woo Che-wor, Alex	60	—	20	—	80
Mr. Qian Laizhong	60	—	20	—	80
	1,260	1,300	860	73	3,493

25 DIRECTORS' AND SENIOR MANAGEMENT's EMOLUMENTS *(Continued)*

(a) Directors' emoluments *(Continued)*

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

Name of director	Fees	Salaries, allowances, and benefits in kind	Bonuses	Contributions to pension schemes	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive Directors					
Mr. Li Weiruo	624	180	206	24	1,034
Mr. Yuan Bai	125	173	156	7	461
Ms. Chi Chuan	125	173	156	7	461
Mr. Li Shengdi	125	173	156	7	461
Ms. Man Yu, Vivian	125	377	156	11	669
Independent non-executive directors					
Mr. Hu Xiaoping	62	—	11	—	73
Mr. Woo Che-wor, Alex	62	—	11	—	73
Mr. Qian Laizhong	62	—	11	—	73
	1,310	1,076	863	56	3,305

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include four (2006: four) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one (2006: one) individual during the year are as follows:

	2007	2006
	RMB'000	RMB'000
Basic salaries, housing allowances, other allowances and benefits in kind	**650**	460
Contributions to pension schemes	**12**	12
	662	472

25 DIRECTORS' AND SENIOR MANAGEMENT's EMOLUMENTS *(Continued)*

(b) Five highest paid individuals *(Continued)*

The emoluments fell within the following bands:

	Number of individuals	
	2007	2006
Emolument bands		
Nil to RMB1,000,000 (approximately HKD1,064,000)	**1**	1

During the year, the Group did not pay any amount to the five highest paid individuals (including directors and the employee) nor any other directors of the Company as an inducement to join or upon joining the Group or as compensation for loss of office and no directors waived any emoluments during the year.

26 OTHER INCOME

	2007	2006
	RMB'000	RMB'000
Amortisation of subsidy income *(Note 18)*	**859**	583
Tax refund for reinvestments *(Note a)*	**1,520**	2,865
Gain from disposal of available-for-sale investment	**—**	733
Sales of scrap materials	**1,839**	1,021
Others	**680**	1,120
	4,898	6,322

(a) Tax refund for reinvestments

Amount represented PRC tax refunds on capital reinvestment and it is calculated with reference to certain percentage of the tax paid.

27 FINANCE COSTS - NET

	2007	2006
	RMB'000	RMB'000
Interest expenses of bank borrowings	**13,244**	7,928
Interest income	**(1,321)**	(1,425)
Others	**701**	406
	12,624	6,909

28 INCOME TAX EXPENSE

No provision for profits tax in the Cayman Islands, British Virgin Islands or Hong Kong has been made, as the Group had no assessable profit arising in or derived from those jurisdictions during the years ended 31 December 2007 and 2006.

Chengdu Ko Yo Chemical, Chengdu Ko Yo Compound and Dazhu Ko Yo Chemical qualify as foreign investment production enterprises and were established in the western regions. As approved by local tax bureaus, they are subject to the preferential tax policies for the development of western regions with Enterprise Income Tax ("EIT") at the rate of 15% and Local Enterprise Income Tax at the rate of 3%.

Dazhu KoYo Chemical is entitled to full exemption from EIT in the first two profitable years and a 50% reduction for the next three years thereafter. 2007 is the second profit-making year of Dazhu KoYo Chemical and thus the preferential EIT rate applicable to Dazhu KoYo Chemical for the year ended 31 December 2007 is 0% (2006: 0%).

Dezhou Ko Yo Compound and Qingdao Ko Yo Chemical did not have taxable profit for the year ended 31 December 2007 (2006: Nil).

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

	2007	2006
	RMB'000	RMB'000
Current tax for Mainland China	**5,172**	5,661
Deferred income tax *(Note 19)*	**(1,638)**	(933)
	3,534	4,728

28 INCOME TAX EXPENSE *(Continued)*

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the statutory taxation rate applicable to profits of the consolidated companies as follows:

	2007	2006
	RMB'000	RMB'000
Profit before taxation	**44,923**	33,324
Calculated at statutory taxation rate of 18% (2006:18%)	**8,086**	5,998
Expenses not deductible for tax purposes	**63**	—
Effects of income tax exemption *(Note a)*	**(4,976)**	—
Tax losses for which no deferred income tax was recognised	**1,493**	—
Tax effect of increase in tax rate used for the recognition of deferred tax *(Note b)*	**(480)**	—
Effects on tax holiday available to different companies of the Group	**(652)**	(1,270)
Taxation	**3,534**	4,728

(a) Effects of income tax exemption

As approved by the local tax bureau in Sichuan, PRC, Ko Yo Chemical is entitled to an income tax exemption with an amount of 40% on the purchase cost of certain qualified equipment manufactured in the PRC.

(b) Tax effect of increase in tax rate used for the recognition of deferred tax

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the "new CIT Law"), which is effective from 1 January 2008. Under the new CIT Law, the EIT rate for both domestic and foreign investment enterprises will be uniformed at 25%. There will be a transition period for enterprises that currently receive preferential tax treatments and are entitled to tax exemptions or reductions granted by relevant tax authorities. Since the deferred income tax assets shall be measured at the tax rates that are expected to apply to the period when the asset is realised, the change in the applicable tax rate will affect the determination of the carrying values of deferred income tax assets of the Group. The Group have obtained approvals from relevant tax authorities for the applicable tax rates during the transition periods and adopted those EIT rates in computing the deferred taxation as at 31 December 2007.

29 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of RMB11,227,000 (2006: loss of RMB3,661,000).

30 EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year (Note 14).

	2007	2006 (Restated)
Profit attributable to equity holders of the Company (RMB'000)	**41,389**	28,596
Weighted average number of ordinary shares in issue (thousands)	**2,574,462**	2,371,355
Basic earnings per share (RMB per share)	**0.016**	0.012

(b) Diluted

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

	2007	2006 (Restated)
Profit attributable to equity holders of the Company (RMB'000)	**41,389**	28,596
Weighted average number of ordinary shares in issue (thousands)	**2,574,462**	2,371,355
Adjustment-share options (thousands)	**1,675**	3,200
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**2,576,137**	2,374,555
Diluted earnings per share (RMB per share)	**0.016**	0.012

The weighted average number of ordinary shares for the purpose of basic and diluted earnings per share for the years ended 31 December 2006 have been adjusted for the Company's share subdivision in December 2007, details of which are set out in Note 14 (c), by assuming the share subdivision has been taken place on 1 January 2006. As a result, the basic and diluted earnings per share for the year ended 31 December 2006 have been restated.

31 DIVIDENDS

	2007 RMB'000	2006 RMB'000
Interim, paid, of HKD0.003 (2006: HKD0.005) per ordinary share (on pre-subdivision basis)	**1,517**	2,631
Final, proposed, of HKD0.0008 (2006: HKD0.0014) per ordinary share (on post-subdivision basis)	**3,922**	3,541
	5,439	6,172

At a meeting held on 10 August 2007, the directors declared an interim dividend of HKD0.003 (approximately RMB0.003) per ordinary share (on pre-subdivision basis), totalling approximately RMB1,517,000, which was paid during the year ended 31 December 2007.

At a meeting held on 28 March 2008, the directors proposed a final dividend of HKD0.0008 (approximately RMB0.0007) per ordinary share (on post-subdivision basis), totalling approximately RMB3,922,000. This proposed dividend is not reflected as a dividend payable in these financial statements.

32 CASH GENERATED FROM OPERATIONS

Reconciliation of profit before taxation to cash generated from operating activities:

	2007 RMB'000	2006 RMB'000
Profit before taxation	**44,923**	33,324
Depreciation	**13,933**	13,406
Amortisation of land use rights	**1,031**	961
Loss on disposal of property, plant and equipment	**1,154**	197
Interest income	**(1,321)**	(1,425)
Interest expenses	**13,244**	7,928
Gain from disposal of available-for-sale investment	**—**	(733)
Share-based compensation	**1,322**	4,188
Operating profit before working capital changes	**74,286**	57,846
Decrease/ (increase) in inventories	**12,674**	(648)
Increase in trade and other receivables	**(1,511)**	(12,862)
Decrease in trade and other payables	**(9,491)**	(40,783)
Increase in deferred subsidy income	**5,241**	767
Decrease in provision for staff compensation	**(4,573)**	(2,757)
Decrease in amount due to related companies	**—**	(50)
Cash generated from operating activities	**76,626**	1,513

In the cash flow statement, proceeds from disposal of property, plant and equipment comprise:

	2007 RMB'000	2006 RMB'000
Net book amount *(Note 6)*	**1,281**	274
Loss on disposal of property, plant and equipment	**(1,154)**	(197)
Proceeds from disposal of property, plant and equipment	**127**	77

The principal non-cash transaction is the issue of shares as consideration for the acquisition as disclosed in Note 34.

33 COMMITMENTS – GROUP

(a) Capital commitments for property, plant and equipment

	2007 RMB'000	2006 RMB'000
Constructions-in-progress:		
Contracted but not provided for	**259,396**	264,478

(b) Commitments under operating leases

The Group leases offices under non-cancellable operating lease agreements. The lease terms are between 1 and 2 years, and the majority of lease agreements are renewable at the end of the period at market rate.

The Group had future aggregate minimum lease payments under non-cancellable operating leases for land and buildings are as follows:

	2007 RMB'000	2006 RMB'000
Not later than one year	**1,087**	756
Later than one year and not later than five years	**—**	88
	1,087	844

The Company had no commitment as at 31 December 2007 (2006:Nil)

34 BUSINESS COMBINATIONS – GROUP

On 24 December 2007, the Group acquired 100% equity interest in Cuyo Group which is principally engaged in exploration and evaluation of a phosphate mine located in Sichuan, PRC. No turnover has been generated by Cuyo Group up to 31 December 2007 as it has not yet commenced exploitation activities.

Details of net assets acquired and goodwill are as follows:

	RMB'000
Purchase consideration:	
– Fair value of shares issued *(Note 14(b))*	256,924
– Direct cost relating to the acquisition	4,829
Total purchase consideration	261,753
Fair value of net assets acquired – shown as below	(252,853)
Goodwill *(Note 8)*	8,900

The goodwill is attributable to the workforce of the acquired business and the synergies expected to arise after the Group's acquisition of Cuyo Group.

The assets and liabilities as of 24 December 2007 arising from the acquisition are as follows:

	Fair value (RMB'000)	**Acquiree's carrying amount** (RMB'000)
Property, plant and equipment	356	356
Exploration and evaluation assets	331,099	7,631
Trade and other receivables	985	985
Cash and cash equivalents	2,016	2,016
Trade and other payables	(736)	(736)
Deferred tax liabilities	(80,867)	—
Net outflow on acquired	252,853	10,252
Cash and cash equivalents in subsidiary acquired		2,016
Purchase consideration settled in cash		(4,829)
Cash outflow on acquisition		(2,813)

There were no acquisitions in the year ended 31 December 2006.

35 RELATED-PARTY TRANSACTIONS

The Group is controlled by Mr. Li Weiruo, who owns approximately 59.8% of the Company's issued shares as at 31 December 2007. The remaining approximately 40.2% of the issued shares are widely held.

(a) Acquisition of Cuyo Group

As disclosed in Note 34, the Group acquired 100% equity interest in Hong Kong Cuyo. Immediately before the acquisition, Mr. Li Weiruo and Mr. Yuan Bai, being two shareholders and directors of the Company, owned Hong Kong Cuyo as to 80% and 8%, respectively.

(b) Key management compensation (excluding directors' emoluments)

	2007	2006
	RMB'000	RMB'000
Salaries and other short-term employee benefits	**1,142**	949

The directors' emoluments are disclosed in Note 25.

36 EVENT AFTER THE BALANCE SHEET DATE

Subsequent to the balance sheet date, short-term bank loans of RMB39 million have been rolled over for a further year and new additional short-term bank loans of RMB8 million have been granted and drawn down with a term of one year.

On 29 February 2008, 500,000,000 shares of HKD0.02 each were issued by the Company at HKD0.145 per share pursuant to the Placing and Subscription Agreement, resulting in net proceeds of approximately HKD69 million (approximately RMB64 million).

37 COMPARATIVE FIGURES

The comparative figure of deferred subsidy income, which was included in trade and other payables in 2006, has been separately disclosed so as to conform with the current year's presentation.

As disclosed in Note 30, the basic and diluted earnings per share for the year ended 31 December 2006 have been restated as a result of the Company's share subdivision in December 2007 (Note 14).

FIVE YEAR FINANCIAL SUMMARY

The following table summarizes the audited results, assets and liabilities of the Group for the five years ended 31st December 2007.

	2007	2006	2005	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	**774,919**	610,587	627,616	422,728	281,810
Profit before taxation	**44,923**	33,324	53,200	33,894	24,104
Taxation	**(3,534)**	(4,728)	(6,421)	(1,215)	(31)
Profit after taxation	**41,389**	28,596	46,779	32,679	24,073
Minority interest	**—**	—	23	33	—
Profit attributable to equity holders of the Company	**41,389**	28,596	46,802	32,712	24,073
Total assets	**1,032,844**	524,290	488,879	361,174	266,221
Total liabilities	**(445,405)**	(231,428)	(285,952)	(209,513)	(143,290)
Minority interests	**—**	—	—	(567)	(600)
Shareholders' funds	**587,439**	292,862	202,927	151,094	122,331