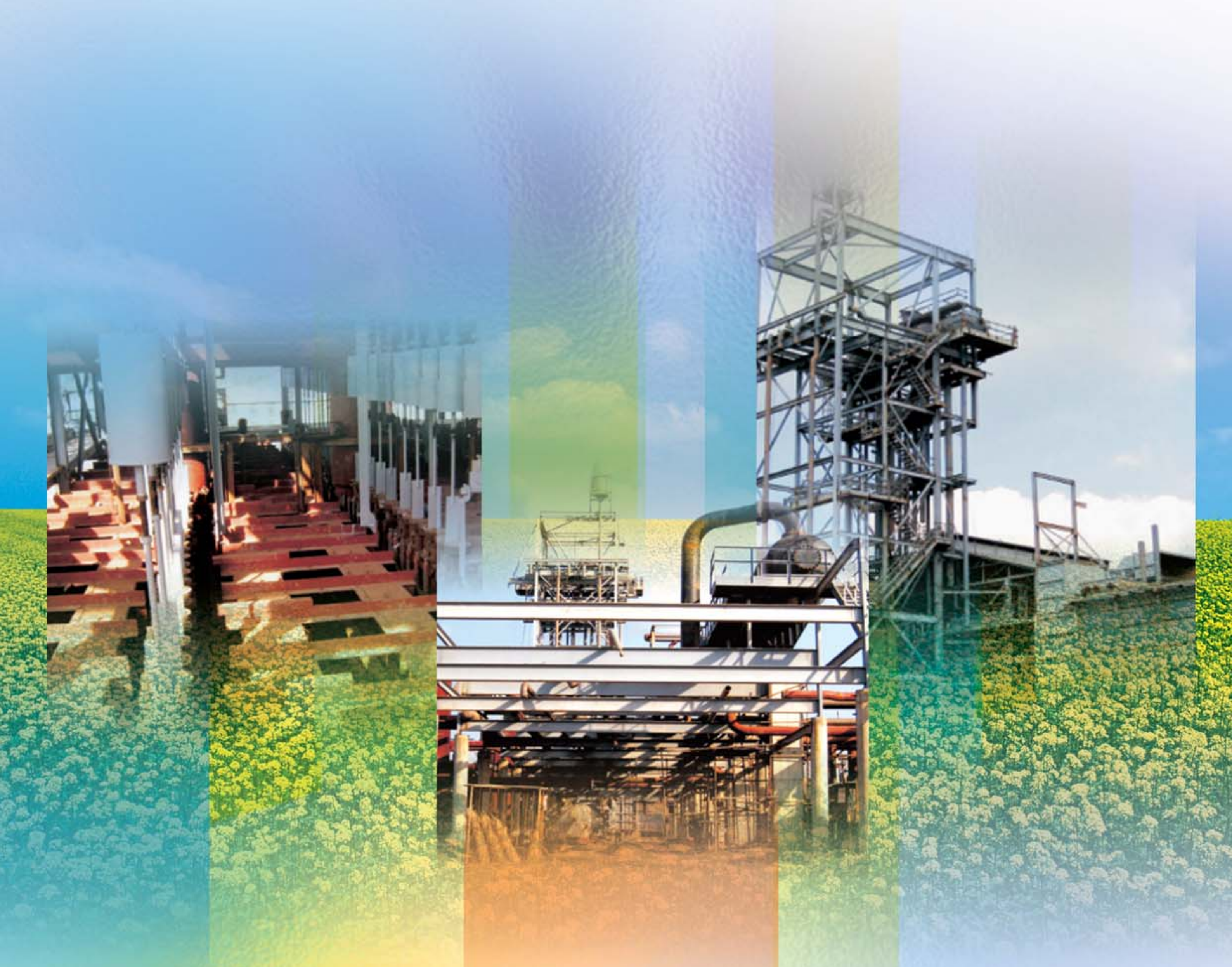
玖源生態農業科技(集團)有限公司

Ko Yo Ecological Agrotech (Group) Limited

(incorporated in the Cayman Islands with limited liability)

(Stock code: 00827)



2008 Annual Report

Contents

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, FCCA

QUALIFIED ACCOUNTANT

Mr. Chung Tin Ming, HKICPA, FCCA

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

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite No. 02, 31st Floor, Sino Plaza
255-257 Gloucester Road
Causeway Bay
Hong Kong

SHARE REGISTRAR

Union Registrars Limited
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

The Bank of East Asia, Limited
-Chengdu Branch

China Merchants Bank
-Chengdu City Hong Zhaobi Branch

Standard Chartered Bank
-Central Branch

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

STOCK CODE

827

WEBSITE

www.koyochem.com

Highlights

— For the year ended 31st December 2008, the profit attributable to shareholders increased to approximately RMB61 million, which represents an increase of 47% as compared to year 2007.

— Basic earnings per share was approximately RMB1.0 cents for the year ended 31st December 2008.

— For the year ended 31st December 2008, sale turnover was approximately RMB655 million, which represents a decrease of 15.5% as compared to year 2007.

— The sale amount and quantities of BB Fertilizers and compound fertilizers of the Group decreased to approximately RMB198 million and 90,638 tonnes respectively, which represents a drop of 34% and 50.2% respectively as compared with year 2007.

— The Directors do not recommend the payment of any final dividend for the year ended 31st December 2008.

Chairman's Statement

TO SHAREHOLDERS

It's my honour to report the results of Ko Yo Ecological Agrotech (Group) Limited (the "Company") together with its subsidiaries (collectively, the "Group") for the year ended 31st December 2008 to you. I wish to express appreciation on behalf of the Board of Directors (the "Board") to all shareholders and our friends from all sectors of the society who concern for the development of the Group.

BUSINESS REVIEW

During the year under review, the Group achieved a significant increase in profit attributable to shareholders by riding on the sustained and stable development of the overall economy in the People's Republic of China (the "PRC") and in spite of the adverse impacts brought by the snowstorm, the Wenchuan Earthquake and the global financial crisis. For the year ended 31st December 2008, the audited profit of the Group attributable to shareholders amounted to approximately RMB 61,000,000, an increase of 47% over RMB 41,000,000 of last year. Basic earnings per share amounted to approximately RMB 1.0 cents. The substantial increase in profit achieved by the Group was mainly due to:

1. High prices of chemical fertilizers driven by increasing prices of raw materials in the first half of the year. Take urea price for example, as a result of the increases in the price of international chemical fertilizers due to surging price of international crude oil, the factory price of domestic urea in China increased by 20% over the same period last year;

2. Effective implementation of the management philosophy of "minimizing costs and maximizing profits" as ensured by the increasingly strict, scientific and flexible management method of the Group. This was reflected in: (A) the efficient and steady operation of our production facilities, particularly the Group's synthetic ammonia production facilities in Xindu District, Sichuan Province, which achieved remarkable results in energy-saving and cost-reducing after an intermittent conversion technical reform, laying a solid base for achieving the profit goals for the whole year; and (B) the fact that in face of disasters such as the snowstorm, the Wenchuan Earthquake and the financial crisis, the management of the Group remained sober in sizing up the situation and made active adjustments to operation strategies to minimize loss and effectively protect the interests of the Company and its shareholders. For example, the Company downsized its fertilizer export business at the beginning of the year in light of the implementation by the State of new customs duty regulation policies, and as a result the Group recorded an interim gross profit margin of 22.8%, an increase of approximately 10.7% over the same period last year. In response to the Wenchuan Earthquake, the Company maintained good communication with investors through publication of announcements while seeking help from the government and successfully recovered production in a safe manner within two weeks. At the strike of the financial crisis, unlike some chemical fertilizer producers that experienced huge losses due to inventory of expensive stock or reduced or halted production due to weak market demand, the Company kept raw materials stock under good control by sticking to the principle of "mainly focusing on risk control and maintaining appropriate stock levels" in raw materials stock. By entering into "fixed floor price" contracts with raw materials suppliers, the Company not only obtained raw materials supply, but also minimized the loss of the Company due to fluctuation in the price of raw materials. Furthermore, in light of the market condition, the Company conducted specialised studies and initiated various counter-measures to reduce costs, strengthen agrichemical services, explore market and increase sales, which helped to protect the interests of the Company.

For the year ended 31st December 2008, the Group's turnover amounted to approximately RMB655 million, a decrease of 15.5% as compared to RMB 775,000,000 in the same period last year; the Group's sales volume amounted to approximately 397,000 tonnes, a decrease of 28% as compared to 553,000 tonnes in the same period last year. During the year under review, the Group did not record increase in its turnover and sales volume mainly due to the facts that: (1) product export business decreased due to the effects of China's customs duty regulation policies. In 2008, in order to ensure the fertilizer supply in domestic market and stabilise the chemical fertilizer price in the PRC, the State adjusted the rate of customs duty more than once, and as a result, export customs duty for compound fertilizers increased to 100% from zero and export customs duty for urea increased to 185% from 35% at the beginning of the year; and (2) due to the global financial crisis and the resulting slump in international crude oil price and fertilizer price, hesitant atmosphere filled the market and resulted in weak demand for fertilizers.

In view of the result of the Group for the year under review, the Board did not recommend the payment of any final dividend for the year ended 31st December 2008. The total dividend paid during the year ended 31st December 2008 amounted to HKD 0.03 cents per share (2007: HKD 0.14 cents per share after the adjustment for the effect of share subdivision (the "Share Subdivision") of 1 into 5 on 27th December 2007).

OUTLOOK

Industry Review

Demand for chemical fertilizers will remain steady

Chemical fertilizers play a critical role in grain production increase. According to the Food and Agriculture Organization of the United Nations (FAO), developing countries may increase grain yield per unit area by 55-57% and increase gross yield by 30-31% via application of chemical fertilizers. According to statistics, approximately 35% of the total grain production in the PRC from 1986 to 1990 was achieved through application of chemical fertilizers. Therefore, fertilizers are the essential material security for China's grain production increase and grain safety. The table below sets out the statistics of China's grain planting areas, amounts of chemical fertilizers applied and grain productions in the recent years, so as to explain the importance of chemical fertilizers to China's grain production increase:

Corps planting area, grain production and amount of chemical fertilizers applied from 2005 to 2007

Year	Total corps planting area *('000 hectare)*	Grain planting area *('000 hectare)*	Percentage of grain planting area to total planting area *(%)*	Grain production *('000 tonnes)*	Amount of chemical fertilizers applied *('000 tonnes of pure nutrient)*
2005	155,487.2	104,278.5	67.07	484,024	47,662
2006	152,149.5	104,957.7	68.98	498,042	49,277
2007	153,463.9	105,638.4	68.83	501,500	51,078

Source: China Chemical Fertilizer Information Centre

It is expected that, in 2009, chemical fertilizers application in the PRC will continue to increase steadily in spite of the global financial crisis. The reasons are: (1) policies supporting agriculture issued by the State, such as the policies to raise grain purchasing prices, agriculture investment and grain planting subsidies, will help in some extent to stimulate peasants' enthusiasm for planting grain and thus stabilize the demand for chemical fertilizers; (2) as the price of petrochemical energy rises, biological energy has become more popular in recent years. This will boost the application of chemical fertilizers for currently the vast majority of raw materials used in biological energy production are mainly corps; and (3) declining prices of chemical fertilizers will reinforce the purchasing power of peasants and thus boost chemical fertilizer application. The table below sets out the forecast of demand for chemical fertilizers in the PRC:

Forecast of demand for chemical fertilizers in the PRC

Unit: ('000 tonnes of pure nutrient)

Year	Total	N	P_2O_5	K_2O	N: P_2O_5:K_2O
2010	53,300	31,500	12,500	9,300	1:0.4:0.3
2015	57,800	34,000	13,600	10,200	1:0.4:0.3

Source: China Chemical Fertilizer Information Centre

Generally favourable industrial policies of the State will boost the development of chemical fertilizer industry

Since 2008, in spite of the snowstorm, the Wenchuan Earthquake and the global financial crisis, the overall trend for the rapid and balanced development of China's economy has not changed and the overall situation for the development of China's economy has remained positive under the State's flexible and prudent macroeconomic control. In 2009, the State will boost its economic development mainly through expanding domestic demand. According to the measures issued recently, "agriculture, rural areas and peasants" have become an important field for investment. Specifically, these measures include, among other things, the following:

1. In 2009, the State will continue to raise the subsidies for peasants. In particular, the State subsidies for purchasing agriculture implements will amount to RMB 10 billion, an increase of RMB 6 billion over 2008.

2. Reinforcing investments in respect of "agriculture, rural areas and peasants". The Ministry of Agriculture of the PRC has issued a circular lately, requiring agricultural authorities at all levels to implement promptly the arrangements and requirements of the central government to expand domestic demand and promote balanced and relatively rapid economic growth.

3. Substantially raising the floor price for purchasing grain produced in 2009. Take white wheat, red wheat and mixed wheat for example, the purchase prices will be raised by 13% to 15.3% over 2008.

On 25th December 2008, the State Council issued the latest chemical fertilizer industry policy – "The factory price of all chemical fertilizers and the FOB price of chemical fertilizers other than potash fertilizers shall be changed to market adjusted price in stead of government guided price". In the above industry policy, the Sate also decided to maintain temporarily preferential policies for chemical fertilizer companies on raw materials and transportation, including preferential policies on electricity utilisation in production, gas utilisation, railway transportation and taxation. This policy is a good news for the chemical fertilizer industry in the long term.

Directors of the Company (the "Directors") believe that, with increased investments by the State in respect of "agriculture, rural areas and peasants", promoted enthusiasm of peasants for planting grain, further increase in grain purchase prices and further improvement in the affordability of peasants, demand for chemical fertilizers will increase steadily and thus facilitate the development of chemical fertilizer industry and agriculture.

OBJECTIVES AND STRATEGIES

To endure the "cold winter" by detailed management and reinforced confidence as well as cost reduction

In light of unfavourable factors such as the financial crisis and the slowdown of the global economy, the management of the Group has proposed new philosophy and requirements on management for the coming year, which include, among other things:

1. Putting emphasis on budget management to reduce costs and expenses through defined budget and eliminate unnecessary expenses;

2. Enhancing the unity of the core management and the confidence of the staff and further reinforcing internal staff management and training, with a view to improve the overall management and work efficiency;

3. Encouraging innovative marketing and concept transformation, so as to deepen network distribution and consolidate product supply; and

4. Making efforts to expand financing resources to strengthen the Company's operation capability.

The Directors believe that, under the guidance of the above philosophy, all staff of the Group will have the confidence to achieve the operation objectives for the whole year and survive this "cold winter".

Newly-established project in Dazhou, Sichuan Province is proceeding smoothly and is expected to commence trial production in 2009

The Group's project with annual capacity of synthetic ammonia and urea of approximately 400,000 tonnes and 450,000 tonnes respectively in the Natural Gas Energy Utilization Area of Dazhou City, Sichuan Province progressed smoothly. It is a new project initiated by the management of the Company after comprehensive consideration on the development trend of chemical and fertilizer industry and on the basis of the fact that rich natural gas resources exist in that place.

At present, this project has been examined and approved by Sichuan Development and Reform Commission and is listed in the key construction projects of the Eleventh Five Year Plan of Sichuan Province and the key projects to commence construction in 2008 of Sichuan Province, and has obtained the confirmation from Sichuan Development and Reform Commission and China Petrochemical Corporation on natural gas supply of 450 million cubic metres per year. The on-site works of the project progressed as scheduled, with the installation of imported equipment for synthetic ammonia fully completed and dismantled equipment for urea arriving in succession and being inspected, repaired and installed. Training works for operators were also completed as scheduled. Trial run of equipment is under preparation and such equipment is expected to commence trial production and commercial operation in the second half of 2009.

The Directors expected that the completion and the commencement of commercial operation of this project will inject strong momentum for the growth of revenue and profit of the Company. Therefore, the management and all staff of the Company will go all out to facilitate the progress of the project, with a view to ensure its successful launch as soon as possible.

Update on exploitation licence application for a phosphorous mine

The application for the exploitation licence of a phosphorous mine of Sichuan Chengyuan Chemical Industry Company Limited ("Sichuan Cuyo"), a wholly-owned subsidiary of the Group, located at Qingping Township, Mianzhu City, Sichuan Province has been delayed due to the consequential impact on the overall infrastructure brought about by the earthquakes occurred in Wenchuan, Sichuan Province of the PRC in May 2008. Sichuan Cuyo had been granted by the Bureau of Land and Resource of Sichuan Province (四川省國土資源廳) an extension of the exclusivity period of the Mine (礦區範圍預留期), within which Sichuan Cuyo was conferred with a preferential right to apply for the exploitation licence, from 30th June 2008 to 30th June 2009

Currently, Sichuan Cuyo has completed the preparation of documents, such as Environmental Assessment Report, Safety Assessment Report, Environmental Preservation Plan and Mineral Resources Exploitation Plan.

Once approved, this phosphorous mine will become a strategic resource for the Company's middle-and-long-term development, allow the Company's industry chain to expand both upstream and downstream and lay a foundation for further improvement of economic benefits and the sustained development of the Group.

APPRECIATION

2008 is an unpeaceful year. During this year, we suffered from the once-in-50-year snowstorm, the astonishing Wenchuan Earthquake and the global financial crisis caused by U.S. sub-prime mortgage crisis. However, under the leadership of the Board of the Company and with the joint efforts from all staff, we managed to overcome all these difficulties to give shareholders a satisfactory return.

Looking forward, the Group will make efforts to further strengthen its intensive management and reduce costs and expenses; deepen network distribution and consolidate product supply; and leverage on its advantages in flexible operation to avoid risks. We are committed and confident to achieve the performance goals of 2009 and create better returns for shareholders.

I would like to take this opportunity to express appreciation on behalf of the Board to our clients, the management and all staff. I hope to retain support from our shareholders and hope the management and all staff will continue to work hard to achieve great results.

Li Weiruo
Chairman

Hong Kong, 24th April 2009

FINANCIAL PERFORMANCE

Results

For the year ended 31st December 2008, 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 RMB655 million, a decrease of 15.5% over the previous year. The profit attributable to shareholders of the Company amounted to approximately RMB61 million, representing a growth of approximately 47% as compared to last year. Basic earning per share amounted to approximately RMB1.0 cents.

Dividends

The Directors did not recommend the payment of any final dividend for the year ended 31st December 2008 (2007: HKD0.08 cents per share). A total of HKD0.03 cents per share were declared for the year ended 31st December 2008 (2007: HKD0.14 cents per share after adjustment for the effect of Share Subdivision).

Cost and Profit Margin

Cost of sales of the Group amounted to approximately RMB498 million, representing a decrease of 23.6% as compared to the figure in 2007. The reasons of decrease in cost of sale were decrease in sales quantities.

Gross profit margin of the Group increased approximately from 15.8% in 2007 to 23.9% in 2008. The increase in the gross profit margin was due to the increase in selling price of the products and the decrease in sales for products with low profit margin.

During the year under review, distribution costs decreased approximately by 35.7% as compared with last year and such decrease was due to the decrease in sales. The ratio of the distribution costs over sales was 2.8% in 2008 which was lower than that of in 2007.

In comparison with last year, there was an increase in administrative expenses of the Group by approximately 35.9% from RMB41.8 million in 2007 to RMB56.8 million in 2008.

Starting from the year under review, the Group prepaid income tax in 2008 of Enterprise Income Tax amounting to approximately RMB6.7 million. Details of tax schemes are set out in Note 27 to consolidated financial statements.

PRODUCTS

BB Fertilizers and Compound Fertilizers

Net sales of BB Fertilizers and compound fertilizers of the Group amounted to approximately RMB198 million, representing a decline of approximately 34% as compared to last year, and accounted for approximately 30.2% of the Group's aggregate net sales.

Sodium Carbonate and Ammonium Chloride

The net sales of sodium carbonate and ammonium chloride amounted to approximately RMB131 million and RMB71 million, which increase approximately by 15.9% and 54.3% respectively as compared to previous year, which accounted for approximately 20% and 10.8% of the Group's aggregate net sales respectively.

Urea

The net sales of urea increased by 13.1% to RMB241 million in 2008 as compared to last year, which accounted for approximately 36.8% of the Group's aggregate net sales.

Ammonia and Ammonium Bicarbonate

The net sales of ammonia decreased approximately by 8.3% to RMB11 million in 2008 as compared to last year, which accounted for 1.7% of the Group's aggregate net sales. The net sales of ammonium bicarbonate decreased by 38.5% to RMB2.4 million of sales as compared to last year, which accounted for approximately 0.4% of the Group's aggregate net sales.

Others

The net sales of other products including foliar fertilizer, highly water soluble fertilizer and trading of sodium carbonate were approximately RMB0.6 million, which accounted for approximately 0.1% of the Group's aggregate net sales.

Technology and Product Research and Development

The Group will continue the research and development and survey of new formulas for BB fertilizer and compound fertilizer, slow release fertilizer/controlled release fertilizer and technology for producing compound fertilizer by extruding-prilling method, and launch new fertilizer products in selected local markets in due course on the basis of previous work results, so as to sound out market response and the prospect of such products.

PRODUCTS *(Continued)*

Awards & Recognitions

During the period under review, Ko Yo Development Company Limited, a subsidiary of the Group, was accredited the award of "International Top 100 Recycle Economy Enterprises" (國際循環經濟100強) by the "2008 Asia Pacific Annual Chinese-Economy Council for Investment & Financing the 3rd China International Recycle Economy Summit" (2008亞太（投融資）華人經濟年會暨第三屆中國國際循環經濟高峰論壇) on 29th December 2008. Mr. Li Weiruo, Chairman of the Board of the Company, was accredited the award of "World Economy Top 10 Outstanding Chinese Entrepreneurs" (世界十大華人傑出企業家獎).

Latest Developments in the Newly-established Project in Dazhou of Sichuan Province

The Group's project with annual capacity of synthetic ammonia and urea of approximately 400,000 tonnes and 450,000 tonnes respectively in the Natural Gas Energy Utilization Area of Dazhou City, Sichuan Province progressed smoothly. It is a new project initiated by the management of the Company after comprehensive consideration on the development trend of chemical and fertilizer industry and on the basis of the fact that rich natural gas resources exist in that place.

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PRODUCTS *(Continued)*

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Currently, Sichuan Cuyo has completed the preparation of documents, such as Environmental Assessment Report, Safety Assessment Report, Environmental Preservation Plan and Mineral Resources Exploitation Plan.

Once approved, this phosphorous mine will become a strategic resource for the Company's middle-and-long-term development, allow the Company's industry chain to expand both upstream and downstream and lay a foundation for further improvement of economic benefits and the sustained development of the Group.

Transfer of Listing from the Growth Enterprise Market ("GEM") to the Main Board

On 7th July 2008, an application was made by the Company to the Stock Exchange of Hong Kong Limited ("Stock Exchange") for the transfer of listing from GEM to the Main Board in respect of the Company and its shares including (i) 6,394,400,000 shares in issue and (ii) 206,700,000 shares which may fall to be issued pursuant to the exercise of the outstanding options which were granted under the GEM Share Option Scheme. The approval in principle has been granted by the Stock Exchange for the shares to be listed on the Main Board and de-listed from GEM, and dealings in the shares of the Company on the Main Board commenced on 25th August 2008.

The Directors consider that, in view of the financial performance of the Company, the potential benefits of listing on the Main Board and the recent market conditions, the transfer of listing would enhance the Company's corporate image and help its future growth. In addition, the Company will be more flexible to raise funds which can facilitate its further business expansion.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31st December 2008, the Group had net current liabilities of approximately RMB101,759,000. Current assets as at 31st December 2008 comprised cash and bank deposits of approximately RMB44,902,000, pledged bank deposits of approximately RMB59,336,000, inventories of approximately RMB98,258,000, trade receivables of approximately RMB7,376,000 and prepayments and other current assets of approximately RMB75,029,000. Current liabilities as at 31st December 2008 comprised short-term bank loans of approximately RMB171,000,000, short-term portion for long-term loans of approximately RMB42,601,000, trade and notes payables of approximately RMB102,670,000, deposits from customers of approximately RMB46,072,000 and accrued charges and other payables of approximately RMB24,317,000. 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 2008, the Group had outstanding capital commitments of approximately RMB212,549,000. Details of the Group's capital commitments are set out in Note 32 to the consolidated financial statements.

FINANCIAL RESOURCES

As at 31st December 2008, the Group had cash and bank deposits of approximately RMB44,902,000 and pledged bank deposits of approximately RMB59,336,000. 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 2008, the total bank loans and notes payable balances of the Group amounted to RMB365,801,000.

GEARING RATIO

The Group's gearing ratios were approximately 68% and 76% as at 31st December 2008 and 31st December 2007 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 2008.

MATERIAL ACQUISITION/DISPOSAL

There was no material acquisition or disposal in the year 2008 which would have been required to be disclosed under the Rules Governing the Listing of Securities ("Listing Rules") on Stock Exchange.

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.

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 2008, certain land use rights and buildings with a total net book value of approximately RMB65,415,000 (2007: RMB60,502,000), plant and machinery with a total net book value of approximately RMB24,404,000 (2007: RMB29,930,000) and bank deposits approximately RMB59,336,000 (2007: RMB46,215,000) were pledged as collateral for the Group's bank loans and notes payable.

DIVIDEND

After considering of the heavy capital expenditure of the new urea plant, the Directors do not recommend the payment of any final dividend for the year ended 31st December 2008.

NUMBER OF EMPLOYEES

As at 31st December 2008, the Group had 2,042 (2007: 1,796) employees, comprising 6 (2007: 6) in management, 108 (2007: 97) in finance and administration, 1,846 (2007: 1,594) in production, 76 (2007: 93) in sales and marketing and 6 (2007: 6) in research and development. 2,036 (2007: 1,790) of these employees were located in the PRC and 6 (2007: 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 55, 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 50, 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 53, 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 45, 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 56, 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 58, 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 56, 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 66, 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 Jiao Kang Di, aged 57, 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 (四川輕化工業院) 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 38, 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 each of in financial engineering and electronic engineering. He is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellowship member of 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 2008.

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. 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. On 25th August 2008, the Company had transferred of listing to the main board of the Stock Exchange.

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 bulk blending fertilizers ("BB Fertilizers").

RESULTS AND APPROPRIATIONS

Details of the Group's profits for the year ended 31st December 2008 are set out in the consolidated income statement.

The Directors do not recommend the payment of any final dividend for the year ended 31st December 2008 (2007: RMB3,922,000).

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 2008 amounted to approximately RMB507,706,000 (2007: RMB335,093,000).

RIGHTS OF DIRECTORS AND EMPLOYEES TO ACQUIRE SHARES OR DEBENTURES

A summary of the principle terms and conditions of the share option scheme is set out in the circular of the Company dated 29th August 2008.

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 100.

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 2008 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 Ms. Chi Chuan and Ms. Man Au Vivian have been longest in office, Ms. Chi Chuan and Ms. Man Au Vivian 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

On 10th June 2003, the Company adopted a share option scheme and amended at an extraordinary general meeting on 28th July 2004 (the "GEM Share Option Scheme"). The GEM Share Option Scheme was terminated on 25 August 2008. A new share option scheme (the "Existing Share Option Scheme") was adopted on 18 September 2008. A summary of the principle terms and conditions of the GEM 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 GEM Share Option Scheme are explained in the announcement and circular of the Company dated 12th July 2004. The details of the Existing Share Option Scheme can be found in the circular of the Company dated 29 August 2008. Details of the share option schemes of the Company are set out in Note 14 to the consolidated financial statement.

SHARE OPTIONS *(Continued)*

During the year ended 31st December 2008, the details of option outstanding and movements are disclosed in the following table:

	Number of options							Number of options		
	Held at 1 January 2008	Grant during period	Exercised during period	Cancelled during period	Held at 31 Dec 2008	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	
Yuan 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		
	48,500,000	—	—	1,500,000	47,000,000	11 April 2006	0.150		47,000,000	
	30,000,000	—	—	—	30,000,000	10 September 2007	0.116			30,000,000
Total	206,700,000	—	—	1,500,000	205,200,000			122,000,000	53,200,000	30,000,000

DIRECTORS' INTERESTS IN SHARES

As at 31st December 2008, 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 Model Code for Securities Transactions by Directors of Listed Issuers contained in 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	45.77%
Yuan Bai	366,464,000	2,000,000	368,464,000	5.76%
Chi Chuan	62,640,000	21,000,000	83,640,000	1.31%
Man Au Vivian	31,320,000	19,000,000	50,320,000	0.79%
Li Shengdi	—	21,000,000	21,000,000	0.33%
Hu Xiaoping	—	2,000,000	2,000,000	0.03%
Woo Che-wor, Alex	—	2,000,000	2,000,000	0.03%
Qian Laizhong	—	2,100,000	2,100,000	0.03%

(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 2008, so far as is known to any Director or chief executive of the Company, the following person (not being a director or a chief executive of the Company) 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 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.

Long positions – Ordinary shares of HKD0.02 each of the Company

Name	Capacity	Number of shares	Approximate shareholding percentage
Pinpoint Asset Management Group	Beneficial Owner	790,000,000	12.35%

INTEREST OF OTHER PERSONS IN THE COMPANY

(i) Long positions in the shares of the Company

As at 31st December 2008, so far as is known to any Director or chief executive of the Company and save as disclosed above, 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 23rd April 2009.

DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the Directors or the management shareholders of the Company and their respective associates (as defined under the 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 and has adopted the term of reference in line with the Code on Corporate Governance Practice issued by the Stock Exchange. 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 2008.

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 through the share placement as per announcement dated 19th February 2008 and on 29th February 2008, the Company issued 500,000,000 new Shares with the aggregate nominal value of HKD10,000,000.

On 22nd May 2008, 1,000,000,000 existing ordinary Shares were placed at HKD0.17 per share through the share placement as per announcement dated 23rd May 2008 and on 3 June 2008, the Company issued 1,000,000,000 new Shares with the aggregate nominal value of HKD20,000,000.

The proceeds from the above mentioned share placements were 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 City, Sichuan Province, the PRC.

CUSTOMERS AND SUPPLIERS

For the year ended 31st December 2008, the five largest customers accounted for approximately 12.6% of the Group's total turnover and the five largest suppliers of the Group accounted for approximately 45.9% of the Group's total purchases. The largest customer of the Group accounted for approximately 3.6% of the Group's total turnover and the largest supplier accounted for approximately 15.1% 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 statements.

CORPORATE GOVERNANCE

A report on the corporate governance practices adopted by the Company is set out on pages 28 to 32 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

24th April 2009

CORPORATE GOVERNANCE PRACTICES

The board of directors ("Board") 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. Throughout the year under review, the Board adopted the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules and 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 3.10 (1) and (2) of the 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 3.13 of the 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 2008, twelve 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	12/12	100%
Mr. Yuan Bai	12/12	100%
Ms. Chi Chuan	12/12	100%
Ms. Man Au Vivian	12/12	100%
Mr. Li Shengdi	12/12	100%
Independent Non-Executive Directors		
Mr. Hu Xiaoping	5/12	42%
Mr. Woo Che-wor, Alex	5/12	42%
Mr. Qian Laizhong	5/12	42%

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 Board had adopted the model code ("Model Code") set out in Appendix 10 to the Listing Rules as the code of conduct regarding directors' securities transactions 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. Ms. Chi Chuan and Ms. Man Au Vivian 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 the Code and four 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)	4/4	100%
Mr. Qian Laizhong	4/4	100%
Mr. Woo Che-wor, Alex	4/4	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 2008.

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. During the year under review, the Board considered the internal control system effective and adequate. No significant areas of concern which might affect shareholders were identified.

