THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action you should take, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **Ko Yo Ecological Agrotech (Group) Limited**, you should at once hand this circular to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser or transferee

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KOYO

Ko Yo Ecological Agrotech (Group) Limited

玖源生態農業科技(集團)有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 8042)

MAJOR TRANSACTION
ACQUISITION OF PRODUCTION FACILITIES

Financial adviser to the Company

東英 ORIENTAL PATRON

Oriental Patron Asia Limited

This circular will remain on the GEM website at www.hkgem.com on the "Latest Company Announcements" page for at least 7 days from the date of its posting.

26 October 2006

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

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

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

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

CONTENTS

In this circular, the following expressions shall have the meanings stated below unless the context otherwise requires:

"Asset Acquisition"	the conditional acquisition of the Sale Assets by Dazhu Ko Yo Chemical pursuant to the Sale and Purchase Contract
"BB fertilizers"	bulk blended fertilizers, according to the PRC national standard, being a chemical compound containing at least two elements among nitrogen, phosphate and potassium
"Blytheville Equipment"	production equipment (together with available associated spare parts and documents) of the idled urea plant in Blytheville, Arkansas, the US as shown in the Sale and Purchase Contract
"Board"	the board of Directors
"Company"	Ko Yo Ecological Agrotech (Group) Limited, an exempted company incorporated in the Cayman Islands with limited liability on 11 February 2002, the shares of which are listed on GEM
"connected person"	has the meaning ascribed to it in the GEM Listing Rules
"Cytec"	Cytec Industries Inc., the ultimate owner of Westwego Equipment
"Dazhu Ko Yo Chemical"	Dazhou City Dazhu Ko Yo Chemical Industry Co. Ltd. (達州市大竹玖源化工有限公司), a limited liability company established in the PRC and an indirectly wholly-owned subsidiary of the Company
"Director(s)"	the director(s) of the Company
"GEM"	the Growth Enterprise Market of the Stock Exchange
"GEM Listing Rules"	the Rules Governing the Listing of Securities on GEM
"Group"	the Company and its subsidiaries
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Latest Practicable Date"	24 October 2006, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
"Pollock Equipment"	production equipment (together with available associated spare parts and documents) of the idled ammonia plant in Pollock, Louisiana, the US as shown in the Sale and Purchase Contract

"PRC"	the People's Republic of China
"Sale and Purchase Contract"	the conditional sale and purchase contract dated 29 September 2006 between Sigma Investment as vendor, Sinosteel as purchase agent and Dazhu Ko Yo Chemical as ultimate purchaser in connection with the Asset Acquisition
"Sale Assets"	the Blytheville Equipment, the Pollock Equipment and the Westwego Equipment
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	shares with a nominal value of HK$0.1 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Sigma Investment" or "Vendor"	Sigma Investment Holdings, L.L.C., headquartered in California, US, is principally engaged in dismantling and trading of plant equipments, in particular those related to chemical, metallurgy and energy industries
"Sinosteel"	Sinosteel Equipment & Engineering Company, an enterprise under the administration of the State-Owned Assets Supervision and Administration Commission of the PRC, is a specialized engineering company operating internationally, which integrates domestic and overseas contracting and management of engineering projects, project and equipment supervision, design and manufacture of machinery and electrical products and international trade
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Terra"	Terra Industries Inc., the ultimate owner of Blytheville Equipment
"US"	the United States of America
"Valuer"	Sallmanns (Far East) Limited
"Valuation Report"	the valuation report dated 22 September 2006 prepared by the Valuer, for the purpose of appraising the value of Sale Assets to be acquired by Dazhu Ko Yo Chemical
"Vanguard"	Vanguard Synfuels, LLC, the ultimate owner of Pollock Equipment

"Westwego Equipment"	production equipment (together with available associated spare parts and documents) of the idled ammonia plant in Westwego, Louisiana, the US as shown in the Sale and Purchase Contract
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"US$"	United States dollars, the lawful currency of the United States
"%"	Per cent

In this circular, unless otherwise stated, certain amounts denominated in US$ have been converted (for information only) into RMB using exchange rate of US$1.00 = RMB8.10.

Ko Yo Ecological Agrotech (Group) Limited
玖源生態農業科技(集團)有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock code: 8042)

Directors:
Mr. Li Weiruo
Mr. Yuan Bai
Ms. Chi Chuan
Ms. Man Au Vivian
Mr. Li Shengdi
Mr. Hu Xiaoping*
Mr. Woo Che-wor, Alex*
Mr. Qian Laizhong*

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26 October 2006

To the Shareholders

Dear sir or madam,

MAJOR TRANSACTION
ACQUISITION OF PRODUCTION FACILITIES

A. INTRODUCTION

On 5 October 2006, the Company announced that Dazhu Ko Yo Chemical, as the ultimate purchaser, entered into the Sale and Purchase Contract with Sigma Investment as the vendor and Sinosteel as the purchase agent to acquire the Sale Assets for a total consideration of US$35.90 million (equivalent to approximately RMB290.79 million). The consideration will be settled in cash and 35%

of the enlarged registered capital in Dazhu Ko Yo Chemical. The 35% of the enlarged registered capital in Dazhu Ko Yo Chemical will equal to RMB105.00 million and the corresponding amount of which in the US currency will be calculated in accordance with the exchange rate on the effective date of the increase in the registered capital. The balance will be settled in cash.

The Asset Acquisition constitutes a major transaction for the Company under Chapter 19 of the GEM Listing Rules.

The purpose of this circular is to provide you with further information relating to the Asset Acquisition. This circular also contains information in compliance with the GEM Listing Rules.

B. PARTICULARS OF THE SALE AND PURCHASE CONTRACT

Set out below is a summary of the principal terms of the Sale and Purchase Contract.

Date of the agreement:	29 September 2006
End purchaser:	Dazhu Ko Yo Chemical, an indirectly wholly-owned subsidiary of the Company which was incorporated as a foreign invested enterprise in the PRC. Its principal activity is the manufacturing and sale of ammonia, ammonium carbonate and urea.
Purchase agent:	Sinosteel (information on which are set out in the paragraph headed 'Information on purchase agent, vendor and ultimate owners of the Sale Assets' below)
Vendor:	Sigma Investment (information of which are set out in the paragraph headed 'Information on purchase agent, vendor and ultimate owners of the Sale Assets' below)
Assets to be acquired:	The Sale Assets, being used chemical process equipments and spare parts for producing ammonia compound and urea as shown in the Sale and Purchase Contract. According to the Valuation Report, the value of the Sale Assets as at 1 September 2006 was about US$36.30 million (equivalent to approximately RMB294.03 million). The Sale Assets are currently installed in idled urea and ammonia compound plants located at (1) Westwego, Louisiana, the US; (2) Pollock, Louisiana, the US, and (3) Blytheville, Arkansas, the US and are owned by those plants.

According to the Valuation Report, Blytheville Equipment had an operating capacity of 1,450 ton of urea per day and Westwego Equipment and Pollock Equipment had an operating capacity of 1,250 ton and 1,500 ton of ammonia compound per day respectively.

