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 to be taken, you should consult your stockbroker, licensed securities dealer 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 (the "**Company**"), you should at once hand this circular and accompanying form of proxy to the purchaser or transferee or to the bank, stockbroker, licensed securities dealer, registered institution in securities or other agent through whom the sale of the transfer was effected for transmission to the purchaser or transferee.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

This circular is for information purpose only and does not constitute an invitation or offer to acquire, purchase or subscribe for any securities.

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)

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION; APPLICATION FOR WHITEWASH WAIVER; PROPOSED INCREASE OF AUTHORISED SHARE CAPITAL; PROPOSED SUBDIVISION OF SHARES OF HK$0.10 EACH INTO FIVE SHARES OF HK$0.02 EACH; AND PROPOSED CHANGE IN BOARD LOT SIZE

Financial adviser to Ko Yo Ecological Agrotech (Group) Limited

PiperJaffray

PIPER JAFFRAY ASIA LTD.

(formerly known as Goldbond Capital (Asia) Limited)

Independent financial adviser to the independent board committee and the independent shareholders of Ko Yo Ecological Agrotech (Group) Limited

OPTIMA CAPITAL

Optima Capital Limited

A letter from the independent board committee of the Company and a letter from Optima Capital Limited containing their recommendation and advice are set out on page 32 to 48 of this circular, respectively.

A notice convening an extraordinary general meeting of the Company to be held at Room 02, 31/F Sino Plaza, 255-257 Glousester Road, Causeway Bay, Hong Kong on Monday, 24 December 2007 at 10:00 a.m. or any adjournment is set out on page 255 to 257 of this circular. A set of form of proxy is enclosed with this circular.

Whether or not you are able to attend the extraordinary general meeting, you are advised to read the relevant notice and to complete and return the enclosed relevant form of proxy, in accordance with the instructions printed thereon, to the office of the Company's share registrar, Union Registrars Limited, Rooms 1901-02, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the extraordinary general meeting or any adjourned meeting (as the case may be). Completion and return of the relevant form of proxy will not preclude you from attending and voting in person at the extraordinary general meeting or any adjourned meeting (as the case may be) if you so wish.

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 and on the website of the Company at www.koyochem.com.

7 December 2007

CHARACTERISTICS OF GEM

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. 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.

CONTENTS

EXPECTED TIMETABLE

The expected timetable for the Share Subdivision and the relevant trading arrangements for the change in board lot size are set out below:

	2007
Latest time for lodging forms of proxy for the EGM	10:00 a.m. on Saturday, 22 December
EGM	10:00 a.m. on Monday, 24 December
Announcement of the results of the EGM	Thursday, 27 December
Effective date for the Share Subdivision	Thursday, 27 December
Dealings in the Subdivided Shares commence	9:30 a.m. on Thursday, 27 December
Original counter for trading in the Shares in board lot of 5,000 Shares each closes and temporary counter for trading in the Subdivided Shares in board lot of 25,000 Subdivided Shares each (in the form of existing share certificates) opens	9:30 a.m. on Thursday, 27 December
First day of free exchange of existing share certificates in board lot of 5,000 Shares each for new share certificates in board lot of 20,000 Subdivided Shares each	Thursday, 27 December
	2008
Original counter for trading in the Subdivided Shares in board lot of 20,000 Subdivided Shares each (in the form of new share certificates) reopens	9:30 a.m. on Friday, 11 January
Parallel trading in the Subdivided Shares (in the form of existing share certificates and new share certificates) commences	9:30 a.m. on Friday, 11 January
Temporary counter for trading in the Subdivided Shares in board lot of 25,000 Subdivided Shares (in the form of existing share certificates) closes	4:00 p.m. on Friday, 1 February
Parallel trading in the Subdivided Shares (in the form of existing share certificates and new share certificates) ends	4:00 p.m. on Friday, 1 February
Last day for free exchange of existing share certificates in board lot of 5,000 Shares each for new share certificates in board lot of 20,000 Subdivided Shares each	Monday, 11 February
Matching service for the sale and purchase of odd lots of subdivided Shares	from Friday, 11 January 2008 to Friday, 1 February 2008

Further announcement will be made if there are any changes to the above timetable. All time references above refer to Hong Kong time.

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

"Acquisition"	the acquisition of 100% equity interest in Hong Kong Cuyo from the Vendors pursuant to the terms and conditions of the Sale and Purchase Agreement
"Agent"	Piper Jaffray Asia Securities Limited (formerly known as Goldbond Securities Limited), the agent providing matching services to those Shareholders who wish to top-up or sell their holdings of odd lots of the Subdivided Shares
"Announcement"	the announcement dated 21 September 2007 in relation to, inter alia, the Sales and Purchase Agreement, the Whitewash Waiver, the proposed increase in authorised share capital of the Company and the Shares Subdivision
"associates"	the term as prescribed under the GEM Listing Rules
"Board"	the board of Directors
"Business Day(s)"	a day (excluding Saturday, Sunday and any day on which a tropical cyclone warning no.8 or above is hoisted or remains hoisted between 9:00 a.m. and 12:00 noon and is not lowered at or before 12:00 noon or on which a "black" rainstorm warning is hoisted or remains in effect between 9:00 a.m. and 12:00 noon and is not discontinued at or before 12:00 noon) on which licensed banks are generally open for business in Hong Kong
"CCASS"	the Central Clearing and Settlement system established and operated by HKSCC
"Company"	Ko Yo Ecological Agrotech (Group) Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the GEM
"Completion"	completion of the Sale and Purchase Agreement
"Consideration Shares"	473,060,000 new Shares to be issued as consideration for the proposed acquisition of the Sales Shares
"Cuyo Group"	Hong Kong Cuyo and its subsidiary Sichuan Cuyo
"Directors"	the directors of the Company

"EGM"	extraordinary general meeting of the Company to be convened and held on Monday, 24 December 2007 for the purpose of considering and, if thought fit, approving the Sale and Purchase Agreement and the transactions contemplated thereunder, the Whitewash Waiver, the proposed increase in authorised share capital of the Company and the Share Subdivision
"Enlarged Group"	the Group as enlarged by the Acquisition
"Executive"	the Executive Director of the Corporate Finance Division of the Securities and Futures Commission and any delegate of such Executive Director
"GEM"	the Growth Enterprise Market of the Stock Exchange
"GEM Listing Rules"	the Rules Governing the Listing of Securities on the GEM
"Group"	the Company and the subsidiaries
"HK$"	Hong Kong dollar(s), the lawful currency of Hong Kong
"HKSCC"	Hong Kong Securities Clearing Company Limited
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Cuyo"	Hong Kong Cuyo Investment Limited, a company incorporated in Hong Kong
"Independent Board Committee"	an independent committee of the Board comprising all the independent non-executive Directors, namely, Mr. Hu Xiaoping, Mr. Woo Che-wor, Alex and Mr. Qian Laizhong to advise the Independent Shareholders in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder and the Whitewash Waiver
"Independent Shareholder(s)"	Shareholders (other than (i) Mr. Li, Mr. Yuan, their respective associates and respective concert parties; and (ii) those who are interested in or involved in the Sale and Purchase Agreement and the Whitewash Waiver) who are required to abstain from voting on the resolution(s) to be proposed at the EGM to approve the Sale and Purchase Agreement and the transactions contemplated thereunder and the Whitewash Waiver
"Latest Practicable Date"	4 December 2007, being the latest practicable date prior to printing of this circular for ascertaining certain information contained herein

"Logistic Web"	Logistic Web Limited, a company incorporated in the British Virgin Islands, which is wholly and beneficially owned by Mr. Lo Wah Wai
"Mine"	a phosphorous mine located at 綿竹市清平鄉 (Qingping Village, Mianzhu City), Sichuan Province, the PRC with area of approximately 6.5 sq. km
"Mr. Li"	Mr. Li Weiruo, the controlling shareholder and chairman of the Company
"Mr. Yan"	Mr. Yan Wei, to the best knowledge of the Directors' information and believes, having made all reasonable enquiries, is an independent third party
"Mr. Yuan"	Mr. Yuan Bai, an executive Director and a management shareholder of the Company
"Optima Capital"	Optima Capital Limited, a corporation licensed to carry out type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Sale and Purchase Agreement and the Whitewash Waiver
"PRC"	the People's Republic of China and for the purpose of this circular shall exclude Hong Kong, Macau Special Administrative Region and Taiwan
"Purchaser"	Bright Bridge Investments Limited, a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of the Company
"RMB"	Reminbi, the lawful currency of the PRC
"Sale and Purchase Agreement"	the sale and purchase agreement dated 17 September 2007 entered between, among others, the Purchaser and the Vendors, pursuant to which the Purchaser conditionally agreed to acquire and the Vendors conditionally agreed to sell the Sale Shares for a total consideration of HK$312.0 million
"Sale Shares"	the 4,720,000 existing shares of Hong Kong Cuyo in issue, representing the entire issued share capital of Hong Kong Cuyo
"SFO"	the Securities and Futures Ordinance, (Chapter 571 of the Laws of Hong Kong), as amended, modified and supplemented from time to time

"Share(s)"	ordinary shares of par value HK$0.1 each in the share capital of the Company
"Share Option Scheme"	the share option scheme adopted by the Company on 10 June 2003 and was amended on 28 July 2004
"Share Subdivision"	the proposed subdivision of each of the issued and unissued Shares into five Subdivided Shares
"Shareholder(s)	shareholder(s) of the Company
"Sichuan Cuyo"	四川承源化工有限公司 (Sichuan Chengyuan Chemical Company Limited), a wholly-foreign owned enterprise established in the PRC and is wholly-owned by Hong Kong Cuyo
"sq. km"	square kilometre
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subdivided Share(s)"	ordinary share(s) of HK$0.02 each in the share capital of the Company upon the Share Subdivision taking effect
"Takeovers Code"	the Codes on Takeovers and Mergers
"US$"	United States dollar(s), the lawful currency of United States
"Well Sunshine"	Well Sunshine Trading Limited, a company incorporated in the British Virgin Islands, which is wholly and beneficially owned by Mr. Lo Wah Wai
"Whitewash Waiver"	a waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code of the obligations on Mr. Li and parties acting in concert with him to make a mandatory general offer under Rule 26 of the Takeovers Code for all the securities of the Company not already owned or agreed to be acquired by Mr. Li and parties acting in concert with him
"Vendors"	Mr. Li, Well Sunshine, Mr. Yuan and Mr. Yan
"%"	per cent.

In this circular, the English names of the PRC entities are translation of their Chinese names and included herein for identification purpose only. In the event of any inconsistency, the Chinese names shall prevail.

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)

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

Independent Non-executive Directors:
Mr. Hu Xiaoping
Mr. Woo Che-wor, Alex
Mr. Qian Laizhong

Registered Office:
Cricket Square
Hutchins Drive
P.O. Box 2681 GT
Grand Cayman KY1-1111,
Cayman Islands

Principal place of business in Hong Kong:
Suite No. 02, 31st Floor
Sino Plaza
255-257 Gloucester Road
Causeway Bay
Hong Kong

7 December 2007

To the Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION; APPLICATION FOR WHITEWASH WAIVER; PROPOSED INCREASE OF AUTHORISED SHARE CAPITAL; PROPOSED SUBDIVISION OF SHARES OF HK$0.10 EACH INTO FIVE SHARES OF HK$0.02 EACH; AND PROPOSED CHANGE IN BOARD LOT SIZE

INTRODUCTION

On 17 September 2007, the Purchaser, a wholly owned subsidiary of the Company and the Vendors entered into the Sale and Purchase Agreement, pursuant to which the Purchaser conditionally agreed to acquire and the Vendors conditionally agreed to sell the 4,720,000 Sale Shares for a total consideration of HK$312.0 million. The consideration will be satisfied by the allotment and issue of the 473,060,000 Consideration Shares at approximately HK$0.6595 per Share, which will be allotted and issued under a special mandate to be obtained at the EGM subject to the Independent Shareholders' approval.

Mr. Li and Mr. Yuan, being two of the Vendors, are the controlling shareholder and the management shareholder of the Company respectively, each is thus regarded as a connected person of the Company under the GEM Listing Rules. Therefore, the Acquisition constitutes a connected transaction to the Company pursuant to Rule 20.13(a) of the GEM Listing Rules. The Acquisition also constitutes a very substantial acquisition to the Company pursuant to Rule 19.06(5) of the GEM Listing Rules. Accordingly, the Acquisition is subject to the Independent Shareholders' approval by way of a poll at the EGM. Mr. Li, Mr. Yuan and their respective associates, who in aggregate were interested in and were entitled to exercise control over the voting rights of 241,888,000 Shares, representing 47.82% of the issued share capital of the Company as at the Latest Practicable Date, will abstain from voting in respect of the proposed resolution approving the Sale and Purchase Agreement at the EGM.

As at the Latest Practicable Date, Mr. Li was interested in 206,440,000 Shares, representing approximately 40.81% of the existing issued share capital of the Company, while Mr. Li and parties acting in concert with him in aggregate were interested in 241,888,000 Shares, representing approximately 47.82% of the existing issued share capital of the Company. Upon the Completion, Mr. Li will be interested in 584,888,000 Shares, representing approximately 59.75% of the enlarged issued share capital of the Company, while Mr. Li and parties acting in concert with him in aggregate will be interested in approximately 714,948,000 Shares, representing approximately 73.04% of the enlarged issued share capital of Company. As the increase in shareholding of Mr. Li and parties acting in concert with him in the Company exceeds 2% from the lowest collective percentage holding in the past 12-month ending on and inclusive of the date of the Sale and Purchase Agreement, Mr. Li and parties acting in concert with him will then be obliged to make a mandatory general offer for all the Shares not already owned or agreed to be acquired by them pursuant to Rule 26 of the Takeovers Code. Mr. Li and parties acting in concert with him have, in accordance with Note 1 on dispensations from Rule 26 of the Takeovers Code, made an application to the Executive for the Whitewash Waiver to waive their obligations to make a mandatory general offer for all the securities of the Company not already owned or agreed to be acquired by them under Rule 26 of the Takeovers Code. The Executive has indicated that he would grant the Whitewash Waiver, which will be subject to, among other things, the approval of the Independent Shareholders to be taken by way of a poll at the EGM in accordance with Note 1 on dispensations from Rule 26 of the Takeovers Code. Mr. Li and parties acting in concert with him and those who are interested or involved in the Sale and Purchase Agreement and the Whitewash Waiver will abstain from voting in respect of the proposed resolution to approve the Whitewash Waiver at the EGM.

The Board proposed to increase the authorised share capital of the Company from HK$100,000,000 divided into 1,000,000,000 Shares of HK$0.1 each to HK$200,000,000 divided into 2,000,000,000 Shares of HK$0.1 each by creation of an additional 1,000,000,000 new Shares of HK$0.1 each. The proposed increase in authorised share capital is conditional upon the passing of an ordinary resolution by the Shareholders at the EGM.

The Board proposed that conditional upon and immediately after the Completion taken place, each of the existing issued and unissued shares in the share capital of the Company be subdivided into five Subdivided Shares of HK$0.02 each. Upon completion of the Share Subdivision, the board lot size of the Shares for trading on the Stock Exchange will be changed from 5,000 Shares to 20,000 Subdivided Shares. The Share Subdivision is conditional upon the passing of an ordinary resolution by the Shareholders at the EGM while the change in board lot size is not subject to the Shareholders' approval.

An Independent Board Committee comprising all of the independent non-executive Directors has been formed to advise the Independent Shareholders on the Sale and Purchase Agreement and the Whitewash Waiver. Optima Capital has been appointed to advise the Independent Board Committee and the Independent Shareholders regarding the Sale and Purchase Agreement and the Whitewash Waiver in accordance with the GEM Listing Rules and the Takeovers Code.

The purposes of this circular are to set out: (i) further details of the terms of the Sale and Purchase Agreement, the Whitewash Waiver, the proposed increase in authorised share capital of the Company, the Share Subdivision, the trading arrangements in respect of the Subdivided Shares and the procedure for the free exchange of existing share certificates of the Company; (ii) the recommendation from the Independent Board Committee in respect of the Sale and Purchase Agreement and the Whitewash Waiver; (iii) the letter of advice from Optima Capital in relation to the terms of the Sale and Purchase Agreement and the Whitewash Waiver; and (iv) a notice to convene the EGM at which ordinary resolutions will be proposed to consider and, if thought fit, approve the Sale and Purchase Agreement, the Whitewash Waiver, the proposed increase in authorised share capital of the Company and the Share Subdivision.

THE SALE AND PURCHASE AGREEMENT

Date: 17 September 2007

Parties: Mr. Li, Well Sunshine, Mr. Yuan and Mr. Yan, as the Vendors
Mr. Lo Wah Wai as guarantor
The Purchaser

The asset to be acquired

Pursuant to the Sale and Purchase Agreement, the Purchaser conditionally agreed to acquire and the Vendors conditionally agreed to sell 4,720,000 Sale Shares, representing the entire issued share capital of Hong Kong Cuyo. Pursuant to the loan agreement entered between Mr. Lo Wah Wai and Hong Kong Cuyo dated 24 August 2007, Mr. Lo Wah Wai agreed to provide interest-free and non secured loan facility of HK$6 million to Hong Kong Cuyo. As at the Latest Practicable Date, Hong Kong Cuyo had drawn down in aggregate HK$3.0 million. Pursuant to the Sale and Purchase Agreement, HK$3.0 million of such facility which has been drawn down by Hong Kong Cuyo will be waived by Mr. Lo Wah Wai upon the Completion and the remaining undrawn balance of such facility will be provided to Hong Kong Cuyo by Mr. Lo Wah Wai. In addition, the interest-free and non secured shareholder's loans of approximately RMB$6.0 million in aggregate owed by Hong Kong Cuyo and Sichuan Cuyo to Mr. Li will be waived upon the Completion.

Upon the Completion, Hong Kong Cuyo will be a wholly owned subsidiary of the Company.

Consideration

The consideration for the Acquisition is HK$312.0 million and will be satisfied by the allotment and issue of 473,060,000 Consideration Shares at approximately HK$0.6595 per Share, which represents:

(a) a premium of approximately 15.7% to the closing price of HK$0.57 as quoted on the Stock Exchange as at the Latest Practicable Date;

(b) a discount of approximately 4.4% to the closing price of HK$0.69 per Share as quoted on the Stock Exchange on 13 September 2007, being the last trading day immediately before the publication of the Announcement;

(c) a premium of approximately 8.1% to the average closing price of HK$0.61 per Share as quoted on the Stock Exchange from 7 September 2007 to 13 September 2007, being the five trading days immediately before the publication of the Announcement;

(d) a premium of approximately 9.9% to the average closing price of HK$0.60 per Share as quoted on the Stock Exchange from 31 August 2007 to 13 September 2007, being the 10 trading days immediately before the publication of the Announcement; and

(e) a premium of approximately 13.7% over the Group's consolidated audited net asset per Share as at 31 December 2006 of approximately HK$0.58 (based on a total of 505,820,000 issued Shares as at the Latest Practicable Date).

Out of the total Consideration Shares, 378,448,000 Consideration Shares will be allotted to Mr. Li, 47,306,000 Consideration Shares will be allotted to Well Sunshine, 37,844,800 Consideration Shares will be allotted to Mr. Yuan and 9,461,200 Consideration Shares will be allotted to Mr. Yan.

The consideration for the Acquisition of HK$312.0 million was determined, among other things, the current market price of phosphate rock which ranges from RMB150 to RMB200 per tonne, the Mine's reserve base of 117,300,000 tonnes of phosphate, the financial position of Hong Kong Cuyo and Sichuan Cuyo, the outlook of phosphate and related products prices and comparable market transactions in recent years. The Directors have examined the recent phosphate mine transactions during the period between 2006 and 2007 in the PRC and noted that the consideration per tonne for these transaction ranges from RMB0.92 to RMB32.31. Such examination of recent phosphate mine transactions were based on the recent announcements by the companies listed in the PRC and information from the local department of land and resource in the PRC, and the mines involved have reserves which range from approximately 2.5 million tonnes to approximately 73 million tonnes.

The consideration was determined after arm's length negotiation between the parties to the Sale and Purchase Agreement and on normal commercial terms. After considering the per tonne consideration of the Acquisition of approximately RMB2.66 when compared to that of the recent phosphate mine transactions, the waiver of the shareholders' loans by Mr. Li and Mr. Lo Wah Wai, and the prevailing trading price of the Shares immediately before the date of the Sale and Purchase Agreement, the Directors are of the view that the consideration of the Acquisition and the issue price of the Consideration Shares are fair and reasonable.

The Consideration Shares will be issued under a special mandate to be granted to the Directors to allot, issue and deal with the Consideration Shares at the EGM subject to the Independent Shareholders' approval by way of a poll. The Consideration Shares, when issued upon the Completion, will rank pari passu in all respects with the existing Shares in issue.

All the existing Shares rank pari passu in all respects, including all rights as to dividend, voting and return of capital. The Consideration Shares, when issued, will rank pari passu in all respects with the Shares then in issue including as regards to dividends, voting and return of capital.

An application will be made to the Stock Exchange for the listing of and permission to deal in the Consideration Shares.

Save as the Consideration Shares to be issued under the Sale and Purchase Agreement, no Shares were issued since the last financial year of the Company.

Conditions precedent

Completion of the Sale and Purchase Agreement will be conditional, inter alias:

(a) satisfactory due diligence shall have been completed by the Purchaser and/or its professional advisers;

(b) the approval by the Independent Shareholders by way of a poll with respect to the entering into the Sale and Purchase Agreement and the transaction contemplated under the Sale and Purchase Agreement and the grant of the Whitewash Wavier in accordance with the requirements of the GEM Listing Rules and Takeovers Code, respectively, having been obtained;

(c) the Listing Committee of the Stock Exchange granting of the listing of, and permission to deal in the Consideration Shares;

(d) the Securities and Futures Commission having granted the Whitewash Waiver with respect to the allotment and issue of the Consideration Shares to Mr. Li and parties acting in concert with him;

(e) all necessary consents and approval (including those required by relevant regulatory authority and the financier(s)) in respect of the Sale and Purchase Agreement and the transactions contemplated therein required by each of the parties being obtained;

(f) the obtaining of a legal opinion, in form and substance satisfactory to the Purchaser, issued by a firm of lawyers appointed by the Purchaser and qualified to practice the laws of the

PRC and addressed to the Purchaser opining on, inter alias, the operation of the Sichuan Cuyo and its mining right to the Mine and that, there will be no material legal obstacles for the Sichuan Cuyo to obtain all necessary approvals, permits and licences to carry out mining activities on the Mine under the applicable laws and regulations of the PRC; and

(g) the warranties given by the Vendors and Mr. Lo Wah Wai in the Sale and Purchase Agreement being true, accurate and correct in all respects as at the date of the Sale and Purchase Agreement and as at the date of the Completion.

In the event that the condition (g) above is fulfilled on the date of the seventh Business Day following the fulfillment (or waiver) of the conditions (a) to (f) above or such other date as agreed by the Purchaser and the Vendors, then condition (g) shall be deemed to be satisfied on such date and the Completion shall take place on such date accordingly.

Should the conditions precedent be not fulfilled or waived (other than conditions (b), (c) and (d) which cannot be waived by either party) on or before 31 March 2008, the Purchaser may elect to rescind the Sale and Purchase Agreement.

As at the Latest Practicable Date, conditions a and f above had been fulfilled.

Warranty and guarantee

Pursuant to the Sale and Purchase Agreement, Mr. Li undertakes and warrants to the Company that, among others, he will procure all the necessary approvals, permits and licences to conduct mining activities of the Mine under the applicable laws and regulations of the PRC will be obtained on or before 17 March 2009, being 18 months from the date of the Sale and Purchase Agreement. There is no assurance that a mine exploitation license with a 30-year lifespan would be granted by the relevant authorities. Shareholders and investors should refer to the section headed “Risks relating to the mining industry” in this circular for more detailed discussion in relation to risks to the Group.

If Mr. Li fails to procure all the necessary approvals, permits and licences to conduct mining activities of the Mine under the applicable laws and regulations of the PRC to be obtained on or before 17 March 2009, the Company and the Purchaser, being parties to the Sale and Purchase Agreement, can initiate legal proceedings against Mr. Li for breach of warranty and undertaking under the Sale and Purchase Agreement.

Pursuant to the Sale and Purchase Agreement, Mr. Lo Wah Wai will unconditionally and irrevocably guarantees to the Purchaser and the Company the due and punctual performance and observance by Well Sunshine of all its obligations, commitments, undertakings, warranties, indemnities and covenants under or pursuant to the Sale and Purchase Agreement and agrees to indemnify the Purchaser and the Company against all losses, damages, costs and expenses reasonably and properly incurred (including legal costs and expenses) which the Purchaser or the Company may suffer through or arising from any breach by Well Sunshine of such obligations, commitments, warranties, undertakings, indemnities or covenants.

Completion

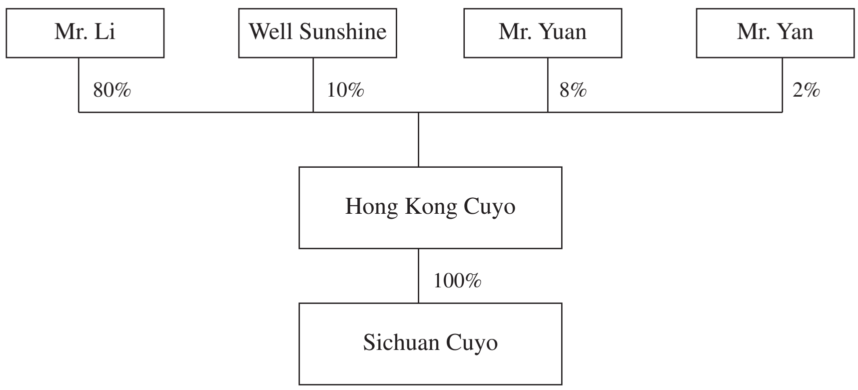
Completion of the Sale and Purchase Agreement shall take place on or before the seventh Business Day after fulfillment or waiver of the conditions precedent to the Sale and Purchase Agreement or such other date as the parties may agree. Mr. Li will remain as a controlling shareholder of the Company upon the Completion.

Lock-up

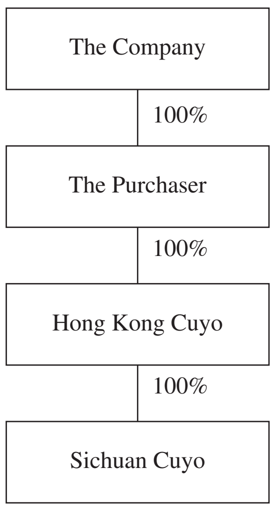
The Consideration Shares to be issued to Mr. Li, Mr. Yuan and Well Sunshine will be subject to moratorium for a six-month period from the issue date of the Consideration Shares.

The lock-up arrangement was a commercial decision reached among the Company and the Vendors after arm's length negotiation. After taking into consideration of, among other things, the relatively small amount of Shares to be issued to Mr. Yan, which is 9,461,200 Consideration Shares representing less than 1% of the enlarged issue share capital of the Company immediately after the Completion, it was agreed among the parties that the Consideration Shares issued to Mr. Yan will not be subject to the abovementioned lock-up arrangement.

Shareholding chart of Hong Kong Cuyo immediately before the Acquisition



Shareholding chart of Hong Kong Cuyo immediately after the Acquisition



DUE DILIGENCE

Pursuant to the Sale and Purchase Agreement, the Purchaser is entitled to carry out a due diligence review and investigation of the business of the Hong Kong Cuyo and Sichuan Cuyo from time to time before 31 March 2008. The Vendors shall provide and make available and procure Hong Kong Cuyo and Sichuan Cuyo to make available for inspection by the authorised representatives of the Purchaser of all such information and materials relating to Hong Kong Cuyo and Sichuan Cuyo. It is also one of the conditions precedent that satisfactory due diligence shall have been completed by the Purchaser and/or its professional advisers.

The Directors have conducted, among others, the following due diligence works regarding the Acquisition:

— reviewed incorporation documents and statutory records of Hong Kong Cuyo and Sichuan Cuyo;

— reviewed the exploration report and geological report in relation to the Mine;

— conducted site visit in Sichuan and met with the management of Sichuan Cuyo; and

— reviewed industry reports regarding phosphate market.

In addition, the Group has appointed King and Wood as legal advisers to the Company as to the PRC laws to conduct due diligence on legal status of Sichuan Cuyo.

The Group has appointed PricewaterhouseCoopers as reporting accountants to perform audit works on Hong Kong Cuyo and Sichuan Cuyo for the three years ended 31 December 2006 and six months ended 30 June 2007 and an independent technical adviser, Minarco Asia Pacific Pty Limited to perform a technical review on the Mine including, among others, geology, mineral resources and exploitation potential. Technical report prepared by Minarco Asia Pacific Pty Limited is included in the Appendix VI to this circular on a voluntary basis. Accountant's report of Hong Kong Cuyo is included in the Appendix II to this circular.

EFFECTS OF THE ACQUISITION AND THE SHARE SUBDIVISION ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

	As at the Latest Practicable Date		Immediately after the Completion		Immediately after the Completion and the Share Subdivision		Immediately after the Completion, the Share Subdivision and share options granted to Mr. Li were fully exercised	
	No. of Shares	*%*	*No. of Shares*	*%*	*No. of Shares*	*%*	*No. of Shares*	*%*
Mr. Li and his parties acting in concert								
Mr. Li *(note)*	206,440,000	40.81	584,888,000	59.75	2,924,440,000	59.75	2,926,540,000	59.77
Mr. Yuan *(note)*	35,448,000	7.01	73,292,800	7.49	366,464,000	7.49	366,464,000	7.48
Well Sunshine	—	—	47,306,000	4.83	236,530,000	4.83	236,530,000	4.83
Mr. Yan	—	—	9,461,200	0.97	47,306,000	0.97	47,306,000	0.97
	241,888,000	47.82	714,948,000	73.04	3,574,740,000	73.04	3,574,740,000	73.05
Ms. Chi Chuan *(note)*	12,528,000	2.48	12,528,000	1.28	62,640,000	1.28	62,640,000	1.28
Ms. Man Au Vivian *(note)*	6,264,000	1.24	6,264,000	0.64	31,320,000	0.64	31,320,000	0.64
Public Shareholders	245,140,000	48.46	245,140,000	25.04	1,225,700,000	25.04	1,225,700,000	25.03
	505,820,000	100.00	978,880,000	100.00	4,894,400,000	100.00	4,896,500,000	100.00

Note: Mr. Li, Mr. Yuan, Ms. Chi Chuan and Ms. Man Au Vivian are executive Directors.

FINANCIAL EFFECTS OF THE ACQUISITION

Upon the Completion, Hong Kong Cuyo will become an indirect wholly-owned subsidiary of the Company.

As set out in Appendix III to this circular, the unaudited pro forma consolidated net profit of the Enlarged Group for the year ended 31 December 2006 would be approximately RMB28.3 million.

As set out in Appendix III to this circular, the unaudited pro forma consolidated net assets of the Enlarged Group as at 30 June 2007 would be approximately RMB610.7 million.

INTENTION OF THE VENDORS REGARDING THE GROUP

The Vendors intend that the Group will continue its existing businesses following the Completion. The Vendors are optimistic about the future prospect of demand for phosphate in the PRC, and thus, they intend to invest in the Company and develop the phosphate mining business. Save as the commencement of the operation of the Mine following the Completion, there will be no other material changes in the existing businesses of the Group. The Vendors have no intention to re-deploy the employees or the fixed assets of the Group other than in its ordinary course of business.

INFORMATION ON 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.

The Group has its major production facilities in Xindou District, Chengdu, Sichuan Province, the PRC with an annual production capacity of 90,000 tonnes of urea, 90,000 tonnes of ammonia, 90,000 tonnes of sodium carbonate, 100,000 tonnes of ammonium chloride and 600,000 tonnes of bulk blended ("BB") & complex fertilisers, respectively. In addition, the Group has two production facilities in Dazhou City, Sichuan Province, the PRC and Dezhou City, Shandong Province, the PRC with 80,000 tonnes of urea and 50,000 tonnes of ammonia and 100,000 tonnes of BB and complex fertilizers, respectively, per annum. The Group also has a complex fertiliser plant in Qingdao, the PRC, with annual production capacity of 300,000 tonnes BB and complex fertilisers, which commenced production in June 2007.

As stated in the interim report of the Group for the six months ended 30 June 2007, the Group has commenced the construction of its new urea plant in Dazhou, Sichuan Province, the PRC. The construction of such plant is expected to be completed by the end of 2008. The Group has already obtained the approval of such project by 四川省商務廳 (Commerce Bureau of Sichuan Province), and has ordered all the necessary equipment to be installed. Such new urea plant is planned to have annual capacity of 400,000 tonnes of ammonia and 450,000 tonnes of urea. Total investment of the new urea plant is estimated to be around RMB897 million, which will be financed by internal resources, debt financing and capital market financing.

On 15 November 2007, the Company and Industrial and Commercial Bank of China (Asia) Limited entered into a loan agreement, pursuant to which the Company was granted a term loan facility of up to US$15,900,000. As at the Latest Practicable Date, the Company had drawn down the amount pursuant to the aforesaid loan agreement.

INFORMATION ON THE VENDORS

Mr. Li, the controlling shareholder of the Company, holds approximately 40.81% of the issued share capital of the Company and 80% of the issued share capital of Hong Kong Cuyo. Therefore, Mr. Li is a connected person of the Company under the GEM Listing Rules.

Well Sunshine, a company incorporated in the British Virgin Islands, is an investment holding company which is wholly and beneficially owned by Mr. Lo Wah Wai, who is the sole director of Well Sunshine. Well Sunhine currently owns 10% of the issued share capital of Hong Kong Cuyo. To the best of the Directors' knowledge, information and believes, having made all reasonable enquiries, Well Sunshine and its ultimate beneficial owner are third parties independent of the Company and its connected persons.

Mr. Yuan, an executive Director and the management shareholder of the Company, holds approximately 7.01% of the issued share capital of the Company and 8% of the issued share capital of Hong Kong Cuyo. Therefore, Mr. Yuan is a connected person of the Company under the GEM Listing Rules.

Mr. Yan, to the best of the Directors' knowledge, information and believes, having made all reasonable enquiries, is a third party independent of the Company and its connected person.

INFORMATION ON HONG KONG CUYO, SICHUAN CUYO AND THE MINE

Hong Kong Cuyo

Hong Kong Cuyo is principally engaged in investment holding and the principal assets of which is the entire issued share capital of Sichuan Cuyo. Hong Kong Cuyo was incorporated in October 2001 and did not engage in any business other than the ownership of Sichuan Cuyo as at the Latest Practicable Date. Since 2005 and up to September 2007, Hong Kong Cuyo had been owned by Mr. Li as to 90% and by Logistic Web, a company wholly owned by Mr. Lo Wah Wai as to 10%. Following equity interest transfer of 8% and 2% in Hong Kong Cuyo to Mr. Yuan and Mr. Yan respectively by Mr. Li in September 2007 and equity interest transfer of 10% in Hong Kong Cuyo to Well Sunshine by Logistic Web in September 2007, Hong Kong Cuyo is currently owned by Mr. Li, Well Sunshine, Mr. Yuan and Mr. Yan as to 80%, 10%, 8% and 2% respectively. Total investments of Mr. Li, Mr. Yuan, Well Sunshine and Mr. Yan in Hong Kong Cuyo were approximately RMB10.0 million, RMB0.4 million, RMB3.5 million and RMB0.1 million as at the Latest Practicable Date. The audited consolidated financial figures of Hong Kong Cuyo prepared in accordance with the Hong Kong Financial Reporting Standards are set out below:

	For the year ended 31 December	
	2005	**2006**
	(in RMB'000)	*(in RMB'000)*
Loss before tax	902	260
Loss after tax	902	260

	As at 31 December	
	2005	2006
	(in RMB'000)	*(in RMB'000)*
Total asset	8,358	8,325
Net asset value	1,825	1,565

Management discussion and analysis on the Cuyo Group for each of the three financial years ended 31 December 2006 and the six months ended 30 June 2007

Business review

For the three years ended 31 December 2006 and six months ended 30 June 2007, the Cuyo Group did not record any turnover as the production of its principal asset has not been commenced during the period under review. Losses incurred for the three years ended 31 December 2006 and six months ended 30 June 2007, mainly representing administrative expenses incurred during the same period.

Liquidity, financial resources and gearing ratio

As at 31 December 2004, 2005, 2006 and 30 June 2007, the Cuyo Group had net assets of approximately RMB2.7 million, RMB1.8 million, RMB1.6 million and RMB1.4 million respectively.

As at 31 December 2004, 2005, 2006 and 30 June 2007, current assets of the Cuyo Group mainly consisted of receivable arising from advance payment to service providers (31 December 2004: RMB67,000; 31 December 2005: RMB519,000; 31 December 2006: RMB519,000; and 30 June 2007: RMB20,000) and cash and cash equivalents (31 December 2004: RMB176,000; 31 December 2005: RMB81,000; 31 December 2006: RMB50,000; and 30 June 2007: RMB110,000) while current liabilities of the Cuyo Group mainly comprised bank borrowings (31 December 2004: RMB1,000,000; 31 December 2005: nil; 31 December 2006: nil; and 30 June 2007: nil) and shareholders' loans (31 December 2004: RMB838,000; 31 December 2005: RMB5,910,000; 31 December 2006: RMB5,891,000; and 30 June 2007: RMB6,017,000) .

The gearing ratio of the Cuyo Group is calculated by dividing total liabilities by total assets, and was approximately 40.4%, 78.2%, 81.2% and 81.8% as at 31 December 2004, 2005, 2006 and 30 June 2007. The increase of gearing ratio in 2005 was mainly due to increase in shareholders' loans while the increase in gearing ratio in 2006 was mainly due to increase in accruals and other payables. The increase in gearing ratio in 2007 was mainly due to increase in shareholders' loans and decrease in other receivables.

Charges on assets

Principal asset of Hong Kong Cuyo is the entire issued share capital of Sichuan Cuyo while the Mine is the principal asset of Sichuan Cuyo. As at 31 December 2004, 2005, 2006 and 30 June 2007, value of the Mine was approximately RMB4,286,000, RMB7,717,000, RMB7,720,000 and RMB7,720,000 respectively, which was not subject to any pledges as at 31 December 2004, 2005, 2006 and 30 June 2007.

Exchange rate exposure

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

Contingent liabilities

As at 31 December 2004, 2005, 2006 and 30 June 2007, the Cuyo Group had no significant contingent liabilities.

Material acquisitions

For each of the three years ended 31 December 2006 and the six months ended 30 June 2007, the Cuyo Group had no material acquisitions or disposal of subsidiaries and affiliated companies.

Human resources

As at 31 December 2004, the Cuyo Group had 8 (2003: 8) employees, comprising 2 (2003: 2) in management and 6 (2003: 6) in finance and administration, 6 (2003: 6) of these employees were located in the PRC and 2 (2003: 2) were located in Hong Kong.

As at 31 December 2005, the Cuyo Group had 6 (2004: 8) employees, comprising 2 (2004: 2) in management and 4 (2004: 6) in finance and administration , 4 (2004: 6) of these employees were located in the PRC and 2 (2004: 2) were located in Hong Kong.

As at 31 December 2006, the Cuyo Group had 5 (2005: 6) employees, comprising 2 (2005: 2) in management and 3 (2005: 4) in finance and administration, 3 (2005: 4) of these employees were located in the PRC and 2 (2005: 2) were located in Hong Kong.

As at 30 June 2007, the Cuyo Group had 4 (31 December 2006: 5) employees, comprising 2 (31 December 2006: 2) in management and 2 (31 December 2006: 3) in finance and administration, 2 (31 December 2006: 3) of these employees were located in the PRC and 2 (2006: 2) were located in Hong Kong.

Sichuan Cuyo

Sichuan Cuyo was established in July 2002 by 四川永承投資管理有限公司 (Sichuan Yongcheng Investment Company Limited), a company wholly-owned by Mr. Li, and Hong Kong Cuyo. At its incorporation, Sichuan Cuyo was owned as to 75% by Sichuan Yongcheng Investment Company Limited and as to 25% by Hong Kong Cuyo. In November 2003, Hong Kong Cuyo acquired 75% equity interest in Sichuan Cuyo from Sichuan Yongcheng Investment Company Limited at a cash consideration of RMB3,750,000 and became a wholly-owned subsidiary of Hong Kong Cuyo. The registered equity capital of Sichuan Cuyo is RMB5 million.

Sichuan Cuyