玖源生態農業科技(集團)有限公司

Ko Yo Ecological Agrotech (Group) Limited

(incorporated in the Cayman Islands with limited liability)

(Stock code: 8042)

2005 Annual Report

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

Contents

	Page
Corporate information	2
Highlights	3
Chairman's statement	4
Business review	7
Directors and senior management	16
Report of the directors	18
Corporate governance report	28
Auditors' report	33
Consolidated profit and loss account	34
Consolidated balance sheet	35
Balance sheet	36
Consolidated statement of changes in equity	37
Consolidated cash flow statement	38
Notes to the accounts	39
Financial summary	78
Notice of annual general meeting	79

Corporate Information

DIRECTORS

Executive directors

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

Independent non-executive directors

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

COMPANY SECRETARY

Mr. Chung Tin Ming, HKICPA, ACCA

QUALIFIED ACCOUNTANT

Mr. Chung Tin Ming, HKICPA, ACCA

AUDIT COMMITTEE

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

AUTHORIZED REPRESENTATIVES

Mr. Li Weiruo
Ms. Man Au Vivian

COMPLIANCE OFFICER

Ms. Chi Chuan

REGISTERED OFFICE

Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681 GT
George Town
Grand Cayman
British West Indies

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 311-312 Two Exchange Square
Central
Hong Kong

AUDITORS

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

PRINCIPAL BANKERS

Industrial and Commercial Bank of China
-Chengdu City Xindu Branch

Agricultural Bank of China
-Chengdu City Wuhou Branch

Shanghai Pudong Development Bank
-Chengdu Branch

The Bank of East Asia, Limited
-Chengdu Branch

Standard Chartered Bank
-Central Branch

GEM STOCK CODE

8042

WEBSITE

www.koyochem.com

Highlights

— For the year ended 31st December 2005, the profit attributable to shareholders increased to approximately RMB47 million, which represents a growth of 43% as compared to year 2004.

— For the year ended 31st December 2005, the profit before taxation increased to approximately RMB53 million, which represents a growth of 57% as compared to year 2004.

— Basic earnings per share was approximately RMB11.1 cents for the year ended 31st December 2005.

— For the year ended 31st December 2005, turnover and sale quantities increased by approximately 48% and 17% respectively as compared to year 2004.

— The sale quantities of BB Fertilizers of the Group increased to 139,931 tonnes, which represents a growth of 30% as compared with year 2004.

— The Directors have proposed to pay a final dividend of HKD1.5 cents per share for the year ended 31st December 2005, which represents a growth of 30% as compared with year 2004.

Chairman's Statement

TO SHAREHOLDERS

I am pleased to present the audited annual report of Ko Yo Ecological Agrotech (Group) Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31st December 2005.

ACCOMPLISHMENT

For the year ended 31st December 2005, BB Fertilizers of the Group achieved significant growth in terms of sale quantities and unit selling prices, which were represented by 30% and 19% respectively compared to that of last year. Also, through technological advancement and management improvement, the urea production line of Dazhou City Dazhu Ko Yo Chemical Industry Co., Ltd. ("Dazhu Ko Yo Chemical") has become a future growth momentum of the Group.

BUSINESS REVIEW

During the year under review, benefited by the growth of the overall economy in the People's Republic of China (the "PRC"), the Group achieved a substantial growth in both turnover and profit attributable to shareholders.

For the year ended 31st December 2005, the Group's turnover amounted to approximately RMB628 million, which represented a growth of approximately 48% as compared to the corresponding year in 2004. The sale quantities of the Group increased to approximately 471,000 tonnes, an increase of 17% compared with approximately 401,000 tonnes last year. Audited profit attributable to shareholders amounted to approximately RMB47 million, which represented a growth of 43% as compared to last year. A final dividend of HKD1.5 cents per share for the year ended 31st December 2005 was recommended.

Despite the surge in production costs and transportation costs due to the continuous increase in global oil prices, and shortage of electricity and gas supply in the PRC, the business environment is still favorable to the Group attributable to the incentives put forward by the central government of the PRC to peasants by implementing measures such as increasing tax allowances for peasants and providing more subsidies for peasants growing food crops. With the Group's effort on cost control, the aforementioned challenges were turned into opportunities, leading to the satisfactory results for the year under review.

In addition, owing to the increased marketing effort on distribution channel and the promotion of the brand name of the Group, the sales of BB Fertilizers grew significantly during the year and had become the major revenue stream of the Group, while the Group's urea products had expanded into the countries in Southeast Asia.

Going along with the tremendous increase in sales was more stringent control on product quality, which had become the core competitiveness of the Group. The Group's BB Fertilizers branded "Hu Guang", which were of high; medium and low concentration (mixed fertilizer), were in the list of exemption of product quarantine by General Administration of Quality Supervision, Inspection and Quarantine of the PRC.

PROSPECTS

Industry Overview

The agricultural industry of the PRC is highly dependent on the PRC's government policies. As such, the introduction of the series of government policies mentioned below which were beneficial to the industry has built up a favorable environment for the Group's business growth.

Reduction of agricultural tax was mentioned in Document No.1 of the year 2005 regarding "Communist Party of China Central Committee's policies and advices on further strengthening effort on the agricultural industry and improvement of the overall productivity". On 29th December 2005, the Nineteenth Session of the Tenth National People's Congress had decided to abolish the agricultural tax effective from 1st January 2006. The aforesaid policies greatly reduce peasant's burden, favoring the agriculture industry and hence, the chemical fertilizer industry.

In October 2005, the Fifth Congress of the Sixteenth of Communist Party of China Central Committee passed the proposal of "Communist Party of China advices on the Eleventh Five-Year Plan on national economy and society development", coming up with a mission to construct new villages under the concept of socialism. Year 2006 is the first year of "Eleventh Five-Year Plan", it is believed that the government will place more emphasis, but not the reverse, on the agriculture industry. With accelerating increase in peasants' income and the series of beneficiary policies to peasants, villages' economy is expected to grow faster and production of food will continue to rise this year, leading to higher demand for chemical fertilizers.

On July 2005, the agricultural (2005) document No.101 "Temporary Management Measures of the Compensation Fund for Testing Soil to Prescribe and Apply Suitable Fertilizers" was promulgated and implemented by the Ministry of Finance and the Ministry of Agriculture of the PRC. The compensation fund is a measure to encourage and support peasants to apply fertilizers scientifically in order to increase the effectiveness of fertilizers and their harvest, and reduce agricultural pollution. The beneficial targets include corporations promoting agricultural technology promotion that are in-charge of the tasks of testing soil to prescribe suitable fertilizers, and enterprises that process fertilizers according to the prescription. Based on the aforementioned policies, the Group will strengthen its co-operation with the agriculture department of regional governments to actively develop projects of testing soil to prescribe fertilizers and set up areas to demonstrate how to apply fertilizers according to prescription, in order to increase the Group's strength in product formulae.

From 1st July 2005 onward, according to Fiscal Tax Document issued by the Ministry of Finance, the value-added tax for urea products manufactured by domestic enterprises had been temporarily waived, following the 50% refund of value-added tax.

The directors of the Company ("Directors") believe that the above policies put forward by the central government would have a positive impact on the demand for chemical fertilizers and continuous business development.

PROSPECTS *(Continued)*

Forward Objectives and Strategies

In year 2006, BB Fertilizers will continue to be the principal product of the Group. More resources will be allocated to broaden the distribution channel and strengthen the Group's corporate image and brand name in the whole country. Other than expanding promotion, the Group will enhance the management and training of distributors and agricultural service staff, in a way to build up a national network of agricultural services in order to support the increasing demand for after-sale services. On the other hand, to cope with the growing market demand, the Group has established a new BB Fertilizer production line in Qingdao Laixi City of Shandong Province, with annual production capacity of 300,000 tonnes of BB Fertilizers; the production line will commence operation in the second half year of 2006.

Another principal product of the Group, urea, will be the second major revenue contributor in year 2006. The technological improvement from the "little granule urea" production line to the "large granule urea" production line in Xindou District, Chengdu City will be completed and commences operation in April 2006. The production line will achieve an annual production capacity of 80,000 tonnes. The Directors expect that the production line can satisfy the raw material demand of BB Fertilizers of the Group, hence achieving further cost saving.

Being affected by the continuous high international oil price, the price of natural gas used for production of chemical fertilizers was raised by RMB50 to RMB150 per kilo-cubic metres during year 2005. At the same time, according to the 2006 document no. 124 issued by the National Development and Reform Commission, the ex-factory price of area was allowed to increase from RMB1,650 to RMB1,725 per tonne. Under the vigorous market competition and revenue dependency on the costs of raw materials, the Group will plan in advance the future development strategies with the consideration of the standardization of chemical fertilizer industry and the development trend of energy source centralization. After through risk assessment and feasibility study, the Directors have intention to plan to increase the Group's production capacity of urea with other investors by utilizing the abundant natural gas resource in Sichuan Province, in order to cope with the increasing internal demand for raw materials for the Group's production of BB fertilizers. The project will become a growth driver of the Group's chemical products in the coming five years.

The Group will have more input in the technological enhancement of plants of Dazhu Ko Yo Chemical, making it become another major production site of the Group after Chengdu Ko Yo Chemical Industry Co., Ltd. ("Chengdu Ko Yo Chemical").

The Group will continue to carry out technological modification and equipment renovation and repair projects, so as to achieve further growth of the production capacity, turnover and net profit.

APPRECIATION

I wish to express my appreciation to all shareholders for their trust and continuous support for the Group, and my sincere thanks to all staff for their dedication and efforts throughout the year and valuable contribution to the Group's operating results for the year. The board of Directors (the "Board"), the management and all staff will continue to work diligently to achieve greater success for the Group and to provide shareholders with returns.

Li Weiruo
Chairman

Hong Kong, 23rd March 2006

Business Review

FINANCIAL PERFORMANCE

Results

For the year ended 31st December 2005, the Group remained focused on manufacture and distribution of chemical fertilizers and chemical products, including BB Fertilizers, sodium carbonate, urea, ammonium chloride, ammonium bicarbonate and ammonia.

During the year under review, the Group achieved turnover of approximately RMB628 million, an increase of 48% as compared to the previous year. The satisfying result was partly attributable to the enhancement of the production line of ammonium bicarbonate and urea in Dazhu, which generated turnover of RMB87 million to the Group. Another contributor to the good result was the significant increase in both selling prices and sales volume of the Group's products. Compared to the previous year, the selling prices of the Group's products increased by approximately 3% to 26%, which was due to the surge in raw materials costs. The total sales volume of the Group increased from approximately 401,000 tonnes in 2004 to approximately 471,000 tonnes in 2005, which was attributable to the significant growth of sales of BB Fertilizers and urea. The profit attributable to shareholders of the Group amounted to approximately RMB47 million, representing a growth of approximately 43% as compared to last year. Earnings per share amounted to approximately RMB11.1cents.

Dividends

The Directors proposed a final dividend of HKD1.50 cents per share (2004: HKD1.15 cent per share) for the year ended 31st December 2005. A total of HKD2.00 cents per share were declared for the year ended 31st December 2005 (2004: HKD1.45 cents per share).

Cost and Profit Margin

Cost of sales of the Group amounted to approximately RMB498 million, representing an increase of 48% as compared to the figure in 2004. The reasons of increase in cost of sale were increase in sale volume of the Group and unit cost of raw materials.

Gross profit margin of the Group increased slightly from 20.4% in 2004 to 20.7% in 2005. The overall increase in gross profit margin was due to the efforts of cost control during the year.

During the year under review, distribution costs and administrative expenses of the Group experienced relatively substantial increase as compared to last year. Distribution costs increased by 57% compared with last year as the growth in sale volume of the Group and the Group put more effort on establishing the distribution channel, promotion of products and providing better services to its customers. The distribution costs over sale ratio increased from 0.052 in 2004 to 0.055 in 2005.

FINANCIAL PERFORMANCE *(Continued)*

Cost and Profit Margin *(Continued)*

In comparison with last year, there was a substantial increase in administrative expenses of the Group by 36% from RMB28.4 million in 2004 to RMB38.6 million in 2005. The increase was mainly attributable to the staff benefit, staff salaries and staff insurance by the Company.

Starting from the year under review, Chengdu Ko Yo Chemical and Chengdu Ko Yo Compound Fertilizer Co., Limited ("Chengdu Ko Yo Compound") accrued provision of Enterprise Income Tax amounting to approximately RMB6.5 million. Details of tax schemes are set out in Note 9 to accounts.

PRODUCTS

BB Fertilizers

There has been a significant recovery in growth trend of BB Fertilizers of the Group. Net sales of BB Fertilizers of the Group amounted to RMB240 million, representing a growth of 55% as compared to last year, and accounted for 38.3% of the Group's aggregate net sales. The growth of BB Fertilizers was attributable to the efforts of the marketing teams of the Group, which strived to develop the market and strengthen the brand name.

Sodium Carbonate and Ammonium Chloride

The net sales of sodium carbonate and ammonium chloride amounted to RMB104 million and RMB58 million, which increased by 24% and 27% respectively as compared to previous year, which accounted for approximately 16.6% and 9.2% of the Group's aggregate net sales respectively.

Urea

The net sales of urea increased by 88% to RMB198 million in 2005 as compared to last year, which accounted for 31.6% of the Group's aggregate net sales. During the year under review, approximately 23,500 tonnes of urea were exported to the countries in Southeast Asia, further strengthening the Group's position in overseas markets.

PRODUCTS *(Continued)*

Ammonia and Ammonium Bicarbonate

The net sales of ammonia increased by 5% to RMB11million in 2005 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 28% to RMB17 million of sales as compared to last year, which accounted for 2.6% of the Group's aggregate net sales. The reason for the decrease is the shifting of production from ammonium bicarbonate to urea which has higher gross profit margin.

MARKETS

During the year under review, the Group made great effort to develop its distribution channel and agricultural services to establish a closer relationship with distributors and peasants. As a result, not only the Group's brand name was enhanced, but the sale quantity of the Group's products was also boosted to a historical high level.

The following are the Group's main marketing strategies during the year under review:

1) The Group employed professional marketing consultants to advise on its marketing strategies. With the consideration of the Group's situation and the development trend of the chemical fertilizer industry in local and overseas markets, the consultants devised tailor-made marketing strategies for the group, which helped for the Group's brand building, developing its distribution network and improving its agricultural services.

2) Through the construction of agricultural service station by the Group's agricultural service department, peasants were given free prescription after testing their soil and were educated about the techniques in utilizing fertilizers.

3) In particular test spots in different areas, the Group established a new one-stop service for peasants to create a closer relationship between the Group and peasants.

4) To match up the Group's distribution channel and deepen its service-oriented idea in customers' mind, the Group put more effort on promotion of its newly registered brand "Prescription after Testing" (「測方」), products and services, product application and technical knowledge through mass media including televisions, radios, newspapers and magazines.

On 25th June 2005, as the cosponsor, the Group participated in "China's First BB Fertilizer Industry Summit". Other participants included National Development and Reform Commission, Ministry of Commerce of the PRC, Ministry of Agriculture of the PRC, General Administration of Quality Supervision, Inspection and Quarantine of the PRC, and State Administration of Industry and Commerce. The topic of the Summit was "Advocate Market Standardization and Healthy Development of the Industry". The Summit helped to promote the healthy development of the BB Fertilizer industry.

RESEARCH AND DEVELOPMENT

In order to diversify its product mix to lower market risk, the Group has been undergoing the preliminary market research on a number of products including foliar fertilizer, fertilizer with high water solubility and high/medium/low concentration (25-50%) compound fertilizers.

AWARDS & RECOGNITIONS

During the year under review, Chengdu Ko Yo Chemical had acquired the "2004 Nitrogenous Fertilizer Industry Advanced Enterprise" Certificate from the China Nitrogenous Fertilizer Industry Association in March 2005. Also, in September 2005, it was awarded "Distinguished National Petroleum and Chemical Civil Enterprise" by the Chinese Petroleum and Chemical Industry Association.

The high, medium and low concentration fertilizer (mixed fertilizer) of "Hu Guang" brand of Chengdu Ko Yo Compound had also been accredited by the General Administration of Quality Supervision, Inspection Quarantine of the PRC as the "Quarantine Exempted" product in December 2005.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31st December 2005, the Group had net current liabilities of approximately RMB16,433,000. Current assets as at 31st December 2005 comprised cash and bank deposits of approximately RMB47,758,000, pledged bank deposits of approximately RMB77,800,000, inventories of approximately RMB74,340,000, trade receivables of approximately RMB22,335,000 and prepayments and other current assets of approximately RMB30,994,000. Current liabilities as at 31st December 2005 comprised short-term bank loans of approximately RMB135,870,000, current portion of long-term loans of approximately RMB9,000,000 trade and notes payables of approximately RMB40,614,000, deposits from customers of approximately RMB51,919,000 and accrued charges and other payables of approximately RMB32,257,000.

CAPITAL COMMITMENTS

As at 31st December 2005, the Group had outstanding capital commitments of approximately RMB14,140,000.

FINANCIAL RESOURCES

As at 31st December 2005, the Group had cash and bank deposits of approximately RMB47,758,000 and pledged bank deposits of approximately RMB77,800,000. The Company intends to finance the Group's future operations, capital expenditure and other capital requirements with the existing bank balances.

As at 31st December 2005, the total bank loans and notes payable balances of the Group amounted to RMB178,770,000.

GEARING RATIO

The Group's gearing ratios were approximately 58.5% and 58.0% as at 31st December 2005 and 31st December 2004 respectively. The gearing ratios were calculated based on total liabilities over total assets as at the respective balance sheet dates.

CONTINGENT LIABILITIES

The Group had no significant contingent liabilities as at 31st December 2005.

MATERIAL ACQUISITION/DISPOSAL

Other than the acquisition of production plants of Dazhu Hongsen Chemical Industry Co., Ltd. as per announcement dated 7th January 2005, there was no other material acquisition in the year 2005 which would have been required to be disclosed under the Rules Governing the Listing of Securities on Growth Enterprise Market of the Stock Exchange ("GEM Listing Rules").

SEGMENTAL INFORMATION

All the Group's activities are primarily conducted in the PRC and are within the same business segment. Accordingly, neither analysis by geographical segments nor analysis by business segments is presented.

DETAILS OF FUTURE PLANS FOR MATERIAL INVESTMENT OR CAPITAL ASSETS

The Directors do not have any future plans for material investment or capital assets.

EXPOSURE ON EXCHANGE RATE FLUCTUATION

Since most of the income and expenditure of the Group were received and paid in RMB, the local currency of the place where the Group primarily operates in, the Directors do not consider that the Group was significantly exposed to any foreign currency exchange risk.

CHARGES ON THE GROUP'S ASSETS

As at 31st December 2005, certain land use rights and buildings with a total net book value of approximately RMB85,537,000 (2004: RMB69,116,000), plant and machinery with a total net book value of approximately RMB25,092,000 (2004: RMB23,675,000) and bank deposits approximately RMB77,800,000 (2004: RMB53,940,000) were pledged as collateral for the Group's bank loans and notes payable.

DIVIDEND

The Directors recommend the payment of a final dividend of HKD1.5 cents per share to the shareholders whose names appear on the register of members of the Company as at the close of business on 26th April 2006. The dividend will be payable on 24th May 2006. The register of members of the Company will be closed from 21st April 2006 to 26th April 2006, both days inclusive, during which period no share transfer shall be effected. In order to qualify for the final dividend, all instruments of transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar, Union Registrars Limited, at Room 311-312, Two Exchange Square, Central, Hong Kong for registration by no later than 4:00 p.m. on 20th April 2006.

NUMBER OF EMPLOYEES

As at 31st December 2005, the Group had 2,016 (2004: 1,857) employees, comprising 6 (2004: 8) in management, 115 (2004: 115) in finance and administration, 1,779 (2004: 1,651) in production, 107 (2004: 76) in sales and marketing and 9 (2004: 7) in research and development. 2,010 (2004: 1,851) of these employees were located in the PRC and 6 (2004: 6) were located in Hong Kong.

Pension schemes of the Group are set out in Note 2(k)(ii) to accounts.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

On 10th July 2003, the Company obtained net proceeds, after deducting all relevant share issue expenses, of approximately HKD28.4 million from the new issue of shares by way of public offer and placing. Up to 31st December 2005, the Group has applied the net proceeds as follows:

	Use of proceeds extracted from the prospectus	**Actual amount used up to 31st December 2005**	**Remaining net proceeds**
	HKD Million	*HKD Million*	*HKD Million*
Establishment of additional production facilities, purchase of equipment for BB Fertilizers and working capital of BB Fertilizers	18	18	—
Development of new products, product research and assessment	5	5	—
Advertising and promotion of new products and expansion of the Group's sales force	5	5	—
Total	28	28	—

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS *(Continued)*

Comparison of the business objectives set out in the prospectus of the Company dated 30th June 2003 with the actual business progress for the period from 10th July 2003 to 31st December 2005 are as follows:

Business objectives as stated in prospectus	Actual business progress
Expansion of production capacity/upgrading of its production facilities	
To finish upgrading the production line of urea granules	The Board has approved the proposal of investing RMB5 million into the plan through internal financing. It is anticipated that the project will be completed by the first quarter of 2006.
To upgrade the production line of ammonium chloride to achieve an annual production capacity of 80,000 tonnes.	The Board has decided to temporarily postpone the plan of upgrading the production line of ammonium chloride.
To finish upgrading the equipment used in the production line of BB Fertilizers so as to increase the annual production capacity to 800,000 tonnes	The existing annual production capacity of BB Fertilizers, 400,000 tonnes, can satisfy the foreseeable growth of sales volume in 2006. In the meantime, the Group has reserved part of the Plant in Qingdao Laixi City for producing BB Fertilizers, further increasing the annual production capacity to 700,000 tonnes in the second half of 2006.
Research and development of new products	
To develop and launch new products	The Group has been undergoing the preliminary market research on a number of products including foliar fertilizer, fertilizer with high water solubility, and high/medium/low concentration compound fertilizers.
To cooperate with research centres to develop fertilizers	Continue the cooperation with the research team of Soil and Fertilizers Institute of Sichuan academy of Agricultural Science in evaluation of existing species and modification formula of BB Fertilizers.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS *(Continued)*

Marketing and brand building of the Group's products

To expand the Group's distribution network, promotion of brand name of BB Fertilizers	The Group put effort on promotion of its newly registered brand "Prescription after testing" (「測方」) through mass media including televisions, radios, newspapers and magazines.
To organize and attend the conference on the fertilizers	The Group organized and participated in the first BB Fertilizers Industry Summit in Beijing on 25th June 2005.
To explore the oversea markets	The Group had expanded its market to the countries of Southeast Asia.

