玖 源 生 態 農 業 科 技 （ 集 團 ） 有 限 公 司

Ko Yo Ecological Agrotech (Group) Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8042)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 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 and no assurance is given that there will be a liquid market in the securities traded on GEM.

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

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

HIGHLIGHTS

— For the year ended 31st December 2006, the profit attributable to shareholders decreased to approximately RMB29 million, which represents a decrease of 39% as compared to year 2005.

— Basic earnings per share was approximately RMB6.0 cents for the year ended 31st December 2006.

— For the year ended 31st December 2006, sale quantities increased by approximately 0.2% and turnover decreased by 2.7% as compared to year 2005.

— The sale quantities of BB Fertilizers and complex fertilizers of the Group increased to 156,571 tonnes, which represents a growth of 12% as compared with year 2005.

— The Directors have proposed to pay a final dividend of HKD0.7 cents per share for the year ended 31st December 2006.

The board of directors (the "Board") is pleased to present the audited annual results of Ko Yo Ecological Agrotech (Group) Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31st December 2006.

Consolidated income statement

	Note	Year ended 31 December	
		2006	2005
		RMB'000	RMB'000
Turnover	4	**610,587**	627,616
Cost of sales	6	**(513,212)**	(497,767)
Gross profit		**97,375**	129,849
Other income	5	**6,322**	3,780
Distribution costs	6	**(22,182)**	(34,640)
Administrative expenses	6	**(41,282)**	(38,646)
Operating profit		**40,233**	60,343
Finance costs — net	7	**(6,909)**	(7,143)
Profit before income tax		**33,324**	53,200
Income tax expense	8	**(4,728)**	(6,421)
Profit for the year		**28,596**	46,779
Attributable to:			
Equity holders of the Company		**28,596**	46,802
Minority interest		**—**	(23)
		28,596	46,779
Earnings per share for profit attributable to the equity holders of the Company during the year			
(expressed in RMB per share)	9		
— Basic		**0.060**	0.111
— Diluted		**0.060**	0.111
Dividends	10	**6,172**	8,773

Consolidated Balance Sheet

	Note	As at 31 December 2006 RMB'000	2005 RMB'000
ASSETS			
Non-current assets			
Land use rights		**44,346**	45,124
Property, plant and equipment		**304,351**	189,528
Deferred income tax assets		**771**	—
Available-for-sale investment		**—**	1,000
		349,468	235,652
Current assets			
Inventories		**76,804**	74,340
Trade and other receivables	11	**64,378**	53,329
Pledged bank deposits		**20,801**	77,800
Cash and cash equivalents		**12,839**	47,758
		174,822	253,227
Total assets		**524,290**	488,879
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		**53,449**	44,713
Reserves			
— Proposed final dividends		**3,541**	6,580
— Others		**235,872**	151,634
		292,862	202,927
Minority interest		**—**	—
Total equity		**292,862**	202,927

	Note	As at 31 December 2006 RMB'000	 2005 RMB'000
LIABILITIES			
Non-current liabilities			
Long-term loans, secured		**—**	8,800
Provision for staff compensation		**4,573**	7,330
Deferred income tax liabilities		**—**	162
		4,573	16,292
Current liabilities			
Trade and other payables	12	**90,919**	121,693
Current income tax liabilities		**1,660**	3,097
Current portion of long-term loans, secured		**8,800**	9,000
Short-term bank loans, secured		**125,476**	135,870
		226,855	269,660
Total liabilities		**231,428**	285,952
Total equity and liabilities		**524,290**	488,879
Net current liabilities		**(52,033)**	(16,433)
Total assets less current liabilities		**297,435**	219,219

NOTES TO THE ACCOUNTS

1 General information

Ko Yo Ecological Agrotech (Group) Limited (the "Company") was incorporated in the Cayman Islands on 11 February 2002 as an exempted company with limited liability under the Companies Law Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Its shares have been listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 10 July 2003.

The 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.

2 Summary of significant accounting policies

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

2.1 Basis of preparation

The Group had net current liabilities of RMB52,033,000 as at 31 December 2006 (2005: net current liabilities of RMB16,433,000). The directors of the Company have given due consideration to the liquidity of the Group and have adopted the going concern basis in preparing the consolidated financial statements for the year ended 31 December 2006 on the basis that the Group has profitable operations and that it will succeed in negotiating with its bankers to roll over the outstanding bank loans. As described in Note 15, subsequent to the balance sheet date, bank loans of RMB40 million have been rolled over for a further year and new additional bank loans of RMB26 million have been granted with maturity after one year. On this basis the directors are of the opinion that the Group will have sufficient working capital to finance its operation. Accordingly, the directors are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

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

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 3 to notes to the accounts in this preliminary announcement of result.

(a) Standards/Interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following standards/interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2007 or later periods that the Group has not early adopted:

- HK(IFRIC)-Int 8, Scope of HKFRS 2 (effective for annual periods beginning on or after 1 May 2006). HK(IFRIC)-Int 8 requires consideration of transactions involving the issuance of equity instruments – where the identifiable consideration received is less than the fair value of the equity instruments issued – to establish whether or not they fall within the scope of HKFRS 2. The Group will apply HK(IFRIC)-Int 8 from 1 January 2007, but it is not expected to have any impact on the Group's consolidated financial statements;

- HK(IFRIC)-Int 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006). HK(IFRIC)-Int 10 prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group will apply HK(IFRIC)-Int 10 from 1 January 2007, but it is not expected to have any impact on the Group's consolidated financial statements;

- HKFRS 7, Financial instruments: Disclosures, and the complementary Amendment to HKAS 1, Presentation of Financial Statements – Capital Disclosures, will be effective for the Group's accounting period beginning on or after 1 January 2007. HKFRS 7 introduces new disclosures to improve the information about financial instruments. The Group will apply HKFRS 7 from 1 January 2007, but it is not expected to have any impact on the classification and valuation of the Company's financial statements; and

- HK(IFRIC)-Int 11, HKFRS2-Group and Treasury Share Transactions (effective for annual period beginning on or after 1 March 2007). HK(IFRIC)-Int 11 addresses equity-settled awards and group scheme. The Group will apply HK(IFRIC)-Int 11 from 1 January 2008, but is is not expected to have any impact on the Group's consolidated financial statements.

(b) Interpretation to existing standards that is not yet effective and not relevant for the Group's operations

The following interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2007 or later periods but are not relevant for the Group's operations:

- HK(IRFIC)-Int 7, Applying the Restatement Approach under HKAS 29, Financial Reporting in Hyperinflationary Economies (effective from 1 March 2006). HK(IFRIC)-Int 7 provides guidance on how to apply requirements of HKAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional Currency, when the economy was not hyperinflationary in the prior period. As none of the group entities have a Currency of a hyperinflationary economy as its functional Currency, HK(IFRIC)-Int 7 is not relevant to the Group's operations;

- HK(IFRIC)-Int 9, Reassessment of embedded derivatives (effective for annual periods beginning on or after 1 June 2006). HK(IFRIC)-Int 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment if required. As none of the group entities have involved in such contracts, HK(IFRIC)-Int 9 is not relevant to the Group's operations; and

- HK(IFRIC)-Int 12, Service Concession Arrangements (effective for annual period beginning on or after 1 January 2008). HK(IFRIC)-Int 12, applies to companies that participate in service concession arrangement. It provides guidance on the accounting by operators in public-to-private service concession arrangements. As none of the group companies have participated in such service concession arrangements, HK(IFRIC)-Int 12 is not relevant to the Group's operations.

(c) Standards, amendments and interpretations effective in 2006 but not relevant for the Group's operations

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2006 but are not relevant to the Group's operations:

- HKAS 19 (Amendment) - Employee Benefits;
- HKAS 21 Amendment - New Investment in a Foreign Operation;
- HKAS 39 Amendment - Cash Flow Hedge Accounting of Forecast Intragroup Transactions;
- HKAS 39 Amendment - The Fair Value Option;
- HKAS 39 Amendment - Financial Guarantee Contracts;
- HKFRS 6, Exploration for and Evaluation of Mineral Resources;
- HKFRS 1 Amendment - First-time Adoption of International Financial Reporting Standards;
- HK(IFRIC)-Int 4, Determining whether an Arrangement contains a Lease;
- HK(IFRIC)-Int 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds; and
- HK(IFRIC)-Int 6, Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment.

2.2 Consolidation

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

(a) 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 income statement.

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

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses (Note 2.6). The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

(b) 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 income statement. Purchases from minority interest result in goodwill, being the difference between any considerations paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

2.3 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.

2.4 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

(c) Group companies

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

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

— income and expenses for each 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 income statement as part of the gain or loss on sale.

2.5 Property, plant and equipment

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

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

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

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

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

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.6).

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

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

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

2.7 Financial assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale investments. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

During 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.

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

(b) Available-for-sale investments

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

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

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

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

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. Impairment testing of trade receivables is described in Note 2.9.

2.8 Inventories

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

2.9 Trade and other receivables

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

2.10 Share capital

Ordinary shares are classified as equity.

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

2.11 Cash and cash equivalents

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

2.12 Trade payables

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

2.13 Provisions

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

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

2.14 Employee benefits

(a) Employee leave entitlements

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

(b) Pension obligations

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

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

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

(c) Share-based compensation

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

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

2.15 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

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

2.16 Borrowings

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

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

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

2.17 Contingent liabilities

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

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

2.18 Revenue recognition

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

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

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

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

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

2.19 Government grants and tax refund

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

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

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

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

2.20 Operating leases

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

2.21 Dividend distribution

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

3 Critical accounting estimates and judgements

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

3.1 Estimates

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

(a) Depreciation of fixed assets

The Group's net book value of fixed assets as at 31 December 2006 was RMB304,351,000 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.

(b) 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.

3.2 Judgements

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

(a) Impairment of assets

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

(b) Recognition of share-based compensation expenses

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

4 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%.

5 Other income

	2006	2005
	RMB'000	RMB'000
Government grants *(Note a)*	**895**	380
VAT refund *(Note b)*	**—**	1,905
Tax refund for reinvestments *(Note c)*	**2,865**	—
Dividend income from unlisted investment	**—**	130
Gain from disposal of available-for-sale investment	**733**	—
Sales of waste materials	**1,021**	1,365
Others	**808**	—
	6,322	3,780

(a) Government grants

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

Pursuant to the document (2006) No. 62 and No. 178 issued by local authority of finance, Chengdu Ko Yo Chemical is entitled to receive government grants as subsidy for certain construction works relating to energy saving and environment protection.

(b) VAT refund

Until 1 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 Dazhu Ko Yo Chemical 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 1 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 1 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%.

(c) Tax refund for reinvestments

Amount represented income tax refund for reinvestments in subsidiaries by way of capitalisation of dividend.

6 Expenses by nature

	2006	2005
	RMB'000	RMB'000
Changes in inventories of finished goods and work in progress	**6,403**	(9,719)
Raw materials and consumables used	**326,654**	343,729
Power and natural gas consumed	**128,600**	115,698
Maintenance expenses	**9,596**	9,653
Customs duty	**1,237**	5,817
Staff costs	**47,024**	38,710
Depreciation, amortisation and impairment charges	**14,367**	12,611
Provisions for doubtful receivables	**1,798**	1,356
Loss on disposal of property, plant and equipment	**197**	1,074
Transportation expenses	**15,822**	18,057
Advertisement expenses	**3,602**	6,128
Operating lease payments	**1,130**	1,195
Auditors' remuneration	**1,561**	1,200
Other expenses	**18,685**	25,544
Total cost of sales, distribution costs and administrative expenses	**576,676**	571,053

7 Finance costs-net

	2006	2005
	RMB'000	RMB'000
Interest expenses of bank borrowings	**7,928**	7,170
Interest income	**(1,425)**	(917)
Others	**406**	890
	6,909	7,143

8 Income tax expense

No provision for profits tax in the Cayman Islands, British Virgin Islands or Hong Kong has been made, as the Group had no assessable profit arising in or derived from those jurisdictions during the years ended 31 December 2006 and 2005.

Chengdu Ko Yo Chemical, Chengdu Ko Yo Compound, Dezhou Ko Yo Compound, Dazhu Ko Yo Chemical and 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.

Pursuant to Chuan Guo Shui Han (2006) No. 40 issued by the local tax bureau of Sichuan province, foreign-invested enterprises established in Sichuan province are subject to Local Enterprise Income Tax ("LEIT") at the rate of 3%, since 1 January 2006.

Since the preferential treatment had expired for Chengdu Ko Yo Chemical in the year ended 31 December 2006, the overall rate (both EIT and LEIT) applicable to Chengdu Ko Yo Chemical in 2006 is 18% (2005: 15%). Accordingly, current income tax provision made for Chengdu Ko Yo Chemical for the year ended 31 December 2006 was RMB4,733,000 (2005: RMB5,900,000).

The preferential EIT rate applicable to Chengdu KoYo Compound for the year ended 31 December 2006 is 7.5% (2005: 7.5%), plus the rate of 3% of LEIT, the overall rate applicable is 10.5% (2005: 7.5%). Accordingly, current income tax provision made for Chengdu Ko Yo Compound for the year ended 31 December 2006 was RMB713,000 (2005: RMB625,000).

The preferential EIT rate applicable to Dazhu KoYo Chemical for the year ended 31 December 2006 is 0% (2005: 0%), plus the rate of 3% of LEIT, the overall rate applicable is 3% (2005: 0%). Accordingly, current EIT provision made for Dazhu KoYo Chemical for the year ended 31 December 2006 was RMB215,000 (2005: nil).

Dezhou Ko Yo Compound and Qingdao Ko Yo Chemical did not have taxable profit for the year ended 31 December 2006 (2005: Nil).

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

	2006	2005
	RMB'000	RMB'000
Current tax for Mainland China	**5,661**	6,525
Deferred income tax	**(933)**	(104)
	4,728	6,421

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

	2006	2005
	RMB'000	RMB'000
Profit before taxation	**28,596**	53,200
Calculated at statutory taxation rate of 18% (2005: 15%)	**5,147**	7,980
Expenses not deductible for tax purposes	**—**	314
Effect of deduction of 40% of cost of machinery acquired from Mainland China enterprises	**—**	(2,389)
Tax losses for which no deferred income tax was recognised	—	1,002
Effects on tax holiday available to different companies of the Group	**(419)**	(486)
Taxation	**4,728**	6,421

9 Earnings per share

(a) Basic

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

	2006	2005
	RMB'000	RMB'000
Profit attributable to equity holders of the Company	**28,596**	46,802
Weighted average number of ordinary shares in issue (thousands)	**474,271**	421,820
Basic earnings per share (RMB per share)	**0.060**	0.111

(b) Diluted

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

	2006	2005
	RMB'000	RMB'000
Profit attributable to equity holders of the Company	**28,596**	46,802
Weighted average number of ordinary shares in issue (thousands)	**474,271**	421,820
Adjustment - share options (thousands)	**640**	—
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**474,911**	421,820
Diluted earnings per share (RMB per share)	**0.060**	0.111

10 Dividends

	2006	2005
	RMB'000	RMB'000
Interim, paid, of HKD0.005 (2005: HKD0.005) per ordinary share	**2,631**	2,193
Final, proposed, of HKD0.007 (2005: HKD0.015) per ordinary share	**3,541**	6,580
	6,172	8,773

At a meeting held on 10 August 2006, the directors declared an interim dividend of HKD0.005 (equivalent to RMB0.0052) per ordinary share, totalling approximately RMB2,631,000, which was paid during the year ended 31 December 2006.

At a meeting held on 16 March 2007, the directors proposed a final dividend of HKD0.007 (equivalent to RMB0.007) per ordinary share, totalling approximately RMB3,541,000 This proposed dividend is not reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2007.

11 Trade and other receivables

	Group		**Company**	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade receivables *(Note a)*	**13,961**	22,335	**—**	—
Prepayments, purchase deposits and other deposits	**40,811**	23,714	**332**	190
Notes receivable *(Note b)*	**808**	2,212	**—**	—
Other receivables	**8,798**	5,068	**—**	—
Dividends receivable from a subsidiary	**—**	—	**39,177**	39,177
	64,378	53,329	**39,509**	39,367

(a) Trade receivables

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

	Group	
	2006	2005
	RMB'000	RMB'000
Aged:		
Less than 3 months	**8,648**	18,384
More than 3 months but not exceeding 1 year	**7,896**	5,250
More than 1 year but not exceeding 2 years	**534**	1,627
More than 2 years but not exceeding 3 years	**1,607**	656
More than 3 years	**656**	—
	19,341	25,917
Less: provision for doubtful receivables	**(5,380)**	(3,582)
	13,961	22,335

(b) Notes receivable

The balance represents bank acceptance notes with maturity dates within six months.

12 Trade and other payables

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Due to related companies	**—**	50	**—**	—
Trade payables *(Note a)*	**30,450**	15,514	**—**	—
Notes payable *(Note b)*	**12,000**	25,100	**—**	—
Deposits from customers	**29,582**	51,919	**—**	—
Accruals and other payables	**18,887**	29,110	**3,415**	3,475
	90,919	121,693	**3,415**	3,475

(a) Trade payables

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

	2006	2005
	RMB'000	RMB'000
Aged:		
Less than 1 year	**29,898**	15,193
More than 1 year but not exceeding 2 years	**552**	305
More than 2 years but not exceeding 3 years	**—**	—
More than 3 years	**—**	16
	30,450	15,514

(b) Notes payable

Notes payable represented bank acceptance notes issued by the Group and were interest-free and with maturity dates of less than one year. As at 31 December 2006, notes payable of approximately RMB12,000,000 (2005: RMB25,100,000) were pledged by bank deposits of RMB5,601,000 (2005: RMB18,800,000).

13 Commitments

(a) Capital commitments for property, plant and equipment

	2006	2005
	RMB'000	RMB'000
Contracted but not provided for		
— Acquisition of production facilities *(Note 14)*	**214,014**	—
— Constructions-in-progress	**50,464**	14,140
	264,478	14,140

(b) Commitments under operating leases

At 31 December 2006, the Group had future aggregate minimum lease payments under non-cancellable operating leases for land and buildings as follows:

	2006	2005
	RMB'000	RMB'000
Not later than one year	**756**	848
Later than one year and not later than five years	**88**	269
	844	1,117

14 Acquisition of production facilities

In order to enhance the Group's production capacity and competitiveness in the fertilizer markets and facilitate the growth of the Group, on 5 October 2006, the Company announced that Dazhu Ko Yo Chemical, as the ultimate purchaser, entered into a sale and purchase contract (the "Contract") with a vendor (the "Vendor"), located in United States of America, to acquire certain production facilities for a total consideration of USD 35.9 million (equivalent to approximately RMB290.8 million). The consideration will be settled in cash and 35% of the enlarged registered capital in capital of Dazhu Ko Yo Chemical. The 35% of the enlarged registered capital of Dazhu Ko Yo Chemical will equal to RMB105 million and the corresponding amount of which in the USD 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 according to payment terms and conditions that stipulated in the Contract.

During the year, the Group paid USD 9.5 million (equivalent to approximately RMB76.8 million) to the Vendor. As of 31 December 2006, the capital commitment in relation to the Contract as disclosed in Note 13 was approximately RMB214.0 million.

For the purpose of financing the above-mentioned commitment, the Group is in application with several banks for a long-term bank loan of not less than RMB400 million. In this connection, the Group has received a letter of intent from one of the banks which indicated that it is in consideration to lend a long-term bank loan of RMB450 million to the Group but the approval is yet to be finalised. Furthermore, pursuant to a supplementary agreement signed by the Vendor and the Company dated 22 March, 2007, the Vendor will not demand for further payment until the Group succeeds in obtaining the above-mentioned long-term bank loan and the Vendor's fulfilment of the payment conditions as stipulated in the Contract. The directors are of the view that it is reasonable to expect that the Group will obtain the borrowings from the banks and has no foreseeable funding gap in the near term.

15 Event after balance sheet date

Subsequent to the balance sheet date, bank loans of RMB40 million have been rolled over for a further year and new additional bank loans of RMB26 million have been granted with maturity after one year, out of which approximately RMB15 million was drawn down by the Group. Furthermore, the Group has received letters of intent from certain banks indicating that they are willing to extend short-term loans of approximately RMB52 million, with maturity dates ranging from April 2007 to March 2008, for a further year upon maturity, subject to certain circumstances and conditions.

BUSINESS REVIEW

The financial results for the year ended 31st December 2006 were not as good as the management's expectation. The turnover and profit were lower than that of last year. The turnover of the Group was approximately RMB611 million, which represented a decrease of 2.7% as compared to that of last year. The total sales volume of the Group was approximately 472,000 tonnes (2005: 471,000 tonnes), which represented an increase of 0.2%. Audited profit attributable to shareholders of the Group was approximately RMB29 million, representing a decrease of 39% compared to that of last year. Basic earnings per share of the Group was approximately RMB6.0 cents.

One of the main factors affected the turnover and profit during the period under review was that the major manufacturing locations and target market of the Group, Sichuan Province and its peripheries, encountered the most severe drought within the past 50 years in 2006. As hydroelectric power is the main resource of Sichuan Province, power supply was reduced by the drought. Moreover, the increase usage of coal and electricity in winter, the Government limited the electricity supply for the use of industry. Another factor was that the two largest natural gas suppliers, China Petroleum & Chemical Corporation and Petro China Company Limited have spent the longest period over the previous five years, on checking and maintenance of the equipment. It caused the shortage of natural gas supply. The above two reasons led to the standstill of machineries of approximately 11,630 machinery hours and reduction of production of ammonium compound of approximately 8,720 tonnes, which negatively affected the annual production and product sales performance. Moreover, the provision on employees' stock option was approximately RMB4 million which further decrease the profit for the year ended 31st December 2006.

After reviewing the results for the year ended 31st December 2006, the directors of the Company (the "Directors") proposed a final dividend of HKD0.7 cents per share (2005: HKD1.5 cents per share). A total of HKD1.2 cents per share were declared for the year ended 31st December 2006 (2005: HKD2.0 cents per share)..

PROSPECTS

Industry Review

The Industry Continues to be Positive, Demand for Fertilizers Continues to Enlarge

According to the Ministry of Agriculture of the China estimated, in 2006, the production of crops in China continues to increase in three consecutive years. The production volume of crops reaching 490 million tonnes. In the same year, income increment of Chinese peasants rose more than 6% in three consecutive years, which was the first time in the past 21 years.

'Agricultural Development Plan of the Eleventh Five-Year Plan' pointed out that by 2010, the amount of crops production in China shall reach 500 million tonnes, keeping the current sowing areas, which could only be achieved by increasing the production amount per unit by 9% (counted based on the average production amount per unit of last 5 years). The production amounts of crops, cotton, oil, sugar, meat, egg and milk will increase by 3.3%, 19.0%, 4.0%, 27.0%, 8.5%, 4.2% and 46.6% respectively within next a few years. Calculating based on the crop demand per capita raised by Food and Agriculture Organization of the United Nations, which is 400 kg, by year 2010, the crops demand will reach around 550 million tonnes and the crops production per unit shall increase by 20%, which will still drive the increase of demand for fertilizers.

National Macro Policy Continue to be Positive and Create Favorable Environment for the Business Growth of the Group in Future

"Communist Party of China Central Committee's Policies and Advices on Development of Modern Agriculture and Promotion of Socialist New Rural Village Construction" (中共中央國務院關於積極發展現代農業扎實推進社會主義新農村建設的若干意見) was announced on 29th January 2007, which was the forth No.1 document about "San Nong" (「三農」) released by Communist Party of China Central Committee since 2004. The document would be the strong motive force for the increase of the production amount and peasant's income, improvement of comprehensive agricultural production capability, healthy agricultural development and long-term rural development.

The Ministry of Agriculture continues to promote the Testing Soil to Prescribe and Apply Suitable Fertilizers in 2007. Since the agricultural (2005) document No. 101 "Temporary Management Measures of the Compensation Fund for Testing Soil to Prescribe and Apply Suitable Fertilizers" was promulgated and implemented by the Ministry of Finance and the Ministry of Agriculture of the China on 11th July 2005, the Ministry of Agriculture did a lot of work. Testing soil to prescribe and apply suitable fertilizers was included in the 16 executed policies for the benefit of peasants by the Ministry of Agriculture in 2007. It was clearly pointed out in the decision of the Ministry of Agriculture: 100 million peasants would be provided with free technology services for testing soil to prescribe and apply suitable fertilizers in 2007, the area coverage of the application of testing soil would be 760 million acreage.

The Directors believe that with the above encouraging policies, rural economy, crops production and peasants income would continue to increase steadily in 2007, which would have a positive impact on the demand for chemical fertilizers.

Forward Objectives and Strategies

Expand Sales Network, Enhance Product Brand

With the increasing productivity, the Group will devote more resources to develop a Ko Yo featured distribution channel, and enhance our brand name and corporate servicing image. In addition to expanding the publicity and promotion strategies, the Group will strengthen management and skills training of our sales persons and agricultural servicing staff, so as to establish a national agricultural servicing network to support the increasing sales and after sales services.

Further Develop Overseas Market, Increase Overseas' Market Share

According to the pledge made by China in joining the World Trade Organization, it will open its wholesale and retail chemical fertilizers market as at 11th December 2006 to the foreign investment. The Group will expand our chemical fertilizers exports, in order to boost our product competitiveness.

Take Advantage of Resources in Western China to Enhance Productivity

According to Dow Jones, Beijing on 28th February 2007 and the official media, Xinhua News Agency, till 2008, if the proved reserves of Puguang Gasfield, the largest natural gasfield in China for the time being, could be doubled, it may be able to alleviate the supply shortage of cleaning energy resources in the forthcoming years. Proved reserves of Puguang Gasfield may reach 500 to 550 billion cubic metres in 2008. Puguang Gasfield is located at Sichuan, China, and was being explored by China Petroleum & Chemical Corporation ("CPCC") in early 2006. CPCC has announced that Puguang Gasfield will commence production in 2008 and expected that its annual production capacity will reach 12 billion cubic metres. It also estimated in December 2006 that proved reserves of Puguang Gasfield will reach 351 to 361 billion cubic metres in late 2006. Directors of the Group believes that exploration and utilization of Puguang Gasfield will effectively lessen the influence of natural gas supply shortage in the coming few years.

In the foreseeable future, energy and productivity will still be our development bottle-neck. Under the circumstances of keen market competition and significant influence of raw materials on industry profit margins, in accordance with the trend of the chemical fertilizers industry of large scale production in regions of energy-oriented, the Directors have made full assessment on the concerned risk and suggested to take advantage of the rich natural gas resources in Sichuan. Allied with other investors, the Group has initiated a project with annual productivity of ammonia compound and urea of approximately 400,000 tonnes and 450,000 tonnes respectively in Dazhou, Sichuan. Meanwhile, preparation work of the project is under smooth progress. The local government has confirmed the required volume of natural gas resources of the Group. The flattening of the site of the plant in Dazhou has been completed about 90% of its construction as at 31st January 2007, and the equipments to be dismantled have completed checking and verification. The Directors expect that implementation of the project will probably bring sustainable growth to our Group's turnover and profits in the coming five years. The Group's productivity of ammonia compound and urea will increase by 286% and 281% respectively.

To echo Premier Wen Jiabao's appeal of "Rapid Development of National Brand", People's Daily (Market Post), China United Business, Purchasing Newspaper Office (購物導報社), Brand Magazine, China International Brand Academy, World First Research Centre, International Cooperation Promoting Center (China Office), etc., jointly hosted the community activity of the "Third (2006) China Top Ten Influential Brands". Further, on 31st January 2007, the "Third Annual China Influential Brands Forum" was held in Beijing's Great Hall of the People. After spending nearly half year on internet voting and election by the assessment committee, "Testing

Soil for Formulated Fertilization of Ko Yo BB Fertilizers (玖源測方 BB 肥)" of Chengdu Ko Yo Compound was awarded the "Top Ten Influential Brand in China Compound Fertilizer Industry". Mr. Li Weiruo, Executive President of Chengdu Ko Yo Compound was selected as the "Top Ten Outstanding Entrepreneurs in China's Brand Building".

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31st December 2006, the Group had net current liabilities of approximately RMB52,033,000. Current assets as at 31st December 2006 comprised cash and bank deposits of approximately RMB12,839,000, pledged bank deposits of approximately RMB20,801,000, inventories of approximately RMB76,804,000, trade receivables of approximately RMB13,961,000 and prepayments and other current assets of approximately RMB50,417,000. Current liabilities as at 31st December 2006 comprised short-term bank loans of approximately RMB134,276,000, trade and notes payables of approximately RMB42,450,000, deposits from customers of approximately RMB29,582,000 and accrued charges and other payables of approximately 20,547,000. Details of the Group's adoption of going concern basis in preparing the consolidated financial statements is set out in note 2.1 to the notes to the accounts in this preliminary annual announcement of accounts.

CAPITAL COMMITMENTS

As at 31st December 2006, the Group had outstanding capital commitments of approximately RMB264,478,000. Details of the Group's capital commitments and its plan of financing such capital commitments are set out in notes 13 and 14 to notes to the accounts in this preliminary annual announcement of result.

FINANCIAL RESOURCES

As at 31st December 2006, the Group had cash and bank deposits of approximately RMB12,839,000 and pledged bank deposits of approximately RMB20,801,000. The Company intends to finance the Group's future operations, capital expenditure and other capital requirements with the existing bank balances.

As at 31st December 2006, the total bank loans and notes payable balances of the Group amounted to RMB146,276,000.

GEARING RATIO

The Group's gearing ratios were approximately 44.1% and 58.5% as at 31st December 2006 and 31st December 2005 respectively. The gearing ratios were calculated based on total liabilities over total assets as at the respective balance sheet dates.

SUBSEQUENT EVENTS

Details of subsequent events of the Company are set out in notes 15 to notes to the accounts in this preliminary annual announcement of results.

DIVIDEND

The Directors recommend the payment of a final dividend of HKD0.7 cents per share to the shareholders whose names appear on the register of members of the Company as at the close of business on 26th April 2007. The dividend will be payable on 24th May 2007. The register of members of the Company will be closed from 23rd April 2007 to 26th April 2007, both days inclusive, during which period no share transfer shall be effected. In order to qualify for the final dividend, all instruments of transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar, Union Registrars Limited, Room 1803, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong for registration by no later than 4:00 p.m. on 20th April 2007.

NUMBER OF EMPLOYEES

As at 31st December 2006, the Group had 1,822 (2005: 2,016) employees, comprising 6 (2005: 6) in management, 168 (2005: 115) in finance and administration, 1,555 (2005: 1,779) in production, 87 (2005: 107) in sales and marketing and 6 (2005: 9) in research and development. 1,816 (2005: 2,010) of these employees were located in the PRC and 6 (2005: 6) were located in Hong Kong.

AUDIT COMMITTEE

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

The audit committee has reviewed with management the accounting principles and practices adopted by the Company and the Group and discussed internal controls and financial reporting matters.The audit committee of the Company has reviewed the annual results of the Group for the year ended 31 December 2006. The figures in respect of the preliminary announcement of the Group's results for the year have been agreed by the Company's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's consolidated financial statements for the year 2006. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagement issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

CORPORATE GOVERNANCE PRACTICES

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

ANNUAL GENERAL MEETTING

The annual general meeting of the members of the Company will be held at Suite No. 02, 31st Floor, Sino Plaza, 255-257 Gloucester Road, Causeway Bay, Hong Kong on 26th April 2007 at 11:00 am. Notice of the annual general meeting of the Company will be dispatched with the annual report of the Company on 31st March 2007.

By Order of the Board
Li Weiruo
Chairman

Hong Kong, 28th March 2007

As at the date of this announcement, the board of directors comprises five executive directors, being Mr. Li Weiruo, Mr. Yuan Bai, Ms. Chi Chuan, Ms. Man Au Vivian, Mr. Li Shengdi and three independent non-executive directors of Mr. Hu Xiaoping, Mr. Woo Che-wor, Alex and Mr. Qian Laizhong.

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