Consideration: The consideration for the Sale Assets is for a sum of US$35.90 million (equivalent to approximately RMB 290.79 million), which will be settled in 10 instalments in the following manner:

Payment	**Payment Date (on or before)**	**Amount** *(US$)*	**Equivalent approximate amount** *(RMB)*	**Payment conditions**
1st	1 November 2006	2,500,000	20,250,000	Presentation by Sigma Investment of, among others, transfer of title document of the equipment of the primary reformer of Westwego Equipment
2nd	1 December 2006	21,250,000	172,125,000	Presentation by Sigma Investment of, among others, transfer of title documents of certain equipments of Westwego Equipment
3rd	Fulfillment of the payment condition	1,518,750	12,301,875	Presentation by Sigma Investment of, among others, confirmation on the commencement of the dismantling of Blytheville Equipment
4th	Fulfillment of the payment condition	1,518,750	12,301,875	Presentation by Sigma Investment of, among others, the transfer of title documents of Blytheville Equipment
5th	Fulfillment of the payment condition	1,518,750	12,301,875	Presentation by Sigma Investment of, among others, the transfer of title documents of certain equipments of Pollock Equipment

Payment	Payment Date (on or before)	Amount *(US$)*	Equivalent approximate amount *(RMB)*	Payment conditions
6th to 10th	Upon fulfillment of the payment conditions	1,518,750 each	12,301,875 each	Presentation by Sigma Investment of, among others, the full set of shipping and insurance documents in relation to the Sale Assets shipped in each shipment
Total		35,900,000		

The second payment amounted to US$21.25 million (equivalent to approximately RMB172.13 million) will be settled by 35% of the enlarged registered capital in Dazhu Ko Yo Chemical. The 35% of the enlarged registered capital in Dazhu Ko Yo Chemical will equal to RMB105 million and the corresponding amount of which in the US currency will be calculated in accordance with the exchange rate on the effective date of the increase in the registered capital. The balance will be settled in cash.

Upon completion of the acquisition of the 35% equity interests in Dazhu Ko Yo Chemical, Dazhu Ko Yo Chemical will be held by the Group as to 65% and by Sigma Investment as to 35% and Dazhu Ko Yo Chemical will remain as a subsidiary of the Company. Dazhu Ko Yo Chemical currently has four directors and intends to increase its board seat to seven of which five will be appointed by the Company and two will be appointed by Sigma Investment. No restrictions which apply to the 35% equity interests in Dazhu Ko Yo Chemical are stated in the Sale and Purchase Contract. However, it is the current intention of Sigma Investment to give a first right of refusal to the Group to acquire the equity interests in Dazhu Ko Yo Chemical should Sigma Investment decide to dispose of it.

Currently, the Vendor does not have the legal title of the Sale Assets. Pursuant to the terms of the Sale and Purchase Contract, title of the Sale Assets will be transferred to the Vendor from the ultimate owners i.e. the three plants at which the Sale Assets locate and thereafter be transferred to Dazhu Ko Yo Chemical. All the payments for the instalments are non-refundable and will be made against presentation by Sigma Investment of certain title documents including commercial invoices, bill of sale and export license.

Conditions precedent: Completion of the Sale and Purchase Contract is subject to and conditional upon the following conditions being fulfilled:

(a) Sinosteel and/or Dazhu Ko Yo Chemical completing to its own satisfaction a due diligence investigation with respect to the Sale Assets;

(b) the warranties given by Sigma Investment in the Sale and Purchase Contract being complete, true and accurate in all respects;

(c) approval by the Shareholders to approve (i) the Sale and Purchase Contract; and (ii) all other transactions contemplated therein in compliance with the GEM Listing Rules having obtained;

(d) all consents or approvals, if any, including but not limited to consents or approvals of any relevant governmental authorities, regulatory bodies in relation to the increase and change in shareholders of the Dazhu Ko Yo Chemical have been obtained;

(e) the receipt by the Sinosteel and/or Dazhu Ko Yo Chemical of a valuation report on the Sale Assets as at 1 September 2006 of not less than US$35.90 million; and

(f) the receipt by Dazhu Ko Yo Chemical of a legal opinion issued by a PRC law firm confirming, among others, the matters referred to in paragraph (d) above.

Dazhu Ko Yo Chemical shall be entitled at its absolute discretion to waive compliance with any of the conditions set out above (other than the conditions set out in paragraphs (c) and (d)) by giving written notice to that effect to Sigma Investment.

If any of the conditions shall not be fulfilled (or waived by the Dazhu Ko Yo Chemical) by 1 November 2006 (or such other date as agreed by the parties of the Sale and Purchase Contract), the Sale and Purchase Contract shall terminate and shall be of no further effect and no party thereto shall have any liability to any other party under or in connection with the Sale and Purchase Contract.

Warranty: The Sale Assets shall be purchased on an “as is, where is” basis with no warranty to their condition and performance.

In relation to the Asset Acquisition, Dazhu Ko Yo Chemical entered into a 二手設備進口代理委託合同 (Second Handed Equipment Import Agency Contract) dated 29 September 2006 with Sinosteel to appoint Sinosteel as its purchase agent to, among other things, (i) sign the Sale and Purchase Contract as the buyer; (ii) execute the payment procedures in relation to the Sale and Purchase Contract; and (iii) obtain PRC customs clearance. Before appointing Sinosteel, the Directors have also considered other importers. However, taking into account their respective experience and price quoted, the Directors considered that appointing Sinosteel is in the best interest of the Group. Although it is not required by PRC laws to appoint an importer to import the Sale Assets, since the Group does not have the expertise in handling customs clearance procedures, the Directors considered that appointing a professional importer can expedite the process of the Asset Acquisition. Total agency fee payable to Sinosteel is RMB3.60 million. Taking into account the consideration for the Sale Assets amounted to approximately RMB290.79 million, total amount required for the Asset Acquisition is approximately RMB294.39 million.

According to the PRC legal opinion dated 20 September 2006 issued by Sichuan Chuanda Law Firm (四川川達律師事務所), a law firm practicing in the PRC, there is no legal impediment in relation to the issue of new registered capital of Dazhu Ko Yo Chemical to Sigma Investment for settlement of consideration for the Sale Assets.

C. INFORMATION ON PURCHASE AGENT, VENDOR AND ULTIAMTE OWNERS OF THE SALE ASSETS

To the knowledge of the Directors, Sinosteel, the importer appointed by Dazhu Ko Yo Chemical to import the Sale Assets, is an enterprise under the administration of the State-Owned Assets Supervision and Administration Commission of the PRC and has the relevant import-export operating right to import the Sale Assets. Sinosteel is a specialized engineering company operating internationally, which integrates domestic and overseas contracting and management of engineering projects, project and equipment supervision, design and manufacture of machinery and electrical products and international trade. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Sinosteel and its ultimate beneficial owners are third parties independent of the Company and the connected persons of the Company.

To the knowledge of the Directors, Sigma Investment, the vendor of the Sale Assets, is a company which has been principally engaging in dismantling and trading of plant equipments for over 20 years, in particular those related to chemical, metallurgy and energy industries. Sigma Investment is headquartered in California, US and has a representative office located in Beijing, the PRC. Sigma Investment has extensive experience in trading of second-handed equipment. Apart from trading of plant equipment, Sigma Investment also provides other services including project management and planning, packaging and domestic and international shipping. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Sigma Investment and its shareholders comprising three individuals are third parties independent of the Company and the connected persons of the Company.

To the knowledge of the Directors, details of the ultimate owners of the Sale Assets are set out as below:

Cytec Industries, Inc. is the ultimate owner of Westwego Equipment. It is headquartered in West Paterson, New Jersey, US and is currently listed on the New York Stock Exchange. Cytec is a specialty chemicals and materials company, engages in the development, manufacture, and sale of chemical products principally in US. The company also operates in North America, Europe, Asia-Pacific, and Latin America.

Vanguard Synfuels, LLC is the ultimate owner of Pollock Equipment. It is headquartered in Pollock, Louisiana, US and engages in production and sale of ammonia.

Terra Industries, Inc. is the ultimate owner of Blytheville Equipment. It is headquartered in Iowa, US and is currently listed on the New York Stock Exchange. Terra engages in the production and marketing of nitrogen and methanol products for agricultural and industrial end use markets in US and the United Kingdom. It provides nitrogen products, principally fertilizers, such as ammonia, urea, ammonium nitrate, and urea ammonium nitrate solutions. It offers its products to national agricultural retail chains, farm cooperatives, independent dealers, and industrial customers.

To the best knowledge of the Directors, the ultimate owners and their ultimate beneficiaries are parties independent of and not connected to the Company.

D. INFORMATION OF THE GROUP

The Group is principally engaged in the research and development, manufacture, marketing and distribution of chemical fertilizers and chemical products in the PRC under the brands of "Hu Guang" (湖光), "Hu Hui" (湖輝) and "Ko Yo" (玖源). The Company is an investment holding company.

E. BASIS OF THE CONSIDERATION

The consideration for the Sale Assets was arrived at after arm's-length negotiations between the parties and is on normal commercial terms with reference to the value of the Sale Assets amounted to US$36.30 million (equivalent to RMB294.03 million) as at 1 September 2006 as shown in the Valuation Report prepared by Sallmanns (Far East) Limited which is a valuer qualified to carry out the valuation and is independent of and not connected with any connected persons of the Company. As the Group does not have access to the accounting records of the plants which own the Sale Assets, the book value of the Sale Assets cannot be obtained.

The consideration will be satisfied by internally generated funds, bank borrowings and 35% of the enlarged equity interest in Dazhu Ko Yo Chemical. As Dazhu Ko Yo Chemical is not established as a joint-stock company, no shares will be issued to the Vendor. The current registered capital of Dazhu Ko Yo Chemical is RMB48 million which is expected to increase to RMB268 million after the increase in registered capital as a result of the Asset Acquisition. The increased part of the registered capital of RMB220 million will comprise of (i) RMB115 million contributed by the Company in cash and (ii) RMB105 million contributed by the Vendor in equivalent value of the Sale Assets. The purpose of the injection of a sum of RMB115 million by the Company is for the settlement of consideration of the Sale Assets. The Directors consider that the partial settlement of the consideration by equity interest of Dazhu Ko Yo Chemical, which accounts for approximately RMB105 million, is determined after arm's-length negotiation between the Group and the Vendor by making reference to 35% of the expected enlarged registered capital i.e. RMB93.8 million (RMB268 million x 35%), is beneficial to the Shareholders as it can reduce the Group's need for cash or bank borrowings to settle the consideration for the Sale Assets and subsequent capital expenditure. In addition, the value of the 35% of the enlarged equity interests of Dazhu Ko Yo Chemical i.e. RMB105 million, representing a valuation of the entire equity interests of Dazhu Ko Yo Chemical at about RMB300 million (i.e. RMB105 million / 35%), is considered attractive to the Group. The unaudited net asset value as at 30 June 2006 of Dazhu Ko Yo Chemical is approximately RMB51.06 million and the audited net asset value of Dazhu Ko Yo Chemical as at 31 December 2005 is approximately RMB46.47 million. For the year ended 31 December 2005, Dazhu Ko Yo Chemical has an audited total revenue of approximately

RMB86.62 million and an audited after-tax net loss of approximately RMB1.53 million. For the six months ended 30 June 2006, Dazhu Ko Yo Chemical has an unaudited total revenue of approximately RMB60.33 million and an unaudited after-tax net profit of approximately RMB4.59 million. Dazhu Ko Yo Chemical was established in December 2004 and has commenced active operation since 2005.

F. REASONS AND BENEFITS OF THE ASSET ACQUSITION

The agricultural industry of the PRC is highly dependent on the PRC's governmental policies. In 2006, the government continued to implement beneficial policies on chemical fertilizers in respect of free duty, preferential transportation, electricity and gas costs for fertilizers. These policies have significantly promoted the use of fertilizers especially for the use of BB fertilizers and complex fertilizers. In view of the favorable market environment, the Directors believe that the development of markets of BB fertilizers and complex fertilizers and the expansion of production facilities for such products are beneficial to the Group.

Urea, primarily made of ammonia compound, is one of the major raw materials of BB fertilizers and complex fertilizers. The Sale Assets, when operating in full capacity, is expected to increase the Group's annual production capacity of urea and ammonia compound by approximately 450,000 tons and 400,000 tons or 281% and 286% over the current capacity respectively. For the first half of year 2006, the utilization of the Group's production facilities of urea and ammonia compound were over 90%. The Asset Acquisition will significantly enhance the Group's production capacity and competitiveness in the fertilizer markets and facilitate the growth of the Group.

The Directors also consider that acquisition of additional used production facilities allows the Group to raise its current production capacity more economically and in shorter time when compared to acquisition and building of new production facilities which, to the best knowledge of the Directors, will cost approximately RMB2,800 million and will take 36 months to put them into an operational status. Apart from the site inspection by the Group, the Valuer has carried out inspection of the Sale Assets from 19 June 2006 to 24 June 2006 at Westwego and Pollock, Louisiana, and Blytheville, Arkansas, in the US. According to the Valuation Report, Blytheville Equipment was originally installed in 1975 and certain parts were replaced, overhauled and upgraded periodically. It ceased production in 2004 and since then has not been in operation. Westwego Equipment was originally installed in 1966, and upgraded periodically. It ceased operation in 2001 and since then had not been in active production operation. Prior to 2001, a substantial amount was spent to refurbish the plant. Pollock Equipment was originally installed in 1974 and ceased operation in 2001. Major overhaul of the plant was carried out in 1995. Most of the spare parts including rotors had been used out and subsequently refurbished to serviceable condition pending further usage. To facilitate, reinstall and re-instate the Sale Assets into an operational condition, the Group expects and plans to spend additional capital expenditures of approximately RMB440 million for acquisition and construction of various fixed assets such as land, buildings, auxiliary production facilities, pipes, and other infrastructures in relation to supply of power, electricity, natural gas, water, etc.. It will take 20 to 24 months, which is considered by the Directors as a normal business practice, to complete reinstallation of the Sale Assets and put the Sale Assets into an operational status. The additional capital expenditure is expected to be satisfied by funds from, among others, the Group's internal resource, bank borrowings and equity capital markets.

The Directors (including the independent non-executive Directors) consider the terms and conditions of the Sale and Purchase Contract are fair and reasonable and in the interests of the Shareholders as a whole.

G. FINANCIAL EFFECTS OF THE ASSET ACQUISITION

(i) Revenue and earning

While the Asset Acquisition allows the Group to leverage on the favorable government policies of agricultural industry and represents a good opportunity for the Group to broaden its revenue and earning bases, as it is expected that the Group will need 20 to 24 months to complete reinstallation of the Sale Assets and put the Sale Assets into an operation status, the Asset Acquisition will not have immediately contribution to the revenue and earning of the Group.

The Sale Assets, when operating in full capacity, will raise the Group's production capacity of urea and ammonia compound by approximately 450,000 tons and 400,000 tons over the current capacity respectively. Taking into consideration that part of the ammonia compound will be used internally for the production of urea, the estimated sales quantity of ammonia compound and urea produced by the Sale Assets will be approximately 160,000 tons and 450,000 tons respectively. As the selling prices of urea and ammonia fluctuate corresponding to prevailing market prices, it is currently difficult to estimate the revenue and earning that will be contributed by the Sale Assets when they commenced operation.

(ii) Fixed asset

Pursuant to the Sale and Purchase Contract, the transfer of title of the Sale Assets shall be effectuated by delivery to Dazhu Ko Yo Chemical by the Vendor of bills of sale. As such, amount of fixed assets of the Group will increase according to the following schedule:

Expected date (on or before)	**Corresponding payment**	**Assets**	**Approximate amount of assets recognized** *(million US$)*
1 November 2006	1st	Primary reformer of Westwego Equipment	2.6
1 December 2006	2nd	Certain Westwego Equipment	5.9
Fulfillment of payment condition	4th	Blytheville Equipment	6.5
Fulfillment of payment condition	5th	Pollock Equipment	2.6
Fulfillment of payment condition	6th to 10th	Dismantling and transportation	18.3
Total			35.9

(iii) **Cash position**

The consideration for the Asset Acquisition amounted approximately RMB294.39 million shall be satisfied partly in cash and partly by 35% of enlarged registered capital in Dazhu Ko Yo Chemical which is equal to RMB105 million. Therefore, total cash required for settlement of the consideration is approximately RMB189.39 million which will be satisfied by the available cash and bank balances of the Group and additional bank loans in ten installment payments as detailed in the section headed "Particulars of the Sale and Purchase Contract" of this circular. The Group will draw down the loans based on the progress of the project and its prevailing cash flow position. For the year ended 31 December 2006, the first half of 2007 and the second half of 2007, it is expected that total cash required for the settlement of the consideration will be approximately RMB88.1 million, RMB49.93 million and RMB51.36 million respectively. As at 31 August 2006, total available cash and bank balances of the Group was approximately RMB31 million. Based on the currently financing plan, it is expected that there will be a temporary decrease of cash balances of the Group.

(iv) **Gearing**

According to the unaudited consolidated balance sheet of the Group as at 30 June 2006, the Group had total loans of approximately RMB118.62 million comprising short-term bank loans of RMB109.82 million, current portion of long-term loans of RMB3.00 million and long-term bank loans of RMB5.80 million and net asset value amounted to approximately RMB290.94 million. The gearing ratio of the Group (being total loans divided by the net asset value) as at 30 June 2006 was approximately 0.41 times. Since additional borrowing will be taken to finance the Asset Acquisition, it is expected that the Group's gearing ratio will increase.

Despite the temporary decrease in cash position and the expected increase in gearing ratio of the Group due to the Asset Acquisition, taking into account of (i) the benefits of the Asset Acquisition as mentioned in the section headed "Reasons for and benefits of the Asset Acquisition"; and (ii) the future earning potential of the Sale Assets, the Directors consider that the Asset Acquisition is in the interests of the Company and the Shareholders as a whole.

H. POSSIBLE CONSEQUENCE OF THE ASSET ACQUISITION

The Directors, including the independent non-executive Directors, are of the opinion that, following the acquisition of Sale Assets, taking into account of the financial resources available to the Group, including internally generated funds, the present available general banking facilities totalled approximately RMB38 million as at 31 August 2006, the expected additional bank borrowings to be drawn down by the Group when considered necessary after 31 August 2006 (including a fixed assets financing of RMB450 million and working capital financing of RMB150 million respectively from two PRC commercial banks) and in the absence of unforeseen circumstances, the Group will have sufficient working capital.

Although the Directors, after taking into consideration (i) the Group's good credit history with the banks; (ii) the improved financing position of the Group since 31 December 2005; (iii) the letters of intent obtained from the banks *(note)* and (iv) the project is encouraged by the PRC

government, are confident that the existing bank loans will be renewed upon maturity and the additional bank loans will be granted to the Group, it is still uncertain whether the bank loans will be renewed upon maturity and the additional bank loans will be available as they have not been formally approved by the banks.

Note:

The banks have already agreed in principal to grant the banking facilities to the Group which is evidenced by the provision of letters of intent with an amount of a fixed assets financing of RMB450 million and working capital financing of RMB150 million. The Group is given to understand by the banks that formal approval of the banking facilities cannot be granted unless the Group has entered into the Sale and Purchase Contract and that the Sale and Purchase Contract become unconditional.

In case the Group fails to obtain the required bank loans, the Group will seek new external financing including but not limited to equity financing by Dazhu Ko Yo Chemical (i.e. enlarge the registered captial of Dazhu Ko Yo Chemical by finding new investor(s)). In the event that the Group fails to obtain the required bank loans or alternative financing, the liquidity position of the Group may be adversely affected and the Group may consider extending the time for the reinstallation and resumption of operation of the Sale Assets or disposing of the Sale Assets.

Should there be any adverse changes in the financial position of the Group, an appropriate announcement will be made by the Company.

I. GENERAL

The Asset Acquisition and the use of 35% of the enlarged registered capital in Dazhu Ko Yo Chemical as consideration which gives rise a deemed disposal of subsidiary constitutes a major transaction for the Company under Chapter 19 of the GEM Listing Rules and hence is subject to the approval of the Shareholders.

To the understanding of the Directors, no Shareholders are required to abstain from voting if the Company were to convene a general meeting to approve the Sale and Purchase Contract and the Asset Acquisition. A closely allied group of Shareholders, namely Li Weiruo, Yuan Bai, Chi Chuan and Man Au Vivian, who are also executive Directors, in aggregate hold 260,680,000 Shares or approximately 51.54% of the total issued share capital of the Company directly, have provided to the Company their written approvals dated 29 September 2006 to the Sale and Purchase Contract and the Asset Acquisition pursuant to rule 19.44 of the GEM Listing Rules.

Details of the closely allied group of Shareholders are summarized in the table below:

Shareholder	Relationship	Number of Shares held	% of total issued share capital of the Company
Li Weiruo	Directors	206,440,000	40.81
Yuan Bai	Directors	35,448,000	7.01
Chi Chuan	Directors	12,528,000	2.48
Man Au Vivian	Directors	6,264,000	1.24
		260,680,000	51.54

J. RECOMMENDATION

The Directors are of the view that due to the reasons and benefits as stated in the section headed "Reasons and Benefits of the Asset Acquisition" in this circular, the Asset Acquisition is in the interests of the Company and its shareholders as a whole.

K. ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this circular.

Yours faithfully,
For and on behalf of the Board of
Ko Yo Ecological Agrotech (Group) Limited
Li Weiruo
Chairman

1. SUMMARY OF FINANCIAL STATEMENTS

Set out below is a summary of the audited profit and loss accounts of the Group for the years ended 31 December 2003, 2004 and 2005 and the unaudited profit and loss accounts of the Group for 6 months ended 30 June 2006 together with the comparative unaudited figures for the corresponding period in 2005. It also comprises the audited balance sheets of the Group as at 31 December 2003, 2004 and 2005 and the unaudited balance sheet as at 30 June 2006 as extracted from the Group's annual report of year 2005, annual report of year 2004 and interim report for the six months ended 30 June 2006.

Consolidated profit and loss account

	Unaudited Six months ended 30 June		Audited Year ended 31 December		
	2006	**2005**	**2005**	**2004**	**2003**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Turnover	349,865	314,615	627,616	422,728	281,810
Cost of Sales	(289,720)	(248,759)	(497,767)	(336,679)	(221,242)
Gross profit	60,145	65,856	129,849	86,049	60,568
Distribution costs	(14,245)	(17,219)	(34,640)	(22,062)	(15,142)
Administrative expenses	(17,076)	(17,903)	(38,646)	(28,394)	(21,766)
Other income	6,490	2,743	4,697	5,777	6,321
Operating profit	35,314	33,477	61,260	41,370	29,981
Finance costs	(3,457)	(3,668)	(8,060)	(7,476)	(5,877)
Profit before taxation	31,857	29,809	53,200	33,894	24,104
Taxation	(3,622)	(4,632)	(6,421)	(1,215)	(31)
Profit after taxation	28,235	25,177	46,779	32,679	24,073
Minority interest	0	(29)	23	33	—
Profit attributable to shareholders	28,235	25,148	46,802	32,712	24,073
Basic earnings per share (RMB cents)	6.38	5.96	11.1	7.8	6.6
Diluted earnings per share (RMB cents)	6.36	N/A	N/A	N/A	N/A
Dividend	2,630	2,236	8,773	6,478	5,921

Consolidated balance Sheet

	Unaudited As at 30 June 2006 RMB'000	Audited As at 31 December 2005 RMB'000	2004 RMB'000	2003 RMB'000
Non-current assets				
Negative goodwill	—	—	(12,366)	(12,866)
Fixed assets	212,496	189,528	163,878	121,502
Land use rights	44,637	45,124	42,957	37,668
Available for sale investment	—	1,000	1,000	1,000
	257,133	235,652	195,469	147,304
Current assets				
Inventories	50,921	74,340	51,037	24,679
Trade and other receivables	101,822	53,329	46,802	46,689
Pledged bank deposits	87,000	77,800	53,940	13,032
Cash and bank deposits	88,344	47,758	13,926	34,517
	328,087	253,227	165,705	118,917
Current liabilities				
Trade and other payable	168,661	124,790	69,229	38,224
Current portion of long-term loans, secured	3,000	9,000	—	21,000
Short- term bank loans, secured	109,820	135,870	95,430	46,430
	281,481	269,660	164,659	105,654
Net current assets	46,606	(16,433)	1,046	13,263
Total assets less current liabilities	303,739	219,219	196,515	160,567

	Unaudited As at 30 June 2006	Audited As at 31 December 2005	2004	2003
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Financed by:				
Capital and reserves attributable to the Company's Equity holders	53,449	44,713	44,713	44,520
Reserves				
Declared interim/proposed final dividend	2,630	6,580	5,142	3,250
Others	234,865	151,634	101,239	74,561
Minority interest	—	—	567	600
Shareholders' funds	290,944	202,927	151,661	122,931
Non-current liabilities				
Long-term bank loans, secured	5,800	8,800	37,200	29,800
Provision for staff compensation	6,874	7,330	7,388	7,449
Deferred tax liabilities	121	162	266	387
	12,795	16,292	44,854	37,636
	303,739	219,219	196,515	160,567

2. AUDITED FINANCIAL STATEMENTS FOR THE TWO YEARS ENDED 31 DECEMBER 2005

Set out below are the audited financial statements of the Group for the two years ended 31 December 2005, which are extracted from the annual report of the Group for the year ended 31 December 2005.

Consolidated Profit and Loss Account

	Note	**Year ended 31 December** **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 31 December	
	Note	**2005**	**2004**
		RMB'000	*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

	Note	As at 31 December 2005 RMB'000	2004 RMB'000
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

Consolidated Statement of Changes in Equity

	Note	**Attributable to equity holders of the Company** **Share capital** *RMB'000*	**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

	Note	Year ended 31 December 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.

(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.

(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.

(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.

(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.

(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.

(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.

(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.

(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.

(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.

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

	2005	**2004**
	RMB'000	*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	**2004**
	RMB'000	*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	**2004**
	RMB'000	*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	**2004**
	RMB'000	*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

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.*

(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.

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%
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%

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
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

(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

(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 RMB'000	Group 2004 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 RMB'000	Group 2004 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	**2004**
	RMB'000	*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	**2004**	**2005**	**2004**	**2005**	**2004**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*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.

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	Merger reserve	Reserve fund	Enterprise expansion fund	Retained earnings	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*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	Retained earnings	Total
	RMB'000	*RMB'000*	*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

(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	**2004**
	RMB'000	*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	**2004**
	RMB'000	*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 Asset 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.

(c) **Analysis of changes in financing during the year**

	Pledged bank deposit		Share capital including premium		Minority interest		Loans	
	2005	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*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	**2004**
	RMB'000	*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	**2004**
	RMB'000	*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.

3. UNAUDITED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2006

Set out below is the unaudited financial statements of the Group for the six months ended 30 June 2006, which is extracted from the interim report of the Company for the six months ended 30 June 2006.

Unaudited condensed consolidated profit and loss account

The unaudited results of the Group for the three months and six months ended 30 June 2006 together with the unaudited comparative figures for the corresponding periods in 2005 are as follows:

		Three months ended 30 June		**Six months ended 30 June**	
		2006	**2005**	**2006**	**2005**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Turnover	3	172,431	171,691	349,865	314,615
Cost of sales		(142,765)	(135,405)	(289,720)	(248,759)
Gross profit		29,666	36,286	60,145	65,856
Interest income		774	221	835	375
Distribution costs		(7,682)	(9,456)	(14,245)	(17,219)
Administrative expenses		(7,974)	(10,293)	(17,076)	(17,903)
Other income		5,106	926	5,655	2,368
Operating profit	4	19,890	17,684	35,314	33,477
Finance costs		(2,291)	(1,923)	(3,457)	(3,668)
Profit before taxation		17,599	15,761	31,857	29,809
Taxation	5	(1,857)	(2,606)	(3,622)	(4,632)
Profit after taxation		15,742	13,155	28,235	25,177
Minority interests		0	(18)	0	(29)
Profit attributable to shareholders		15,742	13,137	28,235	25,148
Basic earnings per share (RMB cents)	6	3.40	3.11	6.38	5.96
Diluted earnings per share (RMB cents)	6	3.35	N/A	6.36	N/A
Declared dividends per share (HK cent)	7	Nil	Nil	0.5	0.5

Condensed consolidated balance sheet

	Notes	(Unaudited) As at 30 June 2006 RMB'000	(Audited) As at 31 December 2005 RMB'000
Non-current assets			
Fixed assets		212,496	189,528
Long-term investment		—	1,000
Land use rights		44,637	45,124
		257,133	235,652
Current assets			
Inventories		50,921	74,340
Trade and other receivables	8	101,822	53,329
Pledged bank deposits		87,000	77,800
Cash and bank deposits		88,344	47,758
		328,087	253,227
Current liabilities			
Trade and other payables	9	168,661	124,790
Current portion of long-term loans, secured	10	3,000	9,000
Short-term bank loans, secured	10	109,820	135,870
		281,481	269,660
Net current assets/(liabilities)		46,606	(16,433)
Total assets less current liabilities		303,739	219,219
Finance by:			
Share capital		53,449	44,713
Reserves			
Declared interim/proposed final dividend		2,630	6,580
Others		234,865	151,634
Shareholders' funds		290,944	202,927
Non-current liabilities			
Long-term bank loans, secured	10	5,800	8,800
Provision for staff compensation		6,874	7,330
Deferred tax liabilities	11	121	162
		12,795	16,292
		303,739	219,219

Unaudited Condensed Consolidated Cash Flow Statement

	Unaudited	Audited
	Six months ended 30 June	
	2006	2005
	RMB'000	*RMB'000*
Net cash generated from operating activities	55,443	3,679
Interest paid	(3,457)	(3,668)
Net cash inflow from operating activities	51,986	11
Investing activities		
Purchases of fixed assets and payments for construction-in-progress	(29,664)	(8,617)
Proceeds from disposal of fixed assets	164	321
Dividends received from long-term investment	1,733	130
Interest received	835	375
Net cash outflow from investing activities	(26,932)	(7,791)
Net cash inflow/(outflow) before financing activities	25,054	(7,780)
Financing activities		
(Increase)/decrease in pledged bank deposits	(9,200)	14,560
Issue of ordinary shares	66,362	—
New loans payable	80,420	48,600
Repayment of bank loans	(115,470)	(39,130)
Dividends paid	(6,580)	(5,142)
Net cash inflow from financing activities	15,532	18,888
Increase in cash and cash equivalents	40,586	11,108
Cash and cash equivalents at 1 January	47,758	13,926
Cash and cash equivalents at 30 June	88,344	25,034

Notes to the Unaudited Condensed Financial Statements

1. **Basis of preparation**

The interim financial statements were unaudited, which have been prepared in accordance with the Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements set out in Chapter 18 of the Rules Governing the Listing of the Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules").

2. **Principal accounting policies**

The HKICPA has undertaken to converge by 1 January 2005 all Hong Kong Financial Reporting Standards ("HKFRS") with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board. As a result, the HKICPA had aligned HKFRS with the requirements of IFRSs in all material respects as at 31 December 2004. The accounts have been prepared under the historical cost convention.

The adoption of HKFRS 2 has resulted in a change in accounting policy for employee share options. Prior to this, 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 Company has not applied this HKFRS retrospectively as share options of the Company granted after 7 November 2002 had vested at 1 January 2005.

The adoption of HKFRS 3 has resulted in a change in the accounting policy for negative goodwill. Prior to this, negative goodwill was recognized as income on a straight-line basis in the profit and loss account over the remaining weighted average useful life of assets acquired of 30 years. In accordance with the provision of HKFRS 3, the carrying amount of negative goodwill as at 1 January 2005 shall be derecognized with a corresponding adjustment to the opening balance of retained earnings, which increased the retained earnings by approximately RMB12,366,000.

The adoption of other new HKFRS does not result in substantial changes to the Group's accounting policies except certain presentation and disclosure of the accounts will be affected.

3. **Turnover**

Turnover represents the net amounts received and receivables for chemical products and chemical fertilizers sold, less returns and allowances and value-added taxes, if applicable, during the six months period. The Group's revenues are primarily generated in the People's Republic of China (the "PRC").

Turnover consisted of the following products:

	Six months ended 30 June 2006 (unaudited)		Six months ended 30 June 2005 (unaudited)	
	RMB'000	%	*RMB'000*	%
BB & complex fertilizers	167,879	48.0%	166,948	53.1%
Sodium carbonate	44,950	12.8%	51,596	16.4%
Ammonium chloride	20,287	5.8%	27,368	8.7%
Urea	110,440	31.6%	52,066	16.5%
Ammonia	3,554	1.0%	6,606	2.1%
Ammonium bicarbonate	2,359	0.7%	10,031	3.2%
Others	396	0.1%	—	—
	349,865	100%	314,615	100%

4. **Operating profit**

Operating profit is stated after crediting and charging the following:

	Six months ended 30 June 2006	Six months ended 30 June 2005
	RMB'000	*RMB'000*
Crediting:		
Gain on disposal of fixed assets	—	272
Charging:		
Staff costs (including directors' emoluments)		
— Salaries, wages and other benefits	14,977	17,270
— Contributions to retirement scheme	1,830	1,521
Cost of inventories	289,720	248,759
Provision for doubtful receivables	550	461
Loss on disposal of fixed assets	2	88
Operating leases for buildings	599	519
Depreciation of fixed assets	6,493	5,213
Auditors' remuneration	520	562

5. **Taxation**

No provision for profits tax in the Cayman Islands, the 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 six months ended 30 June 2006.

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

The preferential EIT rate applicable for Chengdu Ko Yo Chemical in 2006 is 15%. Pursuant to relevant taxation regulations of the PRC and as approved by the local taxation bureau, Chengdu Ko Yo Chemical was entitled to deduct from its EIT expenses for an amount of 40% of cost of certain machinery acquired from the PRC enterprises, which are local machinery suppliers and unrelated to the Group. Accordingly, EIT provision made for Chengdu Ko Yo Chemical for the six months ended 30 June 2006 was RMB2,971,000.

The EIT provision made for and preferential EIT rate applicable to Chengdu Ko Yo Compound for the six months ended 30 June 2006 are approximately RMB692,000 and 7.5%.

Dezhou Ko Yo Compound, Dazhu Ko Yo Chemical and Qingdao Ko Yo Chemical did not have assessable profit for the six months ended 30 June 2006.

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

	Six months ended 30 June	
	2006	**2005**
	RMB'000	*RMB'000*
EIT in the PRC	3,663	4,667
Deferred tax *(Note 11)*	(41)	(35)
	3,622	4,632

6. **Earnings per share**

The calculation of the basic and diluted earnings per share for the three months and six months ended 30 June, 2006 and 2005 were based on:

	Three months ended 30 June		Six months ended 30 June	
	2006	**2005**	**2006**	**2005**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Profit for the period	15,742	13,137	28,235	25,148
Weighted average number of shares for calculation of basic earnings per share	463,358,462	421,820,000	442,703,978	421,820,000
Effect of dilutive potential shares on the outstanding share options	6,344,544	N/A	1,426,575	N/A
Weighted average number of shares for calculation of diluted earnings per share	469,703,006	N/A	444,130,553	N/A

7. **Dividend**

The Board has resolved the payment of an interim dividend at HK0.5 cent per share to the shareholders whose names appear on the register of members of the Company as at the close of business on 7 September 2006. The dividend will be payable on 27 September 2006. The dividend as declared should not be taken as an indication of the level of profit or dividend for the full year.

8. **Trade and other receivables**

	(Unaudited)	**(Audited)**
	As at 30 June 2006	**As at 31 December 2005**
	RMB'000	*RMB'000*
Trade receivables	43,928	22,335
Prepayments, purchase deposits and other deposits	36,941	23,714
Notes receivable	4,788	2,212
Other receivables	16,165	5,068
	101,822	53,329

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

	(Unaudited) As at 30 June 2006 *RMB'000*	(Audited) As at 31 December 2005 *RMB'000*
Aged:		
Less than 3 months	34,672	18,384
More than 3 months but not exceeding 1 year	8,655	5,250
More than 1 year but not exceeding 2 years	3,920	1,627
More than 2 years but not exceeding 3 years	277	656
More than 3 years	536	—
	48,060	25,917
Less: provision for doubtful receivables	(4,132)	(3,582)
	43,928	22,335

9. **Trade and other payables**

	(Unaudited) As at 30 June 2006 *RMB'000*	(Audited) As at 31 December 2005 *RMB'000*
Due to related companies	—	50
Trade payables	30,851	15,514
Notes payable	97,100	25,100
Deposits from customers	10,176	51,919
Accruals and other payables	30,534	32,207
	168,661	124,790

The aging analysis of trade payables is as follows:

	(Unaudited) As at 30 June 2006 *RMB'000*	(Audited) As at 31 December 2005 *RMB'000*
Aged:		
Less than 1 year	29,168	15,193
More than 1 year but not exceeding 2 years	1,623	305
More than 2 years but not exceeding 3 years	44	—
More than 3 years	16	16
	30,851	15,514

10. **Bank loans**

	(Unaudited) As at 30 June 2006 *RMB'000*	(Audited) As at 31 December 2005 *RMB'000*
Short-term bank loans, secured	109,820	135,870
Long-term bank loans repayable:		
Less than 1 year	3,000	9,000
More than 1 year but not exceeding 2 years	5,800	8,800
More than 2 years but not exceeding 5 years	—	—
More than 5 years	—	—
	8,800	17,800
Amounts due within 1 year included in current liabilities	(3,000)	(9,000)
	5,800	8,800

As at 30 June 2006, bank loans of the Group were generally secured by certain fixed assets of the Group. These bank loans bear interest at the rate of 4.5% to 6.7% (2005: 5.86% to 6.98%) per annum.

11. **Deferred tax liabilities**

Deferred tax liabilities is calculated in full on temporary differences under the liability method using the taxation rates applicable to the respective companies. The movement in deferred tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the relevant periods is as follows:

	Deferred tax liabilities Difference in tax depreciation		Deferred tax assets Impairment of assets		Total	
	30 June 2006 *RMB'000*	31 December 2005 *RMB'000*	30 June 2006 *RMB'000*	31 December 2005 *RMB'000*	30 June 2006 *RMB'000*	31 December 2005 *RMB'000*
Beginning of the year/period	624	624	(462)	(358)	162	266
Credited to profit and loss account	—	—	(41)	(104)	(41)	(104)
End of the year/period	624	624	(503)	(462)	121	162

4. STATEMENT OF INDEBTEDNESS

Borrowings

As at the close of business on 31 August 2006, being the latest practicable date for the purpose of this statement of indebtedness, the Group had outstanding bank borrowings of RMB175.3 million, which comprised secured short-term bank loans of approximately RMB167.6 million, secured long-term bank loans of approximately RMB7.7 million.

Security

As at 31 August 2006, the Group's utilised bank facilities of approximately RMB193.8 million (comprising bank borrowings of RMB175.3 million, bank acceptance of RMB18.5 million) were secured by pledged bank balances of RMB86.2 million and the Group's leasehold land and buildings and machinery, which are all situated in the PRC, with a total net book value of approximately RMB139.8 million. Among the above bank borrowings, short-term bank loans of RMB15 million were guaranteed by Mr. Li Weiruo, a director of the Company. Save as disclosed above, the Company had no outstanding mortgages and charges as at 31 August 2006.

Debt Securities

As at 31 August 2006, the Group did not have any debt securities which were issued and outstanding, and authorised or otherwise created but unissued.

Guarantees and contingent liabilities

As at 31 August 2006, the Group did not have any contingent liabilities or guarantees outstanding.

5. DISCLAIMER

Save as disclosed above and apart from the intra-group liabilities and normal trade payables, the Group did not have, at the close of business on 31 August 2006, any outstanding loan capital issued and outstanding or agreed to be issued, bank overdrafts, charges or debentures, mortgages loans, or other similar indebtedness or any finance lease commitments, hire purchase commitments, liabilities under acceptances (other than normal trade bills), acceptance credits or any guarantees or other material contingent liabilities.

6. MATERIAL CHANGES

The directors confirmed that there has been no material change in the indebtedness and contingent liabilities of the Group since 31 August 2006.

7. WORKING CAPITAL

The Directors, including the independent non-executive Directors, are of the opinion that, following the acquisition of Sale Assets, taking into account the financial resources available to the Group, including internally generated funds, the present available general banking facilities totalled approximately RMB38 million as at 31 August 2006, the expected additional bank borrowings to be drawn down by the Group when considered necessary after 31 August 2006 (including a fixed assets financing of RMB450 million and working capital financing of RMB150 million respectively from two PRC commercial banks) and in the absence of unforeseen circumstances, the Group will have sufficient working capital for its present requirements.

As of 31 August 2006, the Group had bank loans of approximately RMB175.3 million from eight PRC banks which would fall due between September 2006 and October 2007. The Directors considered that based on their previous experience in dealing with the banks (which can be demonstrated by the track records of renewal of bank loans by the banks in 2005 and 2006), the improved financing position of the Group (which can be shown in the Group's balance sheets in which the Group changed from net current liabilities of RMB16.4 million as at 31 December 2005 to net current assets of RMB46.6 million as at 30 June 2006) and on the assumptions that there will be no material adverse changes in the Group's financial and trading prospects, the Group will be able to renew the bank loans as and when they fall due. Accordingly, the Directors do not foresee that there will be any working capital gap for the Group.

In this connection, the Group has received letters of intent and verbal confirmations from the relevant banks to continue the provision of the bank loans and grant additional financing to the Group. However, the Group has been advised that legally binding agreements with the relevant banks are required as evidence of the existence of the bank loans during the period of the working capital forecast of the Group. Therefore, such letters of intent and the verbal confirmations cannot be served as evidence of the existence of the bank facilities during the period of the working capital forecast of the Group. However, the legally-binding agreements cannot be obtained by the Group as the banks will only consider applications for renewal of the loans in a short period before the expiry of the loans. Although the banks have already agreed in principal to grant the banking facilities to the Group which is evidenced by the provision of letters of intent with an amount of a fixed assets financing of RMB450 million and working capital financing of RMB150 million. The Group is given to understand by the banks that formal approval of the banking facilities cannot be granted unless the Group has entered into the Sale and Purchase Contract and that the Sale and Purchase Contract become unconditional. Hence, a comfort letter regarding the sufficiency of working capital of the Group cannot be obtained from the auditor of the Company as required under Rule 19.66(4) of the GEM Listing Rules. As at the Latest Practicable Date, such banks have not withdrawn their intention to renew the relevant loan when they fall due. After taking into account of the above, the Directors are of the view that it is reasonable to expect that the Group has no foreseeable funding gap in the near term.

In case the Group fails to renew its existing bank loans of which approximately RMB92.1 million, RMB63.6 million and RMB19.6 million will fall due in the second half of 2006, the first half of 2007 and the second half of 2007 respectively, the Group will seek new external financing. In the event that the Group fails to renew its existing bank loans or obtain alternative means of financing, the liquidity position of the Group will be adversely affected and the time required for the reinstallation and resumption of operation of the Sale Assets will be extended.

8. MATERIAL ADVERSE CHANGES SINCE 31 DECEMBER 2005

The Directors are not aware of any material adverse changes in financial and trading positions of the Group since 31 December 2005, being the date to which the latest published audited financial statements of the Group were made up.

9. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

For the year ended 31 December 2005, the Group achieved turnover of approximately RMB628 million and a profit attributable to the Group of approximately RMB47 million. The turnover of the Group increased by approximately 48% and the profit attributable to the shareholders of the Group increased by approximately 43% as compared to the previous year. Such increases were mainly due to the significant growth of sales of BB fertilizer as a result of great effort made to develop its distribution channel and agricultural services which in turn established a closer relationship with distributors and peasants.

The Directors considered that the Group is having positive financial and trading prospects in the current financial year. Despite the challenges from high international prices of, oil and natural gas which are used for production of chemical fertilizers, the Directors anticipate that the Group will continue to achieve a steady growth in sales which are attributable to the Group's practical marketing strategies, reduction of agricultural tax, preferential transportation, electricity and gas costs for fertilizers as the PRC's governmental policy continued to be beneficial on chemical fertilizers.

RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:

(a) the information contained in this circular is accurate and complete in all material respects and not misleading;

(b) there are no other matters the omission of which would make any statement in this circular misleading; and

(c) all opinions expressed in this circular have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

DISCLOSURE OF INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

INTEREST OF DIRECTORS AND CHIEF EXECUTIVE OF THE COMPANY

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

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

Directors	Personal long position in shares (beneficial owner)	Personal long position in share options (beneficial owner)	Aggregate long position in shares and underlying shares	Interests in the issued share capital
Li Weiruo	206,440,000	420,000	206,860,000	40.90%
Yuan Bai	35,448,000	400,000	35,848,000	7.09%
Chi Chuan	12,528,000	4,200,000	16,728,000	3.31%
Man Au Vivian	6,264,000	3,800,000	10,064,000	1.99%
Li Shengdi	—	4,200,000	4,200,000	0.83%
Hu Xiaoping	—	400,000	400,000	0.08%
Woo Che-wor, Alex	—	400,000	400,000	0.08%
Qian Laizhong	—	420,000	420,000	0.08%

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

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

Note: a wholly-owned subsidiary of the Company

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

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

Save as disclosed above, none of the Directors or their associates (as defined in the GEM Listing Rules) had, as at the Latest Practicable Date, any interests or short positions in any Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have 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 which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to Company and the Stock Exchange.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, there was no substantial shareholder (not being a Director or a chief executive of the Company) who had any interest or short position in the Shares or underlying Shares 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, or who were directly or indirectly deemed to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Group.