Human resources

To increase production staff, marketing staff, technical staff and agricultural service staff	Compared with 2004, the Group additionally recruited 128 production staff, 31 marketing staff and 1 agricultural service staff.

Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Li Weiruo, aged 52, is the Chairman of the Board, Executive President 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 47, is the Executive Vice President 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 50, is the Compliance Officer and Executive Vice President 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 42, 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 53, 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 55, 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 53, 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 63, is an independent non-executive director. Mr. Qian graduated from Sichuan Fine Arts Institute in 1968. Over the past 20 years, Mr. Qian actively participated in cultural and economical researches and publishes in Sichuan province, the PRC. Currently, Mr. Qian is a member of Sichuan Provincial Committee of Chinese Peoples Political Consultative Conference. He was appointed as an independent non-executive director on 16th August 2004.

SENIOR MANAGEMENT

Mr. Zhu Changhou, aged 67, is the deputy general manager and chief engineer of Chengdu Ko Yo Chemical. He obtained a certificate of chemistry in Luzhou Chemical College and has over 18 years' experience in developing and analyzing chemical products. Mr. Zhu is also a director of Sichuan Chemical Association and the PRC Chemical Association. Prior to joining the Group, Mr. Zhu was the deputy chief engineer of Luzhou Natural Gas Chemical Corporation, which focused on the manufacture of chemical products. Mr. Zhu is primarily responsible for Chengdu Ko Yo Chemical's production and product research and development. He joined the Group in 1999.

Mr. Mai Zixun, aged 58, is the general manager of Chengdu Ko Yo Compound. He graduated from Sichuan Broadcasting and Television University. Mr. Mai was formerly the General Manager of Zhuhai Gree Magneto-Electronic Co., Ltd., which focused on the manufacture of electronics products. He joined the Group in June 2001 and is responsible for the sales and marketing activities of Chengdu Ko Yo Compound.

Mr. Chung Tin Ming, aged 35, is the financial controller of the Group and is responsible for financial management of the Group. He graduated from Chinese University of Hong Kong with a bachelor degree in science and City University of Hong Kong with a master degree in financial engineering. He is an associate member of each of the Hong Kong Institute of Certified Public Accountants and Association of Chartered Certified Accountants. Prior to joining the Group in January 2006, he was a director of Keen Ocean Industrial Limited in Hong Kong.

Report of the Directors

The Directors have the pleasure of presenting their report together with the audited accounts of the Company and its subsidiaries for the year ended 31st December 2005.

GENERAL INFORMATION

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

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

PRINCIPAL ACTIVITIES

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

RESULTS AND APPROPRIATIONS

Details of the Group's profits for the year ended 31st December 2005 are set out in the consolidated profit and loss account.

The Directors recommend the payment of a final dividend of HKD1.5 cents per share, totalling approximately RMB6,580,000 for the year ended 31st December 2005 (2004: RMB5,142,000).

SHARE CAPITAL

Details of movements in share capital of the Company are set out in Note 27 to the accounts.

RESERVES

Movements in the reserves of the Group and of the Company during the year are set out in Note 28 to the accounts.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31st December 2005 amounted to approximately RMB66,034,000 (2004: RMB61,585,000).

RIGHTS OF DIRECTORS AND EMPLOYEES TO ACQUIRE SHARES OR DEBENTURES

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

PRE-EMPTIVE RIGHTS

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

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out in page 78.

FIXED ASSETS

Details of movements in fixed assets of the Group during the year are set out in Note 16 to the accounts.

CONNECTED TRANSACTIONS

The Company acquired the remaining 20 per cent. of the equity interest of Dezhou Ko Yo Compound Fertilizer Co., Limited ("Dezhou Ko Yo Compound") from Dezhou Agricultural Production Information Company ("Dezhou Agricultural") with a consideration of RMB600,000 in year 2005. From that onwards, Dezhou Ko Yo Compound became a wholly owned subsidiary of the Company. The transactions between Dezhou Ko Yo Compound and Dezhou Agricultural were no longer treated as connected transactions. The BB Fertilizers Sales and Operation Agreement and the Phosphate Fertilizer's Purchase Agreement between Dezhou Ko Yo Compound and Dezhou Agricultural were expired effective from 1st January 2005.

Report of the Directors

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The Directors who held office during the year ended 31st December 2005 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

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

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

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

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

SHARE OPTIONS

Share options are granted to directors, employees and consultants of the Company or its subsidiaries under the Share Option Scheme approved by written resolutions of shareholders of the Company on 10th June 2003 and amended at an extraordinary general meeting on 28th July 2004. The purpose of the Share Option Scheme is to recognize the contribution of employees and consultants to the Company and its subsidiaries, and to provide a performance related incentive to them. Currently under the Share Option Scheme the maximum number of shares which may fall to be issued pursuant to the exercise of all the share options granted and to be granted is 42,000,000 shares, representing 10% of the total number of issued shares upon listing on 10th July 2003. Unless approved by shareholders, the total number of shares issued and which may fall to be issued upon the exercise of the options granted to each participant may not exceed 4,200,000, such options being exercisable for 10 years from the date of grant of such option. Participants are required to pay an option price of HKD10 for each acceptance of option offer. The subscription price shall be at least the highest of (i) the closing price of a share on the option offer date, (ii) the average closing price of a share for the five business days immediately preceding the option offer date and (iii) the nominal value of a share. The Share Option Scheme will remain valid for a period of ten years commencing from 10th June 2003.

No share options under the Share Option Scheme were granted, exercised, cancelled or lapsed during the year ended 31st December 2005. The details of option outstanding and movements are disclosed in the following table:

	Number of options							
	Held at 1st January 2005	**Granted during the year**	**Exercised during the year**	**Held at 31st December 2005**	**Exercise price HKD**	**Grant date**	**Exercisable from**	**Exercisable until**
Directors								
Chi Chuan	4,200,000	—	—	4,200,000	0.62	23rd September 2003	23rd September 2004	22nd September 2013
Man Au Vivian	3,800,000	—	—	3,800,000	0.62	23rd September 2003	23rd September 2004	22nd September 2013
Li Shengdi	4,200,000	—	—	4,200,000	0.62	23rd September 2003	23rd September 2004	22nd September 2013
Hu Xiaoping	400,000	—	—	400,000	0.62	23rd September 2003	23rd September 2004	22nd September 2013
Woo Che-wor, Alex	400,000	—	—	400,000	0.62	23rd September 2003	23rd September 2004	22nd September 2013
Employees	12,200,000	—	—	12,200,000	0.62	23rd September 2003	23rd September 2004	22nd September 2013
Total	25,200,000	—	—	25,200,000				

DIRECTORS' INTERESTS IN SHARES

As at 31st December 2005, the interests and short positions of the Directors and chief executives in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) to be recorded in the register required to be kept under section 352 of the SFO; or (c) to be notified to the Company and the Stock Exchange pursuant to the minimum standards of dealings by directors referred to in Rule 5.46 of the GEM Listing Rules were as follows:

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

Name of Director	Type of shares	Capacity	Aggregate long position in shares and underlying shares	Approximate percentage of interests in the issued share capital
Li Weiruo	Personal	Beneficial owner	206,440,000	48.94
Yuan Bai	Personal	Beneficial owner	35,448,000	8.40
Chi Chuan	Personal	Beneficial owner	16,728,000 *(Note)*	3.97
Man Au Vivian	Personal	Beneficial owner	10,064,000 *(Note)*	2.39
Li Shengdi	Personal	Beneficial owner	4,200,000 *(Note)*	1.00
Hu Xiaoping	Personal	Beneficial owner	400,000 *(Note)*	0.10
Woo Che-wor, Alex	Personal	Beneficial owner	400,000 *(Note)*	0.10

Note: Long position in the underlying shares of the Company

DIRECTORS' INTERESTS IN SHARES *(Continued)*

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

Share options were granted to certain directors, employees and consultant of the Company or its Subsidiaries under the Share Option Scheme. Details of the options granted to Directors during the period are as follows:

		Number of share options						
Name of Director	Date of Grant	Outstanding as at 1st January 2005	Granted during the year	Exercised during the year	Cancelled during the year	Outstanding as at 31st December 2005	Exercisable period	Exercise price HKD
Chi Chuan	23rd September 2003	4,200,000	—	—	—	4,200,000	23rd September 2004 - 22nd September 2013	0.62
Man Au Vivian	23rd September 2003	3,800,000	—	—	—	3,800,000	23rd September 2004 - 22nd September 2013	0.62
Li Shengdi	23rd September 2003	4,200,000	—	—	—	4,200,000	23rd September 2004 - 22nd September 2013	0.62
Hu Xiaoping	23rd September 2003	400,000	—	—	—	400,000	23rd September 2004 - 22nd September 2013	0.62
Woo Che-wor, Alex	23rd September 2003	400,000	—	—	—	400,000	23rd September 2004 - 22nd September 2013	0.62

DIRECTORS' INTERESTS IN SHARES *(Continued)*

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

Name of Director	Name of company	Number and description of shares	Capacity	Type of interest	Approximate percentage of holding of such class
Li Weiruo	Ko Yo Development Co., Limited ("Ko Yo Hong Kong") *(Note)*	2,100,000 non-voting deferred shares	Beneficial owner	Personal	70
Yuan Bai	Ko Yo Hong Kong	420,000 non-voting deferred shares	Beneficial owner	Personal	14
Chi Chuan	Ko Yo Hong Kong	120,000 non-voting deferred shares	Beneficial owner	Personal	4
Man Au Vivian	Ko Yo Hong Kong	60,000 non-voting deferred shares	Beneficial owner	Personal	2

Note: a wholly-owned subsidiary of the Company

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

Name of Director	Capacity	Name of company	Number and description of shares	Aggregate percentage of holding of such class
Li Weiruo	Beneficial owner	Ko Yo Hong Kong	2,100,000 non-voting deferred shares	70
Yuan Bai	Beneficial owner	Ko Yo Hong Kong	420,000 non-voting deferred shares	14
Chi Chuan	Beneficial owner	Ko Yo Hong Kong	120,000 non-voting deferred shares	4
Man Au Vivian	Beneficial owner	Ko Yo Hong Kong	60,000 non-voting deferred shares	2

SUBSTANTIAL SHAREHOLDERS

As at 31st December 2005, there was no substantial shareholder (not being a director or a chief executive of the Company) who had any interests or short positions in the shares or underlying shares of the Company which are required to be notified to the Company and the Stock Exchange under Divisions 2 and 3 of Part XV of the SFO and recorded in the register required to be kept under section 336 of the SFO, and who were directly or indirectly deemed to be interested in 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

At 31st December 2005, the following person (not being a director or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

(i) Long positions in the shares of the Company

Name	Type of shares	Capacity	Aggregate long position in shares	Approximate percentage of interests in the issued share capital
Tang Shiguo *(Note)*	Personal	Beneficial owner	16,320,000	3.87

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

(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.

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

(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 *(Note)*	Beneficial owner	Ko Yo Hong Kong	300,000 non-voting deferred shares

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

DIRECTORS' INTEREST IN COMPETING BUSINESS

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

SPONSOR'S INTEREST

Pursuant to an agreement dated 9th July 2003 between the Company and Guotai Junan Capital Limited ("Guotai Junan"), Guotai Junan has been appointed as the compliance adviser to the Company as required under the GEM Listing Rules at a fee for the remainder of the financial year of the Company ended 31st December 2003 and for a period of two years thereafter expiring on 31st December 2005.

To the best knowledge of Guotai Junan, as at 31st December 2005, none of Guotai Junan, its directors, employees or any of its respective associates (as defined under the GEM Listing Rules) had any interest in the share capital of the Company.

DIRECTORS' INTERESTS IN CONTRACTS

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

MANAGEMENT CONTRACTS

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

AUDIT COMMITTEE

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

The audit committee has reviewed with management the accounting principles and practices adopted by the Company and the Group and discussed internal controls and financial reporting matters including a review of the audited accounts of the Company and the Group for the year ended 31st December 2005.

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.

CUSTOMERS AND SUPPLIERS

For the year ended 31st December 2005, the five largest customers accounted for approximately 17.0% of the Group's total turnover and the five largest suppliers of the Group accounted for approximately 33.7% of the Group's total purchases. The largest customer of the Group accounted for approximately 4.2% of the Group's total turnover and the largest supplier accounted for approximately 11.8% 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.

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 accounts 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

23rd March 2006

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Board of directors believes that by adopting high standard of corporate governance practices can improve the transparency and accountability of the Company, and instill confidence of shareholders and the public in the Group. The board had adopted the Code on Corporate Governance Practices (the "Code") as set out in Appendix 15 of the GEM Listing Rules since 1st January 2005. Throughout the year under review, save as disclosed in page 29 with heading of the Chairman and Chief Executive Officer, the Company had complied with the Code.

THE BOARD OF DIRECTORS

Board Composition

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

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

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

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

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

THE BOARD OF DIRECTORS *(Continued)*

Board Meeting

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

In the financial year ended 31st December 2005, five 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	5/5	100%
Mr. Yuan Bai	4/5	80%
Ms. Chi Chuan	5/5	100%
Ms. Man Au Vivian	5/5	100%
Mr. Li Shengdi	5/5	100%
Independent Non-Executive Directors		
Mr. Hu Xiaoping	5/5	100%
Mr. Woo Che-wor, Alex	5/5	100%
Mr. Qian Laizhong	5/5	100%

Chairman and Chief Executive Officer

The Chairman and Chief Executive Officer of the Group is Mr. Li Weiruo. This structure is not complied with the Code. The Chairman of the Group is 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 Chief Executive Officer of the Group together with the other four 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 and Mr. Yuen Bai are responsible for the development and marketing of the Group. Mr. Li Shengdi is responsible for the operational and human resources 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. The Board believes that the segregation of duties among the chairman and executive directors is a sufficient safeguard procedure of the Group before the role of Chairman and Chief Executive Officer are performed by different individuals. The Board plan to employ a new Chief Executive Officer by recruiting or by internal arrangement among the Group in year 2006.

DIRECTORS' SECURITIES TRANSACTION

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

REMUNERATION OF DIRECTORS

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

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

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

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

NOMINATION OF DIRECTORS

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

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

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 one year until terminated by not less than three months' notice in writing served by either party on the other. The independent non-executive directors of the Company are appointed with specific terms inside the letter of appointment for initial fixed terms of two years.

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

AUDIT COMMITTEE

Audit Committee was established in June 2003 with written terms of reference compliance with Rule 5.28 of the GEM Listing Rules and 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 interest 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.

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 accounts of the Company and Group for the year ended 31st December 2005.

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

INTERNAL CONTROL

The internal audit department of the Company is responsible for the financial control and operational control of the Group. The Board from time to time reviewed the effectiveness of the Group's internal control system and an external accounting firm had been appointed for reviewing and giving recommendations on the Group's internal control system during the year under review. As recommend by the Audit Committee to the Board, the Group plans to appoint an external accounting firm to review and comment on the Company's internal control system once a year.

Auditors' Report

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor Prince's Building
Central Hong Kong

AUDITORS' REPORT TO THE SHAREHOLDERS OF KO YO ECOLOGICAL AGROTECH (GROUP) LIMITED

(incorporated in the Cayman Islands with limited liability)

We have audited the accounts on pages 34 to 77 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those accounts 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.

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the Company and of the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

OPINION

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 23rd March 2006

Consolidated Profit and Loss Account

For the year ended 31st December 2005

	Note	2005 RMB'000	2004 RMB'000
Turnover	5	**627,616**	422,728
Cost of sales		**(497,767)**	(336,679)
Gross profit		**129,849**	86,049
Other income	6	**4,697**	5,777
Distribution costs		**(34,640)**	(22,062)
Administrative expenses		**(38,646)**	(28,394)
Operating profit	7	**61,260**	41,370
Finance costs	8	**(8,060)**	(7,476)
Profit before taxation		**53,200**	33,894
Taxation	9	**(6,421)**	(1,215)
Profit for the year		**46,779**	32,679
Attributable to:			
Equity holders of the Company	10	**46,802**	32,712
Minority interest		**(23)**	(33)
		46,779	32,679
Earnings per share for profit attributable to the equity holders of the Company			
– basic	11	**RMB0.111**	RMB0.078
– diluted	11	**N/A**	N/A
Dividends	12	**8,773**	6,478

Consolidated Balance Sheet

As at 31st December 2005

	Note	2005 RMB'000	2004 RMB'000
Non-current assets			
Negative goodwill	15	—	(12,366)
Fixed assets	16	189,528	163,878
Land use rights	17	45,124	42,957
Available-for-sale investment	19	1,000	1,000
		235,652	195,469
Current assets			
Inventories	20	74,340	51,037
Trade and other receivables	21	53,329	46,802
Pledged bank deposits	22, 23	77,800	53,940
Cash and bank deposits		47,758	13,926
		253,227	165,705
Current liabilities			
Trade and other payables	22	124,790	69,229
Current portion of long-term loans, secured	24	9,000	—
Short-term bank loans, secured	23	135,870	95,430
		269,660	164,659
Net current assets		(16,433)	1,046
Total assets less current liabilities		219,219	196,515
Financed by:			
Capital and reserves attributable to the Company's equity holders			
Share capital	27	44,713	44,713
Reserves			
Proposed final dividends	12, 28	6,580	5,142
Others	28	151,634	101,239
		202,927	151,094
Minority interest		—	567
Total equity		202,927	151,661
Non-current liabilities			
Long-term loans, secured	24	8,800	37,200
Provision for staff compensation	25	7,330	7,388
Deferred tax liabilities	26	162	266
		16,292	44,854
		219,219	196,515

Li Weiruo
Director

Yuan Bai
Director

Balance Sheet

As at 31st December 2005

	Note	2005 RMB'000	2004 RMB'000
Non-current assets			
Investments in subsidiaries	18	**74,803**	86,136
Current assets			
Other receivables	21	**39,367**	23,408
Cash and bank deposits		**52**	53
		39,419	23,461
Current liabilities			
Accruals and other payables	22	**3,475**	3,299
Net current assets		**35,944**	20,162
Total assets less current liabilities		**110,747**	106,298
Financed by:			
Capital and reserves attributable to the Company's equity holders			
Share capital	27	**44,713**	44,713
Reserves			
Proposed final dividend	12, 28	**6,580**	5,142
Others	28	**59,454**	56,443
		110,747	106,298

Li Weiruo
Director

Yuan Bai
Director

Consolidated Statement of Changes in Equity

For the year ended 31st December 2005

	Note	Attributable to equity holders of the Company Share capital RMB'000	Attributable to equity holders of the Company Reserves RMB'000	Minority interest RMB'000	Total RMB'000
Balance at 1st January 2004, as previously reported as equity		44,520	77,811	—	122,331
Balance at 1st January 2004, as previously separately reported as minority interest		—	—	600	600
Balance at 1st January 2004, as restated		44,520	77,811	600	122,931
Profit for the year		—	32,712	(33)	32,679
Exercise of share options		193	444	—	637
Dividends		—	(4,586)	—	(4,586)
Balance at 31st December 2004		44,713	106,381	567	151,661
Balance at 1st January 2005, as per above		44,713	106,381	567	151,661
Opening adjustment for the adoption of HKFRS 3	2(a)	—	12,366	—	12,366
Balance at 1st January 2005, as restated		44,713	118,747	567	164,027
Profit for the year		—	46,802	(23)	46,779
Acquisitions of minority interest		—	—	(544)	(544)
Dividends	12	—	(7,335)	—	(7,335)
Balance at 31st December 2005		44,713	158,214	—	202,927

Consolidated Cash Flow Statement

For the year ended 31st December 2005

	Note	2005 RMB'000	2004 RMB'000
Net cash generated from operating activities	29(a)	**99,559**	56,620
Income tax paid		**(6,891)**	(1,701)
Interest paid		**(8,060)**	(7,476)
Net cash inflow from operating activities		**84,608**	47,443
Investing activities			
Acquisition of minority interest		**(600)**	—
Purchases of fixed assets and payments for construction-in-progress		**(38,887)**	(49,246)
Payments for land use rights		**(3,140)**	(6,115)
Proceeds from disposal of fixed assets		**525**	342
Dividends received from long-term investment		**130**	130
Interest received		**1,351**	340
Net cash used in investing activities		**(40,621)**	(54,549)
Net cash inflow/(outflow) before financing activities		**43,987**	(7,106)
Financing activities	29(c)		
Increase in pledged bank deposits		**(23,860)**	(40,908)
Exercise of share options		**—**	637
New loans payable		**135,870**	112,830
Repayment of amounts borrowed		**(114,830)**	(77,430)
Dividends paid	12	**(7,335)**	(4,586)
Payments for listing expenses		**—**	(4,028)
Net cash used in financing activities		**(10,155)**	(13,485)
Increase/(decrease) in cash and cash equivalents		**33,832**	(20,591)
Cash and cash equivalents at 1st January		**13,926**	34,517
Cash and cash equivalents at 31st December		**47,758**	13,926
Analysis of balances of cash and cash equivalents			
Cash and bank deposits		**47,758**	13,926

Notes to the Accounts

1 GENERAL INFORMATION

Ko Yo Ecological Agrotech (Group) Limited (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. Its shares have been listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 10th July 2003.

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.

The address of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section of the annual report.

2 PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the accounts are set out below:

(a) Basis of preparation

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

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 Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated accounts, are disclosed in Note 4.

The adoption of new/revised HKFRS

In 2005, the Group adopted the new/revised standards and interpretations of HKFRS below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(a) Basis of preparation *(Continued)*

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 16, 21, 23, 24, 27, 33 and 36 did not result in substantial changes to the Group's accounting policies. In summary:

— HKAS 1 has affected the presentation of minority interest and other disclosures.

— HKASs 2, 7, 8, 10, 16, 23, 27, 33 and 36 had no material effect on the Group's policies.

— HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the Group entities have the same functional currency as the presentation currency for respective entity accounts.

— HKAS 24 has affected the identification of related parties and some other related-party disclosures.

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land use rights from fixed assets to operating leases. The up-front prepayments made for the leasehold land use rights are expensed in the profit and loss account on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the profit and loss account. In prior years, the land use rights were accounted for at cost less accumulated depreciation and accumulated impairment.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(a) Basis of preparation *(Continued)*

The adoption of HKAS 32 and HKAS 39 has resulted in a change in the accounting policy relating to the classification of available-for-sale investment. In prior years, investment in equity securities intended to be held for non-trading or long term purpose would have been classified as long term investments were stated at cost less any impairment losses, on an individual investment basis. Upon the adoption of HKASs 32 and 39, these investments are classified as available-for-sale investments. Available-for-sale investments are those non-derivative investments in equity securities that are designated as available-for-sale or they are not classified in any of the other categories of financial assets as defined in HKAS 39. After initial recognition, available-for-sale investments are measured at fair value in the balance sheet, except for certain available-for-sale investment that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, when they are measured at cost less any accumulated impairment losses. The available-for-sale investment of the Group is recognised at cost less impairment at the balance sheet date. Accordingly, the adoption of HKAS 32 and HKAS 39 has no material effect on the accounts.

The adoption of HKFRS 2 results in a change in the accounting policy for employee share options. Until 31st December 2004, the provision of share options to employees did not result in a charge to the profit and loss account. Following the adoption of HKFRS 2, the fair value of share options at grant date is amortised over the relevant vesting periods to the profit and loss account. The Group has not applied this HKFRS retrospectively as share options of the Group granted after 7th November 2002 had been vested before 1st January 2005.

The adoption of HKFRS 3 results in a change in the accounting policy for negative goodwill. Until 31st December 2004, negative goodwill was recognised in the consolidated profit and loss account over the remaining weighted average useful life of the non-monetary assets acquired. In accordance with the provisions of HKFRS 3, the carrying amount of previously recognised negative goodwill at 1st January 2005 is derecognised with a corresponding adjustment to the opening balance of retained earnings.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards. All standards adopted by the Group require retrospective application other than:

— HKAS 16 – the initial measurement of an item of property, plant and equipment acquired in an exchange of assets transaction is accounted for at fair value prospectively only to future transactions;

— HKAS 39 – does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous SSAP 24 "Accounting for investments in securities" to Investments in securities for the 2004 comparative information. The adjustments required for accounting differences between SSAP 24 and HKAS 39 are determined and recognised at 1st January 2005;

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(a) Basis of preparation *(Continued)*

— HKFRS 2 – only retrospective application for all equity instruments granted after 7th November 2002 and not vested at 1st January 2005; and

— HKFRS 3 – prospectively after 1st January 2005.

The adoption of revised HKAS 17 resulted in:

	As at 31st December	
	2005	2004
	RMB'000	RMB'000
Decrease in fixed assets	**45,124**	42,957
Increase in land use rights	**45,124**	42,957

The adoption of HKFRS 3 resulted in:

	As at 1st January 2005
	RMB'000
Derecognition of negative goodwill	**12,366**
Increase in retained earnings	**12,366**

Impact of issued but not yet effective HKFRS

The Group has not applied the following new and revised HKFRSs applicable to its operations, that have been issued but are not yet effective, to these accounts.

HKAS 1 Amendment – Capital Disclosures
HKFRS 7 – Financial Instruments: Disclosures

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1st January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 will replace HKAS 32 and has modified the disclosure requirements of HKAS 32 relating to financial instruments. This HKFRS shall be applied for annual periods beginning on or after 1st January 2007.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(b) Consolidation

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

(i) Subsidiaries

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

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

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 profit and loss account.

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. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

(ii) Transactions with minority interest

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

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(c) Foreign currency translation

(i) Functional and presentation currency

Items included in the accounts 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 accounts are presented in Renminbi ("RMB"), which is the Company's functional and presentation currency.

(ii) 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 profit and loss account, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

(iii) Group companies

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

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

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

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

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(d) Fixed assets

(i) Construction-in-progress

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.

(ii) Other fixed assets

Other fixed 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 recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the profit and loss account during the financial period in which they are incurred.

(iii) Depreciation

Fixed assets are depreciated at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Buildings	2.6%
Plant and machinery	6.4-7.5%
Motor vehicles	9.0%
Office equipment and others	12.9%

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

(iv) Impairment and gain or loss on sale

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(e) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

(f) Investments

From 1st January 2004 to 31st December 2004:

The Group classified investment in equity securities intended to be held for non-trading or long term purpose as long term investments.

Long-term investments are stated at cost less any provision for impairment losses. The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amounts of such investments will be reduced to their fair values. The impairment loss is recognised as an expense in the profit and loss account. This impairment loss is written back to the profit and loss account when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

From 1st January 2005 onwards:

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. 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 the year, other than loans and receivables and available-for-sale investment, the Group did not hold any financial assets in other categories.

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as 'trade and other receivables' in the balance sheet (Note 2 (h)).

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

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(f) Investments *(Continued)*

(b) Available-for-sale investment

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

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

Available-for-sale investments are subsequently carried at fair value except for certain available-for-sale investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, when they are measured at cost less any accumulated impairment losses. Gains or losses arising from changes in fair values are recognised as a separate component of equity until the investments are sold, collected or otherwise disposed of or until the investments are determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the profit and loss account. Interest on available-for-sale securities calculated using the effective interest method is recognized in the profit and loss account. Dividends on available-for-sale equity instruments are recognized in the profit and loss account when the Group's right to receive payments is established.

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

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

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(g) 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 determined on the basis of anticipated sales proceeds less estimated selling expenses.

(h) Trade and other receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognized in the profit and loss account.

(i) 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.

(j) 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 a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(k) Employee benefits

(i) 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.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(k) Employee benefits *(Continued)*

(ii) Pension obligations

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

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

Contributions to the above retirement schemes are charged to the profit and loss account as incurred.

(l) Deferred taxation

Deferred taxation 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 accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

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

(m) 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 accounts. 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 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(n) Revenue recognition

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, taking into account the principal amounts outstanding and the interest rates applicable.

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

(o) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(p) Financial subsidies and tax refund

Financial subsidies and tax refund are recognized in the profit and loss account when there is reasonable assurance that the Group will comply with the condition attaching with them and that the subsidies and refund will be received.

(q) Dividend distribution

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

(r) Segment reporting

The Group regards chemical products and chemical fertilisers as a single business segment. The Group also operates within one geographical segment as its revenues are primarily generated in Mainland China and its assets are located there. Accordingly, no segmental information is presented.

3 FINANCIAL RISK MANAGEMENT

The Group's principal financial instruments comprise pledged short-term time deposits, trade and other receivables, trade and other payables and bank loans.

The main risks arising from the Group's financial instruments are foreign exchange risk, credit risk, liquidity risk and cash flow and fair value interest rate risk. As the Group's exposure to these risks is kept to a minimum, the Group has not used any derivatives and other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes. The directors review and agree policies for managing each of these risks and they are summarised as follows:

(a) Foreign exchange risk

The Group exposes to foreign exchange risks as certain portion of sales are denominated in foreign currencies, primarily with respect to the US dollar. 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 sales denominated in foreign currencies are less than 10% of its total sales and the collection periods of the related trade receivables are within 30 days. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

(b) Credit risk

The Group has no significant concentrations of credit risk. It has policies in place of determination of credit limits and credit approval. The Group performs ongoing credit evaluations for its customers' financial condition and generally does not require collateral on trade receivables. The Group maintains a provision for doubtful debts and actual losses have been within management's expectation.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, the Group aims to maintain flexibility in funding by keeping committed credit lines available.

(d) Fair value and cash flow interest rate risk

The Group's exposure to fair value and cash flow interest rate risk is minimal as the Group does not have any long term financial assets and liabilities other than long-term loans of RMB8,800,000 as at 31 December 2005 (2004: RMB37,200,000).

4 CRITICAL ACCOUNTING JUDGEMENT AND ESTIMATES

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.

Judgements

In the process of applying the Group's accounting policies, management has made the judgement on impairment of assets, apart from those involving estimations as discussed below, which have the most significant effect on the amounts recognised in the accounts.

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

Estimates

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

Depreciation of fixed assets

The Group's net book value of fixed assets as at 31st December 2005 was RMB189,528,000 approximately. The Group depreciates the fixed assets on a straight line basis over the estimated useful life of seven to thirty-five years, and after taking into account of their estimated residual value, using the straight-line method, at the rate 2.6% to 12.9% per annum, commencing from the date the equipment is placed into productive use. The estimated useful life and dates that the Group places the fixed assets into productive use reflect the directors' estimate of the periods that the Group intend to derive future economic benefits from the use of the Group's fixed assets.

Provision for doubtful receivables

The policy for provision for doubtful receivables of the Group is based on the evaluation of collectability and aging analysis of accounts and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

5 TURNOVER AND REVENUE

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

The Group's sales made in Mainland China are subject to VAT on sales ("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%.

6 OTHER INCOME

	2005	2004
	RMB'000	RMB'000
Interest income	**917**	773
Financial subsidies *(Note a)*	**380**	600
VAT refund *(Note b)*	**1,905**	2,232
Amortisation of negative goodwill *(Note 15)*	**—**	500
Dividend income from unlisted investment	**130**	130
Sales of waste materials	**1,365**	1,129
Others	**—**	413
	4,697	5,777

(a) Financial subsidies

Pursuant to the document (1999) No.33 issued by the local government authority, Chengdu Ko Yo Chemical Industry Co., Ltd ("Chengdu Ko Yo Chemical", a subsidiary of the Company), is entitled to receive a financial subsidy equal to certain percentage of its net VAT paid to the local tax bureau. The applicable rates for the two years ended 30th June 2001 and the four years ended 30th June 2005 are 80% and 50%, respectively. Such policy was terminated on 1st July 2005.

6 OTHER INCOME *(Continued)*

(b) VAT refund

Until 1st July 2005, pursuant to the document Cai Shui (2004) No.33 issued by the Ministry of Finance and the National Tax Bureau of Mainland China in 2004, companies established in Mainland China are entitled to a refund of VAT paid on sale of certain qualified agricultural chemical fertilisers. Chengdu Ko Yo Chemical and Dazhou City Dazhu Ko Yo Chemical Industry Co., Ltd. ("Dazhu Ko Yo Chemical", a subsidiary of the Company) are entitled to receive a refund for its net VAT paid on its sales of urea and the tax refund rate was 50%.

And pursuant to the document Cai Shui (2005) No.87 issued by the Ministry of Finance and the National Tax Bureau of Mainland China in 2005, since 1st July 2005, companies established in Mainland China are entitled to an entire exemption of VAT for sale of urea. Accordingly, Chengdu Ko Yo Chemical and Dazhu Ko Yo Chemical are entitled to this exemption treatment since 1st July 2005.

Pursuant to the document Guo Shui (1999) No.171 issued by the National Tax Bureau of Mainland China in 1999 and as approved by the local taxation bureau, Dazhu Ko Yo Chemical is entitled to receive a refund for its VAT paid on its purchase of machinery from mainland China enterprises, which are local machinery suppliers and unrelated to the Group and the tax refund rate was 100%.

7 OPERATING PROFIT

Operating profit is stated after charging the following:

	2005	2004
	RMB'000	RMB'000
Crediting		
Gain on disposal of fixed assets	**—**	222
Charging:		
Staff costs (including directors' emoluments) *(Note 13)*		
– Salaries, wages and other benefits	**35,617**	26,969
– Contributions to retirement schemes	**3,093**	1,711
	38,710	28,680
Cost of inventories	**497,767**	336,679
Provision for doubtful receivables	**1,356**	994
Loss on disposal of fixed assets	**1,074**	80
Operating leases for buildings	**1,195**	1,070
Depreciation and amortization	**12,611**	9,770
Auditors' remuneration	**1,200**	1,071

8 FINANCE COSTS

	2005	2004
	RMB'000	RMB'000
Interest on loans wholly repayable within five years		
– Bank loans	7,170	7,088
– Other loans	890	388
	8,060	7,476

9 TAXATION

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 31st December 2005 and 2004.

Chengdu Ko Yo Chemical, Chengdu Ko Yo Compound Fertilisers Co.,Ltd. ("Chengdu Ko Yo Compound"), Dezhou Ko Yo Compound Fertilisers Co.,Ltd. ("Dezhou Ko Yo Compound"), Dazhu Ko Yo Chemical and Qingdao Ko Yo Chemical Co.,Ltd.("Qingdao Ko Yo Chemical") were established as foreign investment enterprises in Mainland China. They are all subject to Enterprise Income Tax ("EIT") at the rate of 15% except for Dezhou Ko Yo Compound which the EIT rate is 33%, and entitled to full exemption from EIT in the first two profitable years and a 50% reduction for the next three years thereafter.

Since the preferential treatment had expired for Chengdu Ko Yo Chemical in the year ended 31st December 2005, the EIT rate applicable to Chengdu Ko Yo Chemical in 2005 is 15% (2004: 7.5%). Pursuant to relevant taxation regulations of Mainland China and as approved by the local taxation bureau, Chengdu Ko Yo Chemical was entitled to deduct in its EIT calculation for an amount equal to 40% of cost of certain machinery acquired from Mainland China enterprises, which are local machinery suppliers and unrelated to the Group. Accordingly, current EIT provision made for Chengdu Ko Yo Chemical for the year ended 31st December 2005 was RMB5,900,000 (2004: RMB1,101,000).

The preferential EIT rate applicable to Chengdu Ko Yo Compound for the year ended 31st December 2005 is 7.5% (2004: 7.5%). Accordingly, current EIT provision made for Chengdu Ko Yo Compound for the year ended 31st December 2005 was RMB625,000 (2004: RMB235,000).

Dezhou Ko Yo Compound and Dazhu Ko Yo Chemical did not have taxable profit for the year ended 31st December 2005 (2004: Nil).

Qingdao Ko Yo Chemical did not have taxable profit for the period from 26th July 2005 (date of incorporation) to 31st December 2005.

9 TAXATION *(Continued)*

The amount of taxation charged to consolidated profit and loss account represents:

	2005 RMB'000	2004 RMB'000
Current tax for Mainland China	**6,525**	1,336
Deferred tax *(Note 26)*	**(104)**	(121)
	6,421	1,215

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

	2005 RMB'000	2004 RMB'000
Profit before taxation	**53,200**	33,894
Calculated at a taxation rate of 15% (2004: 15%)	**7,980**	5,084
Expenses not deductible for tax purposes	**314**	1,239
Effect of deduction of 40% of cost of machinery acquired from Mainland China enterprises	**(2,389)**	(1,886)
Tax losses for which no deferred income tax was recognized	**1,002**	1,461
Effects on tax holiday available to different companies of the Group	**(486)**	(4,683)
Taxation	**6,421**	1,215

10 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company is dealt with in the accounts of the Company to the extent of RMB11,784,000 (2004: RMB5,208,000).

11 EARNINGS PER SHARE

The calculations of basic earnings per share for the year ended 31st December 2005 are based on the consolidated profit attributable to the equity holders of the Company of approximately RMB46,802,000 (2004: RMB32,712,000) and the number of 421,820,000 (2004: weighted average number of 420,648,000 shares) ordinary shares in issue during the year.

Diluted earnings per share are not presented as there were no dilutive potential ordinary shares.

12 DIVIDENDS

	2005 RMB'000	2004 RMB'000
Interim, paid, of HKD0.005 (2004: HKD0.003) per ordinary share	**2,193**	1,336
Final, proposed, of HKD0.015 (2004: HKD0.0115) per ordinary share	**6,580**	5,142
	8,773	6,478

At a meeting held on 10th August 2005, the directors declared an interim dividend of HKD 0.005 (equivalent to RMB0.0052) per ordinary share, totalling approximately RMB2,193,000, which was paid during the year ended 31st December 2005.

At a meeting held on 23rd March 2006, the directors proposed a final dividend of HKD 0.015 (equivalent to RMB0.0156) per ordinary share, totalling approximately RMB6,580,000. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31st December 2006.

13 STAFF COSTS

	2005 RMB'000	2004 RMB'000
Wages and salaries	**33,669**	25,658
Pension costs – defined contribution plans	**3,093**	1,711
Social security costs	**1,948**	1,311
	38,710	28,680

14 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

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

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

14 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

(a) Directors' emoluments *(Continued)*

The remuneration of every director for the year ended 31st December 2004 is set out below:

Name of Director	Fees	Salaries, allowances, and benefits in kind	Bonuses	Contributions to pension schemes	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive Directors					
Mr. Li Weiruo	636	180	212	21	1,049
Mr. Yuan Bai	106	160	159	2	427
Ms. Chi Chuan	106	160	159	2	427
Mr. Li Shengdi *	71	108	159	2	340
Ms. Man Yu, Vivian	127	255	159	12	553
Mr. Tang Shiguo *	35	52	—	1	88
Independent non-executive directors					
Mr. Hu Xiaoping	64	—	—	—	64
Mr. Woo Che-wor, Alex	64	—	—	—	64
Mr. Qian Laizhong *	24	—	—	—	24
	1,233	915	848	40	3,036

* Mr. Li Shengdi and Mr. Qian Laizhong were appointed on 29th April 2004 and 16th August 2004 respectively and Mr. Tang Shiguo retired on 29th April 2004.

14 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for both years include four directors (2004: four) whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining individual (2004: also only one individual) during the year are as follows:

	2005	2004
	RMB'000	RMB'000
Basic salaries, housing allowances, other allowances and benefits in kind	**638**	413
Bonuses	**—**	21
Contributions to pension schemes	**13**	13
	651	447

The emoluments fell within the following bands:

	Number of individuals	
	2005	2004
Emolument bands		
Nil to RMB1,060,000 (equivalent to HKD1,000,000)	**1**	1

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

15 NEGATIVE GOODWILL

	Group RMB'000
Cost	
At 1st January 2004 and 31st December 2004	14,634
Accumulated amortisation	
At 1st January 2004	1,768
Charge for the year	500
At 31st December 2004	2,268
Net book amount	
At 31st December 2004	12,366
At 1st January 2005, as per above	12,366
Derecognition of negative goodwill following the adoption of HKFRS 3	(12,366)
At 1st January 2005, as restated	—

Upon the establishment of Chengdu Ko Yo Chemical, the fair value of the assets and liabilities taken over from Xin Du Fertilisers Company, its predecessor, was reviewed by the directors using replacement cost approach, open market value approach and present value approach, whichever is applicable. The negative goodwill represented the excess of the Group's interest of the fair value of the identifiable assets and liabilities acquired over the cost of the acquisition.

Until 31st December 2004, negative goodwill was amortised over the remaining weighted average useful lives of the identifiable acquired depreciable/amortisable assets of 30 years on a straight-line basis.

As mentioned in note 2(a), in accordance with the provisions of HKFRS 3, the carrying amount of previously recognised negative goodwill at 1st January 2005 is derecognised with a corresponding adjustment to the opening balance of retained earnings.

16 FIXED ASSETS

	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
Cost						
At 1st January 2004	49,648	82,509	4,135	6,441	2,843	145,576
Additions	8,484	7,815	474	605	34,142	51,520
Transfers	473	9,165	—	430	(10,068)	—
Disposals	—	(333)	—	(26)	—	(359)
At 31st December 2004	58,605	99,156	4,609	7,450	26,917	196,737
Additions	2,391	391	887	678	34,540	38,887
Transfers	3,453	24,241	—	4,741	(32,435)	—
Disposals	—	(2,253)	(359)	(11)	—	(2,623)
At 31st December 2005	64,449	121,535	5,137	12,858	29,022	233,001
Accumulated depreciation						
At 1st January 2004	5,546	15,158	422	2,948	—	24,074
Charge for the year	1,242	6,554	321	827	—	8,944
Disposals	—	(155)	—	(4)	—	(159)
At 31st December 2004	6,788	21,557	743	3,771	—	32,859
Charge for the year	1,497	8,571	417	1,153	—	11,638
Disposals	—	(891)	(130)	(3)	—	(1,024)
At 31st December 2005	8,285	29,237	1,030	4,921	—	43,473
Net book value:						
At 31st December 2005	56,164	92,298	4,107	7,937	29,022	189,528
At 31st December 2004	51,817	77,599	3,866	3,679	26,917	163,878

All the Group's buildings were located in Mainland China. As at 31st December 2005, certain buildings with a total net book value of approximately RMB41,720,000 (2004: RMB32,274,000) and plant and machinery with a total net book value of approximately RMB25,092,000 (2004: RMB23,675,000) were pledged as collateral for the Group's short-term bank loans and long-term bank loans (Notes 23 and 24).

17 LAND USE RIGHTS

	Group	
	2005	2004
	RMB'000	RMB'000
Opening net book value	**42,957**	37,668
Additions	**3,140**	6,115
Amortisation of prepaid operating lease payment	**973**	826
	45,124	42,957

All the Group's land use rights were located in Mainland China. The remaining lease periods of the land use rights are between 10 to 50 years. As at 31st December 2005, certain land use rights with a total net book value of approximately RMB43,817,000 (2004: RMB36,842,000) were pledged as collateral for the Group's short-term bank loans and long-term bank loans (Notes 23 and 24).

18 INVESTMENTS IN SUBSIDIARIES

	Company	
	2005	2004
	RMB'000	RMB'000
Unlisted investments at cost	**70,361**	70,361
Amounts due from subsidiaries	**10,225**	21,536
Amounts due to subsidiaries	**(5,783)**	(5,761)
	74,803	86,136

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

18 INVESTMENTS IN SUBSIDIARIES *(Continued)*

The following is a list of the subsidiaries as at 31st December 2005:

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") *	British Virgin Islands ("BVI"), limited liability company	Investment holding in BVI	100 ordinary shares of USD1 each	100%
Ko Yo Development Company Limited ("Ko Yo Hong Kong")	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	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	RMB13,000,000	100%
Chengdu Ko Yo Compound	Mainland China, wholly foreign owned enterprise	Manufacture, research, development and sale of bulk blended fertilisers in Mainland China	RMB15,000,000	100%
Dezhou Ko Yo Compound	Mainland China, wholly foreign owned enterprise	Manufacture, research, development and sale of bulk blended fertilisers in Mainland China	RMB3,000,000	100%

18 INVESTMENTS IN SUBSIDIARIES *(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
Dazhu Ko Yo Chemical	Mainland China, wholly foreign owned enterprise	Manufacture and sale of chemical products including ammonia, ammonia bicarbonate and urea in Mainland China	RMB48,000,000	100%
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 (i.e. RMB17,032,000)	100%

* *Shares held directly by the Company*

19 AVAILABLE-FOR-SALE INVESTMENT

	Group	
	2005	2004
	RMB'000	RMB'000
Unlisted equity investment, at cost	**1,000**	1,000

The unlisted equity investment represented the Group's 1.2% equity interest in Sichuan Jiuda Industrial Salt Co. Ltd. ("Sichuan Jiuda"). The largest investor of Sichuan Jiuda, which has approximately 86% interest in Sichuan Jiuda, is one of the Group's largest suppliers, selling industrial salt to the Group.

The unlisted equity investment of the Group is not stated at fair value but at cost less any accumulated impairment losses because it does not have a quoted market price in an active market. The directors of the Company consider that the fair value cannot be measured reliably as the variability of the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed.

20 INVENTORIES

	Group	
	2005	2004
	RMB'000	RMB'000
Raw materials	**47,615**	44,524
Work in progress	**4,840**	3,795
Finished goods	**21,885**	2,718
	74,340	51,037

At 31st December 2005, there were no inventories stated at net realisable value (2004: Nil).

21 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade receivables *(Note a)*	**22,335**	10,642	**—**	—
Prepayments, purchase deposits and other deposits	**23,714**	25,983	**190**	194
Notes receivable *(Note b)*	**2,212**	505	**—**	—
Other receivables	**5,068**	9,672	**—**	—
Dividends receivable from a subsidiary	**—**	—	**39,177**	23,214
	53,329	46,802	**39,367**	23,408

21 TRADE AND OTHER RECEIVABLES *(Continued)*

(a) Trade receivables

In general, the credit terms granted by the Group ranged from 0 to 3 months. The ageing analysis of trade receivables is as follows:

	Group	
	2005	2004
	RMB'000	RMB'000
Aged:		
Less than 3 months	**18,384**	8,844
More than 3 months but not exceeding 1 year	**5,250**	1,209
More than 1 year but not exceeding 2 years	**1,627**	2,127
More than 2 years but not exceeding 3 years	**656**	322
More than 3 years	**—**	366
	25,917	12,868
Less: provision for doubtful receivables	**(3,582)**	(2,226)
	22,335	10,642

(b) Notes receivable

The balance represents bank acceptance notes with periods within six months.

22 TRADE AND OTHER PAYABLES

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Due to related companies (Note 31)	**50**	124	**—**	—
Trade payables (Note a)	**15,514**	18,796	**—**	—
Notes payable (Note b)	**25,100**	8,770	**—**	—
Deposits from customers	**51,919**	17,225	**—**	—
Accruals and other payables	**32,207**	24,314	**3,475**	3,299
	124,790	69,229	**3,475**	3,299

22 TRADE AND OTHER PAYABLES *(Continued)*

(a) Trade payables

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

	Group	
	2005	2004
	RMB'000	RMB'000
Aged:		
Less than 1 year	**15,193**	18,559
More than 1 year but not exceeding 2 years	**305**	178
More than 2 years but not exceeding 3 years	**—**	59
More than 3 years	**16**	—
	15,514	18,796

(b) Notes payable

Notes payable represented bank acceptance notes issued by the Group and were interest-free and with maturity periods of less than one year. As at 31st December 2005, notes payable of approximately RMB25,100,000 (2004: RMB8,770,000) were pledged by bank deposits of RMB18,800,000 (2004: RMB3,940,000).

23 SHORT-TERM BANK LOANS, SECURED

The bank loans bear interest with rates ranging from 4.80% to 6.98% (2004: 4.87% to 6.70%) per annum and are secured by a bank deposit of RMB59,000,000 (2004: RMB50,000,000) and certain fixed assets and land use rights of the Group (Notes 16 and 17).

24 LONG-TERM LOANS, SECURED

	Group	
	2005	2004
	RMB'000	RMB'000
Amounts due:		
Less than 1 year	**9,000**	—
More than 1 year but not exceeding 2 years	**8,800**	28,400
More than 2 years but not exceeding 5 years	**—**	8,800
	17,800	37,200
Amounts due within 1 year included in current liabilities	**(9,000)**	—
	8,800	37,200

The bank loans bear interest with rates ranging from 6.14% to 6.21% (2004: 6.14% to 6.98%) per annum and are secured by certain fixed assets and land use rights of the Group (Notes 16 and 17).

25 PROVISION FOR STAFF COMPENSATION

	Group	
	2005	2004
	RMB'000	RMB'000
At 1st January	**7,388**	7,449
Payments	**(58)**	(61)
At 31st December	**7,330**	7,388

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

Upon retirement, these employees will be covered by the defined contribution retirement schemes organised by the relevant local government authorities in Mainland China (Note 2(k)), and will not be entitled to the repayment of the provision for staff compensation assigned to them. The unpaid balances of the provision for staff compensation are included in non-current liabilities in the balance sheet and were recognised as income upon the retirement of the employees as Chengdu Ko Yo Chemical no longer had any obligations to make repayment to them.

26 DEFERRED TAX LIABILITIES

Deferred taxation is calculated in full on temporary differences under the liability method using the taxation rates applicable to the respective companies.

The movement on the deferred tax liabilities/(assets) account is as follows:

	Group	
	2005 RMB'000	2004 RMB'000
At 1st January	**266**	387
Deferred taxation credited to profit and loss account	**(104)**	(121)
At 31st December	**162**	266

The movement in deferred tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the year is as follows:

	Deferred tax liabilities		Deferred tax assets		Total	
	Difference in tax depreciation		Impairment of assets			
	2005 RMB'000	2004 RMB'000	**2005 RMB'000**	2004 RMB'000	**2005 RMB'000**	2004 RMB'000
At 1st January	**624**	624	**(358)**	(237)	**266**	387
Credited to profit and loss account	**—**	—	**(104)**	(121)	**(104)**	(121)
At 31st December	**624**	624	**(462)**	(358)	**162**	266

Deferred tax assets and liabilities are offset and shown in the consolidated balance sheet as there is a legally enforceable right to set off current tax assets against current tax liabilities, and the deferred income taxes related to the same fiscal authority.

27 SHARE CAPITAL

		Authorised	
		Number of shares	RMB'000
At 31st December 2005 and 2004		1,000,000,000	106,000

		Issued and fully paid	
		Number of shares	RMB'000
At 1st January 2004		420,000,000	44,520
Exercise of share options	(a)	1,820,000	193
At 31st December 2004		421,820,000	44,713
At 31st December 2005		421,820,000	44,713

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

The number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other schemes must not exceed 30% of the shares in issue from time to time. The total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes must not exceed 42,000,000 shares, 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 4,200,000 share options, which are valid for a period of 10 years from the date of grant. Participants need to pay option price at HKD10 per option for each acceptance of option offer and is required to hold the option for a minimum of one year before exercising part of the options. 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.

On 23rd September 2003, the Company granted share options to two executive directors, two independent directors and six employees to subscribe for an aggregate of 25,200,000 shares of the Company with an exercise price of HKD0.62 per share.

27 SHARE CAPITAL *(Continued)*

On 10th August 2004, the Company granted share options to 247 employees for an aggregate of 1,820,000 shares of the Company with an exercise price of HKD0.33 per share.

Share options granted on 10th August 2004 were exercised on 23rd August 2004, resulted in 1,820,000 shares being issued at HKD0.33 per share (equivalent to RMB0.35), yielding the proceeds of approximately HKD601,000 (equivalent to RMB637,000).

Movements in the number of share options outstanding during the years are as follows:

	Number of options
At 1st January 2004	25,200,000
Granted	1,820,000
Exercised	(1,820,000)
At 31st December 2004 and 2005	25,200,000

Share options outstanding at the end of the year were granted on 23rd September 2003 with an exercise price of HKD0.62 per share (equivalent to RMB0.67), and have the following terms:

Directors	**Number of options**	**Exercise period of share options**
Chi Chuan	4,200,000	23rd September 2004 to 22nd September 2013
Li Shengdi	4,200,000	23rd September 2004 to 22nd September 2013
Man Au Vivian	3,800,000	23rd September 2004 to 22nd September 2013
Hu Xiaoping	400,000	23rd September 2004 to 22nd September 2013
Woo Che-Wor, Alex	400,000	23rd September 2004 to 22nd September 2013
	13,000,000	
Other employees	12,200,000	23rd September 2004 to 22nd September 2013
At 31st December 2005	25,200,000	

No share options were cancelled during the year (2004: Nil).

28 RESERVES

	Share premium RMB'000	Merger reserve RMB'000	Reserve fund RMB'000	Enterprise expansion fund RMB'000	Retained earnings RMB'000	Total RMB'000
At 1st January 2005	19,204	(22,041)	10,537	558	98,123	106,381
Restatement for the adoption of HKRFS3	—	—	—	—	12,366	12,366
At 1st January 2005, as restated	19,204	(22,041)	10,537	558	110,489	118,747
Profit for the year	—	—	—	—	46,802	46,802
Appropriation	—	—	770	385	(1,155)	—
Dividends	—	—	—	—	(7,335)	(7,335)
At 31st December 2005	19,204	(22,041)	11,307	943	148,801	158,214
Representing:						
2005 final dividends proposed					6,580	6,580
Others					142,221	151,634
					148,801	158,214

Movements of the Company's reserves were as follows:

	Share premium RMB'000	Retained earnings RMB'000	Total RMB'000
At 1st January 2005	56,366	5,219	61,585
Profit attributable to shareholders	—	11,784	11,784
Dividends	—	(7,335)	(7,335)
At 31st December 2005	56,366	9,668	66,034
Representing:			
2005 final dividends proposed		6,580	6,580
Others		3,088	59,454
		9,668	66,034

28 RESERVES *(Continued)*

(a) Statutory reserves

The Company's subsidiaries established in Mainland China are governed by the laws and regulations of Mainland China and their articles of association. They are required to provide for certain statutory funds, namely, reserve fund, enterprise expansion fund and staff and workers' bonus and welfare fund which are appropriated from net profit after taxation but before dividend distribution based on the local statutory accounts 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. Appropriations of enterprise expansion fund and staff and workers' bonus and welfare fund are determined at the discretion of its directors. Appropriation to staff and workers' bonus and welfare fund is charged to expenses. 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. The staff and workers' bonus and welfare fund can only be used for special bonus or collective welfare of their employees, and assets acquired through this fund shall not be treated as assets of the Group. Accordingly, the balance of staff and workers' bonus and welfare fund is recorded as a liability of the Group.

(b) 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.

29 CONSOLIDATED CASH FLOW STATEMENT

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

	2005 RMB'000	2004 RMB'000
Profit before taxation	**53,200**	33,894
Depreciation	**11,638**	8,944
Amortisation of land use rights	**973**	826
Amortisation of negative goodwill	**—**	(500)
Loss/(gain) on disposal of fixed assets	**1,074**	(142)
Impairment of goodwill arising from acquisition of minority interest	**56**	—
Interest income	**(917)**	(773)
Interest expenses	**8,060**	7,476
Dividend income	**(130)**	(130)
Listing expenses	**—**	4,098
Operating profit before working capital changes	**73,954**	53,693
Increase in inventories	**(23,303)**	(26,358)
(Increase)/decrease in trade and other receivables	**(4,566)**	320
Increase in trade and other payables	**53,606**	31,394
Decrease in other long-term payables	**(58)**	(61)
Decrease in amount due to related companies	**(74)**	(2,368)
Cash generated from operating activities	**99,559**	56,620

(b) Non-cash transactions:

	2005 RMB'000	2004 RMB'000
Acquisition of assets by taken up related liabilities	**—**	12,894

On 30th December 2004, Dazhu Ko Yo Chemical, an indirectly wholly-owned subsidiary of the Company, entered into an Assets Acquisition Agreement with Sichuan Dazhu Hongsen Chemical Industry Co., Limited ("Dazhu Hongsen Chemical") to acquire the Sale Assets of Dazhu Hongsen Chemical at a total consideration of RMB24,264,000 of which RMB12,894,000 was settled by taken up Dazhu Hongsen Chemical's related liabilities.

29 CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(c) Analysis of changes in financing during the year

	Pledged bank deposit		Share capital including premium		Minority interest		Loans	
	2005 RMB'000	2004 RMB'000	**2005 RMB'000**	2004 RMB'000	**2005 RMB'000**	2004 RMB'000	**2005 RMB'000**	2004 RMB'000
At 1st January	**(53,940)**	(13,032)	**63,917**	63,280	**567**	600	**132,630**	97,230
Increase in pledged bank deposit	**(23,860)**	(40,908)	**—**	—	**—**	—	**—**	—
Exercise of share options	**—**	—	**—**	637	**—**	—	**—**	—
New loans payable	**—**	—	**—**	—	**—**	—	**135,870**	112,830
Repayment of amounts borrowed	**—**	—	**—**	—	**—**	—	**(114,830)**	(77,430)
Minority interest' share of profits	**—**	—	**—**	—	**(23)**	(33)	**—**	—
Acquisition of monitory interests	**—**	—	**—**	—	**(544)**	—	**—**	—
At 31st December	**(77,800)**	(53,940)	**63,917**	63,917	**—**	567	**153,670**	132,630

30 COMMITMENTS

(a) Capital commitments for property, plant and equipment

	Group	
	2005 RMB'000	2004 RMB'000
Contracted but not provided for	**14,140**	4,342

(b) Commitments under operating leases

At 31st December 2005, the Group had future aggregate minimum lease payments under non-cancellable operating leases for land and buildings as follows:

	Group	
	2005 RMB'000	2004 RMB'000
Not later than one year	**848**	1,070
Later than one year and not later than five years	**269**	703
	1,117	1,773

31 RELATED-PARTY TRANSACTIONS

The following transactions were carried out with related parties:

i) Key management compensation (excluding directors' emoluments)

	2005	2004
	RMB'000	RMB'000
Salaries and other short-term employee benefits	**987**	913
	987	913

The directors' emoluments are disclosed in note 14.

ii) The amount due to related companies as disclosed in note 22 are due to parties controlled by relatives of Mr. Li Weiruo, a shareholder and director, arose from advances for related companies and are unsecured and interest-free. The directors of the Company are of the opinion that the above balances arose in the ordinary course of the Group's business.

32 EVENT AFTER THE BALANCE SHEET DATE

Pursuant to the letter issued by a bank dated 20th March 2006, the bank agreed to extend the term of its short-term loans of RMB23,000,000 to the Group for at least two years upon expiry.

33 APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 23rd March 2006.

FIVE YEAR FINANCIAL SUMMARY

The following table summarizes the audited results, assets and liabilities of the Group for the five years ended 31st December 2005.

	2005	2004	2003	2002	2001
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	**627,616**	422,728	281,810	277,572	164,535
Profit before taxation	**53,200**	33,894	24,104	31,199	16,544
Taxation	**(6,421)**	(1,215)	(31)	427	—
Profit after taxation	**46,779**	32,679	24,073	31,626	16,544
Minority interest	**23**	33	—	(286)	(1,047)
Profit attributable to shareholders	**46,802**	32,712	24,073	31,340	15,497
Total assets	**488,879**	361,174	266,221	239,276	185,363
Total liabilities	**(285,952)**	(209,513)	(143,290)	(174,709)	(143,400)
Minority interests	**—**	(567)	(600)	—	(2,510)
Shareholders' funds	**202,927**	151,094	122,331	64,567	39,453

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the annual general meeting of the members of Ko Yo Ecological Agrotech (Group) Limited (the "Company") will be held at Suite No. 02, 31st Floor, Sino Plaza, 255-257 Gloucester Road, Causeway Bay, Hong Kong on 26th April 2006 at 11:00 a.m. for the following purposes:

1. To receive and consider the audited consolidated financial statements of the Company and its subsidiaries, the report of the directors and the auditors, and the corporate governance report for the year ended 31st December 2005;

2. To consider the re-election of the retiring directors of the Company;

3. To consider and authorize the board of directors (the "Board") of the Company to fix the directors' remunerations;

4. To consider and approve the final dividend of the Company for the year ended 31st December 2005;

5. To consider the re-appointment of PricewaterhouseCoopers as auditors of the Company and to authorize the Board to fix their remuneration; and

   As special business, to consider and if thought fit, pass the following resolutions as ordinary resolutions:

6. "THAT:

   (a) subject to sub-paragraph (c) below, the exercise by the directors of the Company ("Directors") during the Relevant Period (as defined below) of all the powers of the Company to allot, issue and deal with the ordinary shares of par value HKD0.10 each (the "Shares") in the capital of the Company and to make an offer or agreement or grant an option which would or might require such Shares to be allotted and issued be generally and unconditionally approved;

   (b) the Directors be authorized to make an offer or agreement or grant an option during the Relevant Period which would or might require Shares in the capital of the Company to be allotted and issued either during or after the end of the Relevant Period pursuant to sub-paragraph (a) above;

   (c) the aggregate nominal value of the Shares in the capital of the Company allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors pursuant to the approvals in sub-paragraphs (a) and (b) above, otherwise than pursuant to a rights issue (as defined below) or pursuant to the exercise of options which may be granted under the Share Option Scheme adopted by the Company on 10th June 2003 or an issue of Shares of the Company in lieu of the whole or part of a dividend on Shares of the Company in accordance with the articles of association of the Company, shall not exceed the aggregate of:

      (i) 20% of the aggregate nominal value of the share capital of the Company in issue; and

      (ii) conditional on the passing of Resolution No. 8 below, the aggregate nominal amount of the share capital of the Company purchased under the authority referred to in Resolution No. 7;

(d) for the purpose of this resolution:

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

(i) the conclusion of the next annual general meeting of the Company following the passing of this resolution; or

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the laws of the Cayman Islands or the articles of association of the Company to be held; or

(iii) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the Directors by this resolution; and

"rights issue" means the allotment or issue of Shares in the Company or other securities which would or might require Shares to be allotted and issued pursuant to an offer made to all the shareholders of the Company (excluding for such purpose any shareholder who is resident in a place where such offer is not permitted under the laws of that place) and, where appropriate, the holders of other equity securities of the Company entitled to such offer, pro rata (apart from fractional entitlements) to their existing holdings of Shares or such other equity securities."

7. "THAT:

(a) the Directors be granted a general mandate to exercise all the powers of the Company to purchase its own securities on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") or on any other stock exchange on which shares in the capital of the Company may be listed and which is recognized by the Securities and Futures Commission and the Stock Exchange for this purpose, such number of securities as will represent up to 10% of the aggregate nominal value of the share capital of the Company in issue, during the Relevant Period (defined below) in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange ("GEM Listing Rules") (as amended from time to time) (or of such other stock exchange);

(b) for the purpose of this resolution:

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

(i) the conclusion of the next annual general meeting of the Company following the passing of this resolution; or

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the laws of the Cayman Islands or the articles of association of the Company to be held; or

(iii) the passing of an ordinary resolution by shareholders of the Company in general meeting revoking or varying the authority given to the Directors by this resolution."

8. “THAT the unconditional general mandate referred to in Resolution No. 6 above be extended by the addition to the aggregate nominal amount of the share capital of the Company which may be allotted or agreed to be allotted by the Directors pursuant to such unconditional general mandate of an amount representing the aggregate nominal amount of the securities of the Company purchased by the Company pursuant to the mandate to purchase securities referred to in Resolution No. 7 above, provided that such extended amount shall not exceed 10% of the aggregate nominal value of the share capital of the Company in issue.”

On behalf of the board

Chung Tin Ming
Company Secretary

Hong Kong, 23rd March 2006

Notes:

(1) A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and, in the event of, a poll, vote instead of him. A proxy need not be a member of the Company.

(2) In order to be valid, the form of proxy must be deposited with the Company’s share registrar in Hong Kong, Union Registrars Limited, at Room 311-312, Two Exchange Square, Central, Hong Kong, together with any power of attorney or other authority, under which it is signed, or a notarially certified copy of that power or authority, not less than 48 hours before the time for holding the meeting or any adjournment thereof.

(3) Where there are joint holders of any shares in the Company, any one of such joint holders may vote, either in person or by proxy, in respect of such shares as if he were solely entitled thereto, but if more than one of such joint holders are present at the meeting, the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register in respect of the joint holding.

(4) The register of members of the Company will be closed for the purpose of determining the entitlements of the proposed final dividend from 21st April 2006 to 26th April 2006, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend, all transfers, accompanied by the relevant share certificates, must be lodged for registration with the Company’s registrar, Union Registrars Limited, at the above address no later than 4:00 p.m. on 20th April 2006.

(5) Concerning Resolutions No. 6 and No. 7, the Board wishes to state that there is no immediate plan to issue any new shares or to repurchase any shares of the Company. The general mandates are being sought from shareholders in compliance with the Companies Law (Law 3 of 1961, as revised and consolidated) of the Cayman Islands and the GEM Listing Rules.

(6) For the sake of good corporate governance practice, the Chairman intends to demand poll voting for all the resolutions set out in the notice of the annual general meeting.