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
www.pwchk.com

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 35 to 99, which comprise the consolidated and company balance sheets as at 31 December 2008, 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 judgement, 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 2008 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, 24 April 2009

Consolidated balance sheet

	Note	2008	2007
		As at 31 December	
ASSETS		**RMB'000**	RMB'000
Non-current assets			
Land use rights	5	**42,284**	43,315
Property, plant and equipment	6	**759,835**	450,701
Exploration and evaluation assets	7	**331,547**	331,099
Goodwill	8	**8,900**	8,900
Deferred income tax assets	18	**2,071**	2,409
		1,144,637	836,424
Current assets			
Inventories	10	**98,258**	64,130
Trade and other receivables	11	**78,200**	66,874
Prepaid income tax, net		**4,205**	—
Pledged bank deposits	12	**59,336**	46,215
Cash and cash equivalents	13	**44,902**	19,201
		284,901	196,420
Total assets		**1,429,538**	1,032,844
EQUITY			
Capital and reserves attributable to the equity holders of the Company			
Share capital	14	**124,642**	97,746
Reserves			
– Proposed final dividend	30	**—**	3,922
– Others	15	**727,765**	485,771
Total equity		**852,407**	587,439

Consolidated balance sheet

	Note	As at 31 December 2008 RMB'000	2007 RMB'000
LIABILITIES			
Non-current liabilities			
Long term bank loans, secured	16	**104,070**	117,568
Deferred subsidy income	17	**5,534**	6,008
Deferred income tax liabilities	18	**80,867**	80,867
		190,471	204,443
Current liabilities			
Trade and other payables	19	**173,059**	81,397
Current income tax liabilities		**—**	65
Short term bank loans, secured	20	**171,000**	159,500
Current portion of long term loans, secured	16	**42,601**	—
		386,660	240,962
Total liabilities		**577,131**	445,405
Total equity and liabilities		**1,429,538**	1,032,844
Net current liabilities		**(101,759)**	(44,542)
Total assets less current liabilities		**1,042,878**	791,882

Li Weiruo
Director

Yuan Bai
Director

The notes on pages 41 to 99 are an integral part of these consolidated financial statements.

Balance sheet

	Note	As at 31 December 2008 RMB'000	2007 RMB'000
ASSETS			
Non-current assets			
Investments in subsidiaries	9	**703,332**	502,409
Current assets			
Other receivables	11	**39,656**	54,327
Cash and cash equivalents	13	**167**	20
		39,823	54,347
Total assets		**743,155**	556,756
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	14	**124,642**	97,746
Reserves			
– Proposed final dividend	30	**—**	3,922
– Others	15	**507,706**	331,171
Total equity		**632,348**	432,839
LIABILITIES			
Non-current liabilities			
Long term bank loans, secured	16	**76,070**	117,568
Current liabilities			
Accruals and other payables	19	**2,136**	6,349
Current portion of long term bank loans, secured	16	**32,601**	—
		34,737	6,349
Total liabilities		**110,807**	123,917
Total equity and liabilities		**743,155**	556,756
Net current assets		**5,086**	47,998
Total assets less current liabilities		**708,418**	550,407

Li Weiruo
Director

Yuan Bai
Director

The notes on pages 41 to 99 are an integral part of these consolidated financial statements.

Consolidated income statement

	Note	Year ended 31 December 2008 RMB'000	2007 RMB'000
Turnover	21	**654,920**	774,919
Cost of sales	22	**(498,318)**	(652,342)
Gross profit		**156,602**	122,577
Distribution costs	22	**(18,106)**	(28,156)
Administrative expenses	22	**(56,771)**	(41,772)
Other income - net	25	**2,199**	4,898
Operating profit		**83,924**	57,547
Finance costs - net	26	**(16,207)**	(12,624)
Profit before income tax		**67,717**	44,923
Income tax expense	27	**(7,060)**	(3,534)
Profit for the year		**60,657**	41,389
Profit attributable to equity holders of the Company		**60,657**	41,389
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in RMB per share)			
- Basic	29	**0.010**	0.016
- Diluted	29	**0.010**	0.016
Dividends	30	**1,703**	5,439

The notes on pages 41 to 99 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

	Note	Share capital	Reserves	Total
		RMB'000	RMB'000	RMB'000
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		—	1,322	1,322
Profit for the year		—	41,389	41,389
Dividends	30	—	(5,058)	(5,058)
Balance at 31 December 2007		97,746	489,693	587,439
Balance at 1 January 2008		97,746	489,693	587,439
Issue of ordinary shares	14	26,896	183,040	209,936
Profit for the year		—	60,657	60,657
Dividends	30	—	(5,625)	(5,625)
Balance at 31 December 2008		124,642	727,765	852,407

The notes on pages 41 to 99 are an integral part of these consolidated financial statements.

Consolidated cash flow statement

	Note	Year ended 31 December 2008 RMB'000	2007 RMB'000
Cash generated from operating activities	31 (a)	**147,383**	76,626
Income tax paid		**(10,992)**	(6,767)
Interest paid		**(18,225)**	(13,244)
Net cash inflow from operating activities		**118,166**	56,615
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired		**—**	(2,813)
Payments for exploration and evaluation assets		**(448)**	—
Purchases of property, plant and equipment and payments for construction-in-progress		**(327,246)**	(161,208)
Proceeds from disposal of property, plant and equipment	31 (b)	**716**	127
Proceeds from disposal of a subsidiary	34	**100**	—
Interest income received		**2,620**	1,321
Net cash used in investing activities		**(324,258)**	(162,573)
Cash flows from financing activities			
Increase in pledged bank deposits		**(13,121)**	(25,414)
Issue of ordinary shares		**209,936**	—
Proceeds from bank loans		**213,601**	277,068
Repayment of bank loans		**(172,998)**	(134,276)
Dividends paid	30	**(5,625)**	(5,058)
Net cash inflow from financing activities		**231,793**	112,320
Net increase in cash and cash equivalents		**25,701**	6,362
Cash and cash equivalents at beginning of the year		**19,201**	12,839
Cash and cash equivalents at end of the year	13	**44,902**	19,201

The notes on pages 41 to 99 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 had 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 "Listing"). On 25th August 2008, the Company transferred the listing of its shares from GEM of the Stock Exchange to the Main Board of the Stock Exchange ("Transfer of Listing").

The address of the registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and the principal place of business of the Company is Suite No. 02, 31st Floor, Sino 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 disposed of one of its subsidiaries in Shandong Province to an independent third party (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 24 April 2009.

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

As at 31 December 2008, the Group had net current liabilities of RMB101,759,000 as at 31 December 2008 (2007: RMB44,542,000) and capital commitments of RMB212,549,000 (see Note 32(a)). 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 based on the following assessment:

– The Group has profitable operations and stable cash inflow from operating activities;

– On 26 February 2009, Dazhou City Dazhu Koyo Chemical Industry Co., Ltd. ("Dazhu Ko Yo Chemical", a subsidiary of the Company) entered into a long term bank borrowing contract with a domestic bank in Mainland China, pursuant to which, the domestic bank will grant a long term bank borrowing of RMB300 million to the Group subject to and conditional on, including but not limited to, the receipt of capital contribution from International Finance Corporation ("IFC"). This loan is repayable from year 2010 to 2014. Given that the Company has already entered into a subscription agreement with IFC as described in the following paragraph, the directors of the Company believe that there is no difficulty in fulfilling the conditions and obtaining the aforesaid bank loan from the domestic bank;

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

- On 16 April 2009, the Company entered into a share subscription agreement with IFC, pursuant to which, IFC agrees to subscribe for 650,000,000 new shares of the Company at Hong Kong Dollar ("HKD") 0.12 per share (subject to adjustments) representing 9.23% of the entire equity interest of the Company as enlarged by the share subscription, at a total consideration of approximately US Dollar ("USD") 10 million;

- On 16 April 2009, Dazhu Koyo Chemical entered into a long term loan agreement with IFC, pursuant to which, IFC will grant a long term borrowing of USD20 million to the Group. The loan is repayable from year 2011 to 2017.

- The Group has not experienced any difficulties in renewing its short term bank loans upon their maturities and there is no evidence indicating that the banks will not renew the existing short term bank loans if the Group applies for the renewal. Subsequent to the balance sheet date and up to the date of approval of the financial statements, short term bank loans of approximately RMB49 million have been rolled over for a further year. In addition, certain banks have advised their intention in writing, though not legally binding, to renew or to extend the loans for a further year when they fall due in 2009;

- As of 31 December 2008, the capital expenditures committed by the Group amounted to approximately RMB213 million. These commitments are mainly related to the construction of the new production line project located in Dazhou, Sichuan province ("New Dazhou Project"). The capital commitments will be financed by capital contribution from IFC and long term loans from the domestic bank and IFC. The directors of the Company will undertake close monitoring process to control the magnitude and timing of the expected cash outlays associated with the New Dazhou Project.

In the opinion of the directors, in light of the above, the Group will have sufficient working capital to finance its operations and remain as a going concern in the foreseeable future. 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.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(a) Amendment and interpretations effective in 2008

- The HKAS 39, 'Financial instruments: Recognition and measurement', amendment on reclassification of financial assets permits reclassification of certain financial assets out of the held-for-trading and available-for-sale categories if specified conditions are met. The related amendment to HKFRS 7, 'Financial instruments: Disclosures', introduces disclosure requirements with respect to financial assets reclassified out of the held-for-trading and available-for-sale categories. The amendment is effective prospectively from 1 July 2008. This amendment does not have any impact on the Group's financial statements, as the Group has not reclassified any financial assets.

- HK(IFRIC) - Int 11, 'HKFRS 2 - Group and treasury share transactions', 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 an impact on the Group's financial statements.

(b) Interpretations effective in 2008 but not relevant

The following interpretation to published standards is mandatory for accounting periods beginning on or after 1 January 2008 but is not relevant to the Group's operations:

- HK(IFRIC) - Int 12, 'Service Concession arrangements'

- HK(IFRIC) - Int 14, 'HKAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction'

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(c) 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 January 2009 or later periods, but the Group has not early adopted them:

- HKFRS 8, 'Operating segments' (effective from 1 January 2009). HKFRS 8 replaces HKAS 14, 'Segment reporting'. 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. The expected impact is still being assessed in detail by management.

- HKAS 1 (Revised), 'Presentation of financial statements' (effective from 1 January 2009). The revised standard will prohibit the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the consolidated income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. The Group will apply HKAS 1 (Revised) from 1 January 2009.

- HKAS 23 (Revised), '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 (Revised) retrospectively from 1 January 2009 but it is not expected to have any material impact on the Group's financial statements.

- HKAS 27 (Revised), 'Consolidated and separate financial statements' (effective from 1 July 2009).The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is remeasured to fair value and a gain or loss is recognised in profit or loss. The Group will apply HKAS 27 (Revised) prospectively from 1 January 2010 but it is not expected to have any impact on the Group's financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

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

- HKAS 32 (Amendment), 'Financial instruments: Presentation', and HKAS 1 (Amendment), 'Presentation of financial statements' - 'Puttable financial instruments and obligations arising on liquidation' (effective from 1 January 2009). The amended standards require entities to classify puttable financial instruments and instruments, or components of instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation as equity, provided the financial instruments have particular features and meet specific conditions. The Group will apply the HKAS 32 (Amendment) and HKAS 1 (Amendment) from 1 January 2009, but it is not expected to have any impact on the Group's financial statements.

- HKFRS 1 (Amendment), 'First time adoption of HKFRS' and HKAS 27 'Consolidated and separate financial statements' (effective from 1 July 2009). The amended standard allows first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements. The amendment also removes the definition of the cost method from HKAS 27 and replaces it with a requirement to present dividends as income in the separate financial statements of the investor. The Company will apply HKAS 27 (Amendment) prospectively from 1 January 2010 in its separate financial statements. This amendment is not relevant to the Group.

- HKFRS 2 (Amendment), 'Share-based payment' (effective from 1 January 2009). The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. As such these features would need to be included in the grant date fair value for transactions with employees and others providing similar services, that is, these features would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group will apply HKFRS 2 (Amendment) from 1 January 2009, but it is not expected to have any material impact on the Group's financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

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

- HKFRS 3 (Revised), 'Business combinations' (effective from 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the consolidated income statement. There is a choice on an acquisition by acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply HKFRS 3 (Revised) prospectively to all business combinations from 1 January 2010.

- HK(IFRIC) - Int 16 , 'Hedges of a net investment in a foreign operation' (effective for the accounting period beginning on or after 1 October 2008). HK(IFRIC) - Int 16 clarifies the accounting treatment in respect of net investment hedging. This includes the fact that net investment hedging relates to differences in functional currency not presentation currency, and hedging instruments may be held anywhere in the Group. The requirements of HKAS 21, 'The effects of changes in foreign exchange rates', do apply to the hedged item. The Group will apply HK(IFRIC) - Int 16 from 1 January 2009. It is not expected to have any material impact on the Group's financial statements.

- HKICPA's improvements to HKFRS published in October 2008

  In October 2008, HKICPA published its annual improvements to HKFRS to clarify some accounting treatments/disclosure requirements under new/revised HKFRS and eliminate inconsistence. Management do not expect these amendments have a material impact on the Group's financial statements.

  – HKAS 1 (Amendment), 'Presentation of financial statements' (effective from 1 January 2009).
  – HKAS 19 (Amendment), 'Employee benefits' (effective from 1 January 2009).
  – HKAS 23 (Amendment), 'Borrowing costs' (effective from 1 January 2009).
  – HKAS 28 (Amendment), 'Investments in associates' (and consequential amendments to HKAS 32, 'Financial Instruments: Presentation' and HKFRS 7, 'Financial instruments: Disclosures') (effective from 1 January 2009).
  – HKAS 36 (Amendment), 'Impairment of assets' (effective from 1 January 2009).
  – HKAS 38 (Amendment), 'Intangible assets' (effective from 1 January 2009).
  – HKAS 39 (Amendment), 'Financial instruments: Recognition and measurement' (effective from 1 January 2009).
  – HKFRS 5 (Amendment), 'Non-current assets held for sale and discontinued operations' (and consequential amendment to HKFRS 1, 'First-time adoption') (effective from 1 July 2009).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

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

- HKICPA's improvements to HKFRS published in October 2008 *(Continued)*

  There are a number of minor amendments to HKFRS 7, 'Financial instruments: Disclosures', HKAS 8, 'Accounting policies, changes in accounting estimates and errors', HKAS 10, 'Events after the balance sheet date', HKAS 18, 'Revenue' and HKAS 34, 'Interim financial reporting' which are not addressed above. These amendments are unlikely to have an impact on the Group's financial statements and have therefore not been analysed in detail.

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 (Note 2.8).

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.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated income statement within 'finance income or cost, net'. All other foreign exchange gains and losses are presented in the consolidated income statement within 'other income, net'.

(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 consolidated 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Foreign currency translation *(Continued)*

(c) Group companies (Continued)

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.

2.5 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 consolidated income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

2.7 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 at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

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

2.9 Impairment of investments in subsidiaries and non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets 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: at fair value through profit or loss, loans and receivables. 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 2007 and 2008, other than loans and receivables, the Group did not hold any financial assets in other categories.

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 carried at amortised cost using the effective interest method.

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 consolidated 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.

Borrowing costs incurred for the construction of any qualifying assets are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

2.18 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised directly in equity. In this case, the tax is also recognised in equity.

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. It 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 by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.19 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 28.6% of the standard salary set by the provincial government, of which 20.6% is borne by the Group and the remainder is borne by the employees. Except for the monthly contribution of 20.6% 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 is determined by reference to the fair value of the options granted, excluding the impact of any non-market service and performance vesting conditions (for example, profitability, sales growth targets remaining an employee of the entity over a specified time period). 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. The total amount expensed is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision of original estimates, if any, in the consolidated 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)*

2.19 Employee benefits *(Continued)*

(d) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

2.23 Government grants

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

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

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred subsidy income and are recognised in the income statement on a straight-line basis over the expected lives of the related assets, except for the refund of value-added tax ("VAT") which is deducted in arriving at the carrying amount of property, plant and equipment.

Government grants 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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, and 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.

(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.

As at 31 December 2008, if RMB had weakened/strengthened by 5% against the USD with all other variables held constant, post-tax profit for the year would have been RMB4,618,000 (2007: RMB4,820,000) lower/higher, mainly as a result of foreign exchange losses/gains on translation of the USD-denominated long term bank loan.

As at 31 December 2008, 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 RMB17,000 lower/higher (2007: RMB31,000 higher/lower), mainly as a result of foreign exchange gains/losses on translation of HKD-denominated trade and other payables.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(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.

As at 31 December 2008, 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 RMB185,000 lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

(c) Price risk

The Group is not exposed to equity securities 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.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(e) Liquidity risk (Continued)

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.

	Less than 1 year	**Between 1 and 2 years**	**Over 2 years**
	RMB'000	RMB'000	RMB'000
Group			
At 31 December 2008			
Trade and other payables	173,059	—	—
Current portion of long term loans, secured	42,601	—	—
Short term bank loans, secured	171,000	—	—
Long term bank loans, secured	—	104,070	—
Interest payment on bank loans	7,410	5,296	—
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
Company			
At 31 December 2008			
Accruals and other payables	2,136	—	—
Current portion of long term loans, secured	32,601	—	—
Long term bank loans, secured	—	76,070	—
Interest payment on long term bank loans	5,363	4,818	—
At 31 December 2007			
Accruals and other payables	6,349	—	—
Long term bank loans, secured	—	35,270	82,298
Interest payment on long term bank loans	9,229	8,998	5,922

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(e) Liquidity risk (Continued)

The Group aims to maintain sufficient cash and cash equivalents and ensure the availability of funding though an adequate amount of available financing, including short term borrowings, long term borrowings and capital contribution from investors. Due to the dynamic nature of the underlying businesses, the management of Group maintains flexibility in funding by maintaining adequate amount of cash and cash equivalents and flexibility in funding through having available sources of financing.

The Group has been investing in the construction of the New Dazhou Project and a significant amount of the financing was obtained from short term borrowings. As a result, the Group had net current liabilities of approximately RMB101,759,000 and capital commitments of RMB 212,549,000 (see Note 32(a)) as at 31 December 2008. Nevertheless, the Group has not experienced any difficulties in renewing its short term borrowings upon their maturities.

The directors, having considered the current operation and business plan of the Group as well as the available funding sources as described below, are of the opinion that the Group will have sufficient working capital to maintain its liquidity:

– The Group has profitable operations and stable cash inflow from operating activities;

– The Group actively identifies new sources of long term financing in order to finance the capital expenditures of New Dazhou Project and re-finance its existing short term borrowings, As described in Note 2.1 and Note 36, Dazhu Ko Yo Chemical has entered into a long term bank borrowing contract with a domestic bank on 26 February 2009 and entered into a loan agreement with IFC on 16 April 2009. The Company has also entered into a share subscription agreement with IFC on 16 April 2009.

– The Group has obtained written indication from various banks on their intention, although not legally binding, to renew or extend the existing short term borrowings as and when they fall due. There is no evidence indicating that the banks will not renew the existing short term bank loans if the Group applies for the renewal. Subsequent to the balance sheet date and up to the date of approval of the financial statements, short term bank loans of approximately RMB49 million have been rolled over for a further year.

– The management will undertake close monitoring process to control the magnitude and timing of the expected cash outlays associated with the New Dazhou Project.

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.

The gearing ratio as at 31 December 2008 was as follows:

	2008	2007
	RMB'000	RMB'000
Total liabilities	**577,131**	445,405
Total equity	**852,407**	587,439
Gearing ratio	**68%**	76%

The decrease in the gearing ratio from 76% in 2007 to 68% in 2008 mainly due to the increase of share capital and share premium resulted from the issue of ordinary shares.

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 Critical accounting estimates and assumptions

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 property, plant and equipment

The estimate of useful lives of property, plant and equipment 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 depreciation charge where useful lives are less than previously estimated lives, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

(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 Critical judgements in applying the entity's accounting policies

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 fair value less costs to sell 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 derecognising; 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.

	2008	2007
	RMB'000	RMB'000
At 1 January		
Cost	**50,759**	50,759
Accumulated amortisation	**(7,444)**	(6,413)
Net book amount	**43,315**	44,346
Opening net book amount	**43,315**	44,346
Amortisation charge for the year	**(1,031)**	(1,031)
	42,284	43,315
At 31 December		
Cost	**50,759**	50,759
Accumulated amortisation	**(8,475)**	(7,444)
	42,284	43,315

All the Group's land use rights are located in Mainland China. The remaining lease periods of the land use rights are between 8 to 48 years (2007: 9 to 49 years).

As at 31 December 2008, certain land use rights with a total net book value of approximately RMB30,705,000 (2007: RMB29,357,000) were pledged as collateral for the Group's short term bank loans (Note 20).

6 PROPERTY, PLANT AND EQUIPMENT - GROUP

	Buildings	Plant and machinery	Motor vehicles	Office equipment and others	Construction -in-progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2007						
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 33)*	—	4	315	37	—	356
Transfers	1,458	29,489	—	2,144	(33,091)	—
Additions	—	1,852	52	377	158,927	161,208
Disposals *(Note 31)*	(147)	(1,099)	(19)	(16)	—	(1,281)
Depreciation	(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
Year ended 31 December 2008						
Opening net book amount	63,010	112,578	4,344	8,630	262,139	450,701
Transfers	—	20,119	—	1,340	(21,459)	—
Additions	16	1,404	2,627	505	324,535	329,087
Refund of the VAT	—	(1,841)	—	—	—	(1,841)
Disposals *(Note 31)*	—	(1,346)	(109)	(92)	—	(1,547)
Disposal of a subsidiary *(Note 34)*	—	(465)	—	(57)	—	(522)
Depreciation	(1,857)	(12,596)	(667)	(923)	—	(16,043)
Closing net book amount	61,169	117,853	6,195	9,403	565,215	759,835
At 31 December 2008						
Cost	74,468	176,384	8,655	17,635	565,215	842,357
Accumulated depreciation	(13,299)	(58,531)	(2,460)	(8,232)	—	(82,522)
Net book amount	61,169	117,853	6,195	9,403	565,215	759,835

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

Depreciation expense of RMB14,328,000 (2007: RMB12,292,000) had been charged in cost of goods sold and RMB1,715,000 (2007: RMB1,641,000) in administrative expenses.

All the Group's buildings are located in Mainland China. As at 31 December 2008, certain buildings with a total net book value of approximately RMB34,710,000 (2007: RMB31,145,000) and plant and machinery with a total net book value of approximately RMB24,404,000 (2007: RMB29,930,000) were pledged as collateral for the Group's short term bank loans (Note 20).

Borrowing costs of RMB7,614,000 (2007: Nil) have been capitalised in the construction-in-progress at average capitalisation rate of 6.18% (2007: Nil)

7 EXPLORATION AND EVALUATION ASSETS - GROUP

	Exploration rights	**Evaluation expenditure**	**Total**
	RMB'000	RMB'000	RMB'000
At 1 January 2007	—	—	—
Acquisition of subsidiaries *(Note 33)*	326,090	5,009	331,099
Balance at 31 December 2007	326,090	5,009	331,099
At 1 January 2008	326,090	5,009	331,099
Addition	—	448	448
Balance at 31 December 2008	326,090	5,457	331,547

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 Sichuan Chengyuan Chemical Industry Company Limited ("Sichuan Cuyo", a subsidiary of the Company) 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 2010.

8 GOODWILL - GROUP

	Total
	RMB'000
At 1 January 2007	—
Acquisition of subsidiaries *(Note 33)*	8,900
Balance at 31 December 2007 and 31 December 2008	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 fair value less cost to sell calculations. The fair value less cost to sell is derived by using discounted cash flow approach which incorporates assumptions that market participants would use in estimating the CGU's fair value.

The key assumptions used for fair value less costs to sell calculations are as follows:

	2008
Gross margin	**44%**
Growth rate	**3%**
Discount rate (post-tax discount rate applied to the cash flow projections)	**16%**
Years of cash flows projection (expected mining period of the phosphate mine)	**30 years**

Management determined gross margin based on past market prices of the phosphate ores and management's estimation of production costs. The discount rate used is post-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 is no impairment of the CGU containing goodwill.

9 INVESTMENTS IN SUBSIDIARIES - COMPANY

	2008 RMB'000	2007 RMB'000
Unlisted investments, at cost	**332,113**	332,113
Investment arising from share-based compensation *(Note i)*	**5,510**	5,510
Amounts due from subsidiaries *(Note ii)*	**371,492**	170,569
Amounts due to subsidiaries *(Note ii)*	**(5,783)**	(5,783)
	703,332	502,409

(i) 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.

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

The following is a list of the subsidiaries as at 31 December 2008:

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%
Dazhu Ko Yo Chemical *(Note b, c)*	Mainland China, wholly foreign owned enterprise	Manufacture and sale of chemical products including ammonia, ammonia carbonate and urea in Mainland China	RMB290,000,000 *(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 Investment Limited ("Hong Kong Cuyo")	Hong Kong, limited liability company	Investment holding in Hong Kong	4,720,000 ordinary shares of HKD1 each	100%
Sichuan Cuyo	Mainland China, wholly foreign owned enterprise	Exploration and exploitation of a phosphorous mine in the PRC	RMB5,000,000	100%

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, RMB22,000,000 was injected in Dazhu Ko Yo Chemical as paid-in capital, by Ko Yo Hong Kong.

(d) During the year, the Company disposed of 100% equity interest in Dezhou Ko Yo Compound Fertilisers Co.,Ltd ("Dezhou Ko Yo Compound") (Note 34).

10 INVENTORIES - GROUP

	2008 RMB'000	2007 RMB'000
Raw materials	**76,788**	56,571
Work in progress	**259**	2,796
Finished goods	**21,211**	4,763
	98,258	64,130

The cost of inventories recognised as expense and included in "cost of sales" amounted to RMB296,272,000 (2007: RMB464,547,000).

The group wrote down inventories to net realisable value in administrative expenses of approximately RMB274,000 (2007: Nil).

11 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Trade receivables	**12,552**	13,562	**—**	—
Less: provision for impairment of trade receivables	**(5,176)**	(5,647)	**—**	—
Trade receivables - net	**7,376**	7,915	**—**	—
Prepayments	**56,469**	48,152	**480**	150
Notes receivable	**5,860**	5,021	**—**	—
Due from employees	**3,689**	4,398	**—**	—
Dividends receivable from a subsidiary	**—**	—	**39,176**	54,177
Deposits	**3,500**	—	**—**	—
Others	**1,306**	1,388	**—**	—
	78,200	66,874	**39,656**	54,327

As at 31 December 2008, the fair value of trade and other receivables of the Group approximated their carrying amounts.

11 TRADE AND OTHER RECEIVABLES *(Continued)*

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	
	2008	2007
	RMB'000	RMB'000
Less than 3 months	**6,667**	7,758
More than 3 months but not exceeding 1 year	**733**	287
More than 1 year but not exceeding 2 years	**352**	4,641
More than 2 years but not exceeding 3 years	**4,541**	370
More than 3 years	**259**	506
	12,552	13,562
Less: provision for doubtful receivables	**(5,176)**	(5,647)
	7,376	7,915

Trade receivables that are less than three months past due are not considered impaired. As of 31 December 2008, trade receivables of RMB587,000 (2007: RMB36,000) 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	
	2008	2007
	RMB'000	RMB'000
More than 3 months but not exceeding 1 year	**587**	36

11 TRADE AND OTHER RECEIVABLES *(Continued)*

As at 31 December 2008, trade receivables of RMB5,298,000 (2007: RMB5,768,000) were impaired. The amount of the provision was RMB5,176,000 as of 31 December 2008 (2007: RMB5,647,000). 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	
	2008	2007
	RMB'000	RMB'000
More than 3 months but not exceeding 1 year	**146**	251
More than 1 year but not exceeding 2 years	**352**	4,641
More than 2 years but not exceeding 3 years	**4,541**	370
More than 3 years	**259**	506
	5,298	5,768

The carrying amounts of the Group's and the Company's trade and other receivables are denominated in the following currencies:

	Group		**Company**	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
RMB	**77,720**	66,724	**—**	—
HKD	**480**	150	**39,656**	54,327
	78,200	66,874	**39,656**	54,327

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

	Group	
	2008	2007
	RMB'000	RMB'000
At 1 January	**5,647**	5,380
Provision for receivables	**56**	3,121
Unused amounts reversed	**(527)**	(2,854)
At 31 December	**5,176**	5,647

The creation and release of provision for impaired receivables have been included in administrative expenses in the consolidated income statements (Note 22).

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 carrying amounts of the Group's bank deposits are denominated in the following currencies:

	Group	
	2008	2007
	RMB'000	RMB'000
RMB	**59,336**	40,174
HKD	**—**	6,041
	59,336	46,215

The deposits comprise the pledged deposits for short term bank loans, long term bank loans and bank acceptance notes issued by the Group. The effective interest rates on pledged bank deposits are ranging from 3.33% to 3.78% (2007: 2.79% to 3.78%).

13 CASH AND CASH EQUIVALENTS

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash at bank and in hand	**44,902**	19,201	**167**	20
Maximum exposure to credit risk	**44,813**	19,015	**167**	20

The effective interest rate on cash and cash equivalents is 0.69% (2007: 0.77%).

The carrying amounts of the Group's and the Company's cash and cash equivalents are denominated in the following currencies:

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
RMB	**44,002**	18,842	**—**	—
HKD	**900**	359	**167**	20
	44,902	19,201	**167**	20

14 SHARE CAPITAL

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

		Number of shares of HKD0.1 each		Number of shares of HKD0.02 each		Share capital	
	Notes	**2008**	2007	**2008**	2007	**2008**	2007
		'000	'000	**'000**	'000	**HKD'000**	HKD'000
Authorised:							
Ordinary shares at beginning of year		**—**	1,000,000	**10,000,000**	—	**200,000**	100,000
Increase of authorised share capital	(a)	**—**	1,000,000	**—**	—	**—**	100,000
Share subdivision	(b)	**—**	(2,000,000)	**—**	10,000,000	**—**	—
Ordinary shares at end of year		**—**	—	**10,000,000**	10,000,000	**200,000**	200,000

		Number of shares of HKD0.1 each		Number of shares of HKD0.02 each		Share capital	
	Notes	**2008**	2007	**2008**	2007	**2008**	2007
		'000	'000	**'000**	'000	**RMB'000**	RMB'000
Issued and fully paid:							
Ordinary shares at beginning of year		**—**	505,820	**4,894,400**	—	**97,746**	53,449
Issue of ordinary shares	(c)	**—**	473,060	**1,500,000**	—	**26,896**	44,297
Share subdivision		**—**	(978,880)	**—**	4,894,400	**—**	—
Ordinary shares at end of year		**—**	—	**6,394,400**	4,894,400	**124,642**	97,746

The total authorised number of ordinary share is 10,000 million shares (2007:10,000 million shares) with a par value of HKD0.02 per share (2007: HKD0.02 per share). All issued shares are fully paid.

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) 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 HKD0.1 each were subdivided into five subdivided shares of HKD0.02 each.

(c) Issue of ordinary shares

On 24 December 2007, 473,060,000 shares of HKD0.1 per share were issued by the Company as the consideration for the acquisition of Hong Kong Cuyo and its subsidiary, Sichuan Cuyo ("Cuyo Group"). 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 HKD0.58 (approximately RMB0.54) as quoted on the Stock Exchange on 24 December 2007. RMB44,297,000 and RMB212,627,000 were recorded as share capital and share premium reserve (Note 15), respectively.

On 29 February 2008, 500,000,000 shares of HKD0.02 per share were issued by the Company at the issue price of HKD0.145 pursuant to the Placing Agreement and the Subscription Agreement. These shares rank pari passu with existing shares. The total proceeds from the placement, net off the transaction costs, amounted to approximately RMB63,768,000. Accordingly, RMB9,172,000 and RMB54,596,000 were recorded as share capital and share premium reserve (Note 15), respectively.

On 3 June 2008, 1,000,000,000 shares of HKD0.02 per share were issued by the Company at the issue price of HKD0.170 pursuant to the Placing Agreement and the Subscription Agreement. These shares rank pari passu with existing shares. The total proceeds from the placement, net off the transaction costs, amounted to approximately RMB146,168,000. Accordingly, RMB17,724,000 and RMB128,444,000 were recorded as share capital and share premium reserve (Note 15), respectively.

14 SHARE CAPITAL *(Continued)*

(d) Share options

(1) GEM Share Option Scheme

On 10 June 2003, the Company adopted a share option scheme (the "GEM 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 GEM 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.

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.

14 SHARE CAPITAL *(Continued)*

(d) Share options *(Continued)*

(1) GEM Share Option Scheme (Continued)

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 2007	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
Lapsed due to resignation of employees	—	(1,500,000)	—	—	(1,500,000)
At 31 December 2008	**122,000,000**	**47,000,000**	**6,200,000**	**30,000,000**	**205,200,000**

14 SHARE CAPITAL *(Continued)*

(d) Share options *(Continued)*

(1) GEM Share Option Scheme (Continued)

(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 2008
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 Au, 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

(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 2008
16 May 2006 to 10 April 2016	Mr. Li Weiruo	2,100,000
16 May 2006 to 10 April 2016	Mr. Yuan Bai	2,000,000
16 May 2006 to 10 April 2016	Mr. Qian Laizhong	2,100,000
		6,200,000

The fair value of options granted during 2007, determined using the Black-Scholes valuation model, was HKD0.046* (approximately RMB0.044*) per share. The significant inputs into the model were share price of HKD0.12* at the grant date, the exercise price shown above, volatility of 43.7%, dividend yield of 3.41%, an expected option life of ten years and on annual risk-free interest rate of 4.4%. 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*, the total fair value was approximately HKD1,406,000 (approximately RMB1,322,000), which was recognised as administrative expense and a corresponding increase in share-based compensation reserve (Note 15).

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

14 SHARE CAPITAL *(Continued)*

(d) Share options *(Continued)*

(1) GEM Share Option Scheme (Continued)

The GEM Share Option Scheme was terminated upon the Transfer of Listing and no further options will be offered or granted under the GEM Share Option Scheme. All the outstanding share options will remain valid and exercisable in accordance with their terms of issue after the Transfer of Listing.

(2) New Share Option Scheme

On 18 September 2008, the Company adopted a new share option scheme (the "New Scheme") pursuant to the resolutions passed by an extraordinary general meeting.

The purpose of the New Scheme is to encourage the participants to perform their best in achieving the goals of the Group and at the same time allow the participants to enjoy the results of the Group attained through their efforts and contributions and to provide the participants with incentives and help the Group in retaining its existing employees and recruiting additional employees.

The New Scheme shall be valid and effective for the period of 10 years commencing from the adoption date, after which period no further options will be granted but the provision of the Scheme shall remain in full force and effect in all other respects.

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Scheme and any other schemes shall not exceed 30% of the total 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 New Scheme and any other schemes must not exceed 10% of the shares of the Company as at the adoption date unless the Company obtains a refresh approval from its shareholders.

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 as stated in the Stock Exchange's daily quotations sheets on the date of grant, which must be a trade day; (b) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of the grant and (c) the nominal value of a share.

As at 31 December 2008, no option had been granted under the New Scheme.

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(c))*	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 30)*	—	—	—	—	—	(5,058)	(5,058)
At 31 December 2007	289,457	(22,041)	5,510	15,325	1,131	200,311	489,693
At 1 January 2008	289,457	(22,041)	5,510	15,325	1,131	200,311	489,693
Issue of ordinary shares *(Note 14 (c))*	183,040	—	—	—	—	—	183,040
Profit for the year	—	—	—	—	—	60,657	60,657
Appropriation *(Note b)*	—	—	—	2,809	—	(2,809)	—
Dividends *(Note 30)*	—	—	—	—	—	(5,625)	(5,625)
At 31 December 2008	472,497	(22,041)	5,510	18,134	1,131	252,534	727,765

15 RESERVES *(Continued)*

Movements of the Company's reserves are as follows:

	Share premium RMB'000	Contributed surplus RMB'000 *(Note c)*	Share-based compensation reserve RMB'000	Retained earnings/ (accumulated loss) RMB'000	Total RMB'000
At 1 January 2007	76,830	37,162	4,188	(3,205)	114,975
Issue of ordinary shares *(Note 14 (c))*	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 30)*	—	—	—	(5,058)	(5,058)
At 31 December 2007	289,457	37,162	5,510	2,964	335,093
At 1 January 2008	289,457	37,162	5,510	2,964	335,093
Issue of ordinary shares *(Note 14 (c))*	183,040	—	—	—	183,040
Loss attributable to the equity holders of the Company	—	—	—	(4,802)	(4,802)
Dividends *(Note 30)*	—	—	—	(5,625)	(5,625)
At 31 December 2008	472,497	37,162	5,510	(7,463)	507,706

(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.

15 RESERVES *(Continued)*

(b) Statutory reserves

The appropriation represents the profit appropriation to reserve found and enterprise expansion fund made by the subsidiaries of the company established in Mainland China. These subsidiaries 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.

(c) Contributed surplus

Contributed surplus of RMB37,162,000 as a result from the reorganisation prior to the Listing was previously included in share premium. Such amount has been separately shown in the current year financial statements of the Company for better presentation.

16 LONG TERM BANK LOANS, SECURED

As at 31 December 2008, the Group's long term bank loans were repayable as follows:

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 1 year	**42,601**	—	**32,601**	—
Between 1 and 2 years	**104,070**	35,270	**76,070**	35,270
Between 2 and 3 years	**—**	82,298	**—**	82,298
	146,671	117,568	**108,671**	117,568
Within 1 year included in current liabilities	**(42,601)**	—	**(32,601)**	—
	104,070	117,568	**76,070**	117,568

The long term bank loans are secured by bank deposits of RMB24,849,000 (2007:Nil),100% equity interest in Ko Yo Hong Kong and Dazhu Ko Yo Chemical (Note 9), which effectively owned by the Company, and guaranteed by Mr. Li Weiruo, a shareholder and director of the Company.

16 LONG TERM BANK LOANS, SECURED *(Continued)*

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

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
At floating rates in USD	**108,671**	117,568	**108,671**	117,568
At floating rates in RMB	**38,000**	—	**—**	—
	146,671	117,568	**108,671**	117,568

The effective interest rate at the balance sheet date was 6.31% (2007: 7.85%).

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 DEFERRED SUBSIDY INCOME - GROUP

	Government grant for production facilities
	RMB'000
At 1 January 2007	767
Addition	6,100
Amortisation	(859)
At 31 December 2007	6,008
At 1 January 2008	6,008
Amortisation	(474)
At 31 December 2008	5,534

In 2007, the Group received government grants of approximately RMB6,100,000 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.

18 DEFERRED INCOME TAX - GROUP

There were no offsetting of deferred income tax assets and liabilities in 2008 and 2007.

	2008	2007
	RMB'000	RMB'000
Deferred tax assets:		
– To be recovered after more than 12 months	**2,071**	2,409
Deferred tax liabilities:		
– To be settled after more than 12 months	**(80,867)**	(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 2007	633	138	771
Credited to income statement	416	1,222	1,638
At 31 December 2007	1,049	1,360	2,409
At 1 January 2008	1,049	1,360	2,409
Charged to income statement	(225)	(113)	(338)
At 31 December 2008	824	1,247	2,071

18 DEFERRED INCOME TAX - GROUP *(Continued)*

Deferred income tax liabilities:

	Evaluation and exploration assets
	RMB'000
At 1 January 2007	—
Acquisition of subsidiaries *(Note 33)*	(80,867)
At 31 December 2007 and 31 December 2008	(80,867)

As at 31 December 2008, the Group had unused tax losses of approximately RMB23,688,000 (31 December 2007: RMB11,408,000) of certain subsidiaries available to offset against future profits. No deferred tax asset has been recognized in respect of the tax losses of these subsidiaries due to the unpredictability of future profit streams.

19 TRADE AND OTHER PAYABLES

	Group		**Company**	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade payables *(Note a)*	**54,540**	24,473	**—**	—
Notes payable *(Note b)*	**48,130**	7,130	**—**	—
Advances from customers	**46,072**	27,430	**—**	—
Accrued expenses	**10,673**	9,874	**2,136**	6,349
Deposits from suppliers	**3,559**	3,379	**—**	—
Other taxes payable	**624**	1,601	**—**	—
Others	**9,461**	7,510	**—**	—
	173,059	81,397	**2,136**	6,349

The carrying amounts of the Group's and the Company's trade and other payables are denominated in the following currencies.

	Group		**Company**	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
RMB	**170,923**	75,048	**—**	—
HKD	**2,136**	6,349	**2,136**	6,349
	173,059	81,397	**2,136**	6,349

19 TRADE AND OTHER PAYABLES *(Continued)*

(a) Trade payables

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

	2008	2007
	RMB'000	RMB'000
Aged:		
Less than 1 year	**52,509**	23,877
More than 1 year but not exceeding 2 years	**1,988**	368
More than 2 years but not exceeding 3 years	**43**	228
	54,540	24,473

(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 2008, notes payable of approximately RMB48,130,000 (2007: RMB7,130,000) were pledged by bank deposits of RMB24,487,000 (2007: RMB2,139,000).

20 SHORT TERM BANK LOANS, SECURED - GROUP

The short term bank loans are denominated in RMB and were issued at fixed interest rates which range from 5.57 % to 8.96% (2007: 5.48 % to 9.71%) per annum and are secured by bank deposits of RMB10,000,000 (2007: RMB44,076,000) and certain land use rights with a total net book value of approximately RMB30,705,000 (2007: RMB29,357,000) (Note 5) and property, plant and equipment with a total net book value of approximately RMB59,114,000 (2007: RMB61,075,000) of the Group (Note 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:

	2008	2007
	RMB'000	RMB'000
6 months or less	**97,600**	99,100
Between 6 months to 1 year	**73,400**	60,400
	171,000	159,500

21 TURNOVER

Turnover represents invoiced value of sale of chemical products and chemical fertilisers to customers in Mainland China, net of goods returned and 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 Mainland China, no segment information is therefore presented.

22 EXPENSES BY NATURE

	2008	2007
	RMB'000	RMB'000
Raw materials and consumables used	**310,183**	448,813
Changes in inventories of finished goods and work in progress	**(13,911)**	15,734
Power and natural gas consumed	**150,792**	140,803
Staff costs *(Note 23)*	**61,533**	48,949
Depreciation and amortisation charges	**17,074**	14,964
Transportation expenses	**10,856**	19,117
Maintenance expenses	**4,586**	7,349
Legal and professional fees	**3,551**	1,202
Stamp duty and other tax	**2,687**	1,328
Advertisement expenses	**2,122**	4,659
Auditors' remuneration	**1,727**	2,007
Operating lease payments	**1,511**	1,251
Loss on disposal of property, plant and equipment *(Note 31)*	**831**	1,154
Write-down of inventory to net realisable value *(Note 10)*	**274**	—
(Written back of)/Provisions for receivables *(Note 11)*	**(471)**	267
Other expenses	**19,850**	14,673
Total cost of sales, distribution costs and administrative expenses	**573,195**	722,270

23 STAFF COSTS

	2008 RMB'000	2007 RMB'000
Wages and salaries	**52,197**	39,423
Pension costs - defined contribution plans	**4,537**	4,920
Social security costs	**4,288**	3,284
Share options granted to directors and employees *(Note 14 (d))*	**—**	1,322
Termination benefits	**511**	—
	61,533	48,949

24 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The remuneration of every director for the year ended 31 December 2008 is set out below:

Name of director	Fees RMB'000	Salaries, allowances, and benefits in kind RMB'000	Bonuses RMB'000	Contributions to pension schemes RMB'000	Total RMB'000
Executive Directors					
Mr. Li Weiruo	**528**	**276**	**176**	**18**	**998**
Mr. Yuan Bai	**141**	**360**	**132**	**13**	**646**
Ms. Chi Chuan	**141**	**276**	**132**	**13**	**562**
Mr. Li Shengdi	**141**	**276**	**132**	**15**	**564**
Ms. Man Au, Vivian	**141**	**370**	**132**	**11**	**654**
Independent non-executive directors					
Mr. Hu Xiaoping	**70**	**—**	**18**	**—**	**88**
Mr. Woo Che-wor, Alex	**70**	**—**	**18**	**—**	**88**
Mr. Qian Laizhong	**70**	**—**	**18**	**—**	**88**
	1,302	**1,558**	**758**	**70**	**3,688**

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

(a) Directors' emoluments *(Continued)*

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
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	532
Ms. Man Au, Vivian	120	360	150	16	646
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

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

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include four (2007: four) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one (2007: one) individual during the year are as follows:

	2008	2007
	RMB'000	RMB'000
Basic salaries, housing allowances, other allowances and benefits in kind	606	650
Contributions to pension schemes	26	12
Bonus	11	—
	643	662

The emoluments fell within the following bands:

	Number of individuals	
	2008	2007
Emolument bands		
Nil to RMB1,000,000 (approximately HKD886,200)	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.

25 OTHER INCOME - NET

	2008 RMB'000	2007 RMB'000
Sales of scrap materials	**1,637**	1,839
Amortisation of subsidy income *(Note 17)*	**474**	859
Subsidy income	**440**	—
Loss from disposal of a subsidiary *(Note 34)*	**(422)**	—
Tax refund for reinvestments *(Note a)*	**—**	1,520
Other	**70**	680
	2,199	4,898

(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.

26 FINANCE COSTS - NET

	2008 RMB'000	2007 RMB'000
Interest expense of bank borrowings	**18,225**	13,244
Interest income	**(2,620)**	(1,321)
Others	**602**	701
	16,207	12,624

27 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 2008.

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 in Mainland China. 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% (2007:18%, which included the Local Enterprise Income Tax at the rate of 3%). The Local Enterprise Income Tax has been exempted in 2008.

Dazhu Ko Yo Chemical is entitled to full exemption from EIT in the first two profitable years and a 50% reduction for the next three years thereafter. 2008 is the third profit-making year of Dazhu KoYo Chemical and thus the preferential EIT rate applicable to Dazhu Ko Yo Chemical for the year ended 31 December 2008 is 7.5% (2007: 0%).

Dezhou Ko Yo Compound and Qingdao Ko Yo Chemical did not have assessable profit for the year ended 31 December 2008 (2007: Nil).

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

	2008	2007
	RMB'000	RMB'000
Current tax for Mainland China	**6,722**	5,172
Deferred income tax *(Note 18)*	**338**	(1,638)
	7,060	3,534

27 INCOME TAX EXPENSE *(Continued)*

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

	2008	2007
	RMB'000	RMB'000
Profit before income tax	**67,717**	44,923
Calculated at statutory taxation rate of 15% (2007:18%)	**10,158**	8,086
Expenses not deductible for tax purposes	**120**	63
Effects of income tax exemption *(Note (a))*	**(3,144)**	(4,976)
Tax losses for which no deferred income tax was recognised	**1,842**	1,493
Tax effect of decrease in tax rate used for the recognition of deferred tax *(Note (b))*	**—**	(480)
Effects on tax holiday available to different companies of the Group	**(1,916)**	(652)
Taxation	**7,060**	3,534

(a) Effects of income tax exemption

As approved by the local tax bureau in Sichuan, PRC, Ko Yo Chemical and Dazhu Ko Yo Chemical are 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 and 2008.

28 LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The loss attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of RMB4,802,000 (2007: profit of RMB11,227,000).

29 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).

	2008	2007
Profit attributable to equity holders of the Company (RMB'000)	**60,657**	41,389
Weighted average number of ordinary shares in issue (thousands)	**5,895,770**	2,574,462
Basic earnings per share (RMB per share)	**0.010**	0.016

(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.

	2008	2007
Profit attributable to equity holders of the Company (RMB'000)	**60,657**	41,389
Weighted average number of ordinary shares in issue (thousands)	**5,895,770**	2,574,462
Adjustment - share options (thousands)	**9,410**	1,675
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**5,905,180**	2,576,137
Diluted earnings per share (RMB per share)	**0.010**	0.016

30 DIVIDENDS

	2008 RMB'000	2007 RMB'000
Interim, paid, of HKD0.0003 (2007: HKD0.0006, on post-subdivision basis) per ordinary share	**1,703**	1,517
Final, no final dividend is proposed (2007: HKD0.0008 per ordinary share)	**—**	3,922
	1,703	5,439

At a meeting held on 8 August 2008, the directors declared an interim dividend of HKD0.0003 (approximately RMB0.0003) per ordinary share, totalling approximately RMB1,703,000, which was paid during the year ended 31 December 2008.

The directors do not recommend the payment of a final dividend for the year ended 31 December 2008.

31 CASH GENERATED FROM OPERATIONS

(a) Reconciliation of profit before taxation to cash generated from operating activities

	2008 RMB'000	2007 RMB'000
Profit before income tax	**67,717**	44,923
Depreciation of property, plant and equipment	**16,043**	13,933
Amortisation of land use rights	**1,031**	1,031
Loss on disposal of property, plant and equipment	**831**	1,154
Interest income	**(2,620)**	(1,321)
Interest expenses	**18,225**	13,244
Loss on disposal of a subsidiary *(Note 34)*	**422**	—
Share-based compensation	**—**	1,322
Operating profit before working capital changes	**101,649**	74,286
(Increase)/decrease in inventories	**(34,128)**	12,674
Increase in trade and other receivables	**(11,326)**	(1,511)
Increase/(decrease) in trade and other payables	**91,662**	(9,491)
(Decrease)/increase in deferred subsidy income	**(474)**	5,241
Decrease in provision for staff compensation	**—**	(4,573)
Cash generated from operating activities	**147,383**	76,626

31 CASH GENERATED FROM OPERATIONS *(Continued)*

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

	2008	2007
	RMB'000	RMB'000
Net book amount *(Note 6)*	**1,547**	1,281
Loss on disposal of property, plant and equipment	**(831)**	(1,154)
Proceeds from disposal of property, plant and equipment	**716**	127

32 COMMITMENTS - GROUP

(a) Capital commitments for property, plant and equipment

	2008	2007
	RMB'000	RMB'000
Constructions-in-progress:		
Contracted but not provided for	**212,549**	259,396

(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:

	2008	2007
	RMB'000	RMB'000
Not later than one year	**1,341**	1,087

The Company had no capital commitment and no commitments under operating leases as at 31 December 2008 (2007: Nil).

33 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 2008 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	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 at 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 assets 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)

34 DISPOSAL OF A SUBSIDIARY

On 30 December 2008, the Group disposed of its entire equity interests in Dezhou Ko Yo Compound, one of its directly wholly-owned subsidiaries, to an independent third party. The main business of Dezhou Ko Yo Compound was manufacture and sale of compound fertilisers in Shandong Province. The loss on disposal of the subsidiary amounted to RMB422,000 has been included in the other income (Note 25) for the year ended 31 December 2008.

The loss and net cash inflow on disposal was determined as follows:

	RMB'000
Cash consideration	**100**
Less: net assets disposed of:	
Property, plant and equipment *(Note 6)*	**(522)**
Loss on disposal *(Note 25)*	**(422)**
Cash consideration received	**100**
Less: cash and cash equivalent disposed of	**—**
Net cash inflow on disposal	**100**

35 RELATED-PARTY TRANSACTIONS

The Group is controlled by Mr. Li Weiruo, who owns approximately 45.7% of the Company's issued shares as at 31 December 2008. The remaining approximately 54.3% of the issued shares are widely held.

(a) Acquisition of Cuyo Group

As disclosed in Note 33, in 2007 the Group acquired 100% equity interest in Cuyo Group. 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)

	2008	2007
	RMB'000	RMB'000
Salaries and other short term employee benefits	**1,653**	1,142

The directors' emoluments are disclosed in Note 24.

36 EVENT AFTER THE BALANCE SHEET DATE

– On 26 February 2009, Dazhu Ko Yo Chemical entered into a long term bank borrowing contract with a domestic bank in Mainland China, pursuant to which, the domestic bank will grant a long term bank borrowing of RMB300 million to the Group subject to and conditional on, including but not limited to, the receipt of capital contribution of USD10 million from IFC. The loan is repayable from 2010 to 2014.

– On 16 April 2009, the Company entered into a share subscription agreement with IFC, pursuant to which, IFC agrees to subscribe for 650,000,000 new shares of the Company at HKD0.12 per share (subject to adjustments) representing 9.23% of the entire equity interest of the Company as enlarged by the share subscription, at a total consideration of approximately USD10 million.

– On 16 April 2009, Dazhu Ko Yo Chemical entered into a long term loan agreement with IFC, pursuant to which, IFC will grant a long term borrowing of USD20 million to the Group. The loan is repayable from 2011 to 2017.

– Subsequent to the balance sheet date and up to the date of approval of the financial statements, short term bank loans of approximately RMB49 million have been rolled over for a further year.

FIVE YEAR FINANCIAL SUMMARY

The following table summarizes the audited results, assets and liabilities of the Group for the five years ended 31st December 2008.

	2008	2007	2006	2005	2004
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	**654,920**	774,919	610,587	627,616	422,728
Profit before taxation	**67,717**	44,923	33,324	53,200	33,894
Taxation	**(7,060)**	(3,534)	(4,728)	(6,421)	(1,215)
Profit after taxation	**60,657**	41,389	28,596	46,779	32,679
Minority interest	**—**	—	—	23	33
Profit attributable to equity holders of the Company	**60,657**	41,389	28,596	46,802	32,712
Total assets	**1,429,538**	1,032,844	524,290	488,879	361,174
Total liabilities	**(577,131)**	(445,405)	(231,428)	(285,952)	(209,513)
Minority interests	**—**	—	—	—	(567)
Shareholders' funds	**852,407**	587,439	292,862	202,927	151,094