INTERESTS OF OTHER PERSONS IN THE COMPANY

(i) As at the Latest Practicable Date, so far as is known to any Director or chief executive of the Company, the following person had an interest or short positions in the Shares or underlying shares of the Company which are required to be notified to the Company and the Stock Exchange under Divisions 2 and 3 of Part XV of the SFO and recorded in the register required to be kept under section 336 of the SFO, and who were directly or indirectly deemed to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company.

Name	Capacity	Number of shares	Interests in issued share capital of the Company
Fidelity International Limited	Beneficial Owner	34,055,000	6.73%

(ii) **Rights to acquire Shares of the Company**

No other persons who had position in the Shares or underlying Shares of the Company which are required to be notified to the Company and the Stock Exchange under Division 2 and 3 of Part XV of the SFO.

(iii) **Interests in shares of an associated corporation (within the meaning of the SFO) of the Company**

Long position in Ko Yo Development Co., Limited

Name	Number and description of shares	Type of interest	Capacity	Approximate percentage of holding of such class
Mr. Tang Shiguo *(Note)*	300,000 non-voting deferred shares	Personal	Beneficial owner	10

Note: Mr. Tang Shiguo ceased to be a Director with effect from 29 April 2004.

Short position in Ko Yo Development Co., Limited

Name	Number and description of shares	Type of interest	Capacity	Approximate percentage of holding of such class
Mr. Tang Shiguo *(Note)*	300,000 non-voting deferred shares	Personal	Beneficial owner	10

Note: Mr. Tang Shiguo ceased to be a Director with effect from 29 April 2004.

Save as disclosed above, as at the Latest Practicable Date, there was no person or company (not being a Director of 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 Group.

INTERESTS IN CONTRACTS AND ASSETS OF THE GROUP

None of the Directors or the expert as stated in the section headed "Expert" in this appendix has any direct or indirect interest in any assets which have been acquired or disposed of, or leased to, the Company or are proposed to be acquired or disposed of by, or leased to, the Company since 31 December 2005, the date to which the latest published audited accounted of the Company were made up.

None of the Directors is materially interested in any contract or arrangement subsisting at the Latest Practicable Date which is significant in relation to the business of the Group.

COMPETING INTERESTS

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.

LITIGATION

No member of the Group is engaged in any litigation or arbitration of material importance and there is no litigation or claim of material importance known to the Directors to be pending or threatened against any member of the Group.

SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company for an initial term of three years and will continue thereafter 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 the 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 for a term of two years with specific terms in their letters of appointment.

EXPERT

a. The following is the qualification of the expert who has given its opinion which is contained in this circular:

Name	Qualification
Sichman Chuanda Law Firm (四川川達律師事務所)	PRC legal adviser

b. Sichman Chuanda Law firm has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its legal opinion and references to its name in the form and context in which they are respectively included.

c. As at the Latest Practicable Date, Sichman Chuanda Law Firm did not have any shareholding in the Group, or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities of the Group.

d. Save as disclosed herein, the legal opinion given by Sichman Chuanda Law Firm is given as of 20 September 2006 for incorporation herein.

GENERAL

(a) The registered office of the Company is at Century Yard, Cricket Square, Hutchins Drive, P. O. Box 2631 GT, George Town, Grand Cayman, Cayman Islands, British West Indies.

(b) The head office and principal place of business of the Company in Hong Kong is at Suite No. 02, 31st Floor, Sino Plaza, 255-257 Gloucester Road, Causeway Bay, Hong Kong.

(c) The branch share registrar and transfer office of the Company is Union Registrars Limited at Room 1803, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong.

(d) The Compliance Officer of the Company is Ms. Chi Chuan. Ms. Chi graduated from Sichuan Normal College with a bachelor degree in science in 1982. Ms. Chi has over 10 years' experience in finance and accounting.

(e) The Qualified Accountant and Company Secretary of the Company is Mr. Chung Tin Ming. Mr. Chung graduated from the 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 Hong Kong Institute of Certified Public Accountants and a fellow member of Association of Chartered Certified Accountants.

(f) The Company established an audit committee on 10 June 2003 with written term of reference in accordance with rules 5.28 and 5.29 of the GEM Listing Rules which reviews the internal accounting procedures and considers and reports to the Board with respect to other auditing and accounting matters, including selection of independent auditors, the scope of annual audits, fees to be paid to the independent auditors and the performance of the independent auditors. The audit committee comprises three independent non-executive Directors, namely Mr. Hu Xiaoping, Mr. Woo Che-wor, Alex and Mr. Qian Laizhong, further details of whom are set out below:

Mr. Hu Xiaoping, aged 56, 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 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.

Mr. Woo Che-wor, Alex, aged 55, has been the Chairman and CEO of STI Certified Products Inc., a private company in California, U.S.A. since February 1988. From January 1986 to December 1987, Mr. Woo was the corporate treasurer of Fairchild Semiconductor Corporation, a multi-national semiconductor company with its headquarter in California, U.S.A.. Mr. Woo is qualified as a Certified Management Accountant from Chartered Institute of Management Accountants of England and obtained an MBA from San Jose State University of the U.S.A. in 1987.

Mr. Qian Laizhong, aged 63, graduated from Sichuan Fine Arts Institute in 1968. Over the past 20 years, Mr. Qian actively participated in cultural and economical researches and publications in Sichuan province, the PRC. Mr. Qian is a member of Sichuan Provincial Committee of Chinese Peoples' Political Consultative Conference.

(g) The English text of this circular shall prevail over the Chinese text in case of inconsistency.

MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) had been entered into by the Group within the two years preceding 24 October 2006 (being the Latest Practicable Date) and are, or may be, material:

1. the Sale and Purchase Contract;

2. the Second Handed Equipment Import Agency Contract

3. the placing agreement dated 3 May 2006 entered into by the Company, Mr. Li Weiruo and Mr. Yuan Bai (both are executive Directors) as vendors and SBI E2 Securities Limited as placing agent in respect of the top-up placing of 84 million Shares at HK$0.78 each;

4. the subscription agreement dated 3 May 2006 entered into between the Company and Mr. Li Weiruo and Mr. Yuan Bai (both are executive Directors) as subscribers in respect of the top-up placing of 84 million Shares at HK$0.78 each;

5. The Asset Acquisition Agreement dated 30 December 2004 entered into between Dazhu Ko Yo Chemical as purchaser and Dazhu Hongsen Chemical as vendor in respect of acquisition of, among others plant and machinery for approximately HK$22.89 million.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the office of Suite 3102, Sino Plaza, 255, Gloucester Road, Causeway Bay, Hong Kong from the date of circular up to and including 16 November 2006:

a. the memorandum and the articles of association;

b. the annual reports of the Group for the two years ended 31 December 2005;

c. the interim report of the Group for the six months ended 30 June 2005 and 30 June 2006

d. the written consent referred to in the section headed "Expert" in this appendix;

e. the material contracts referred to in the paragraph headed "Material contracts" in this appendix;

f. the service contracts referred to in the paragraph headed "Service contracts" in this appendix;

g. the legal opinion dated 20 September 2006 issued by Sichuan Chuanda Law Firm (四川川達律師事務所);

h. the letters of intent of the banking facilities amounted to RMB450 million and RMB150 million to be granted by the Industrial and Commercial Bank of China, Sichuan Province branch and the Shanghai Pudong Development Bank respectively; and

i. this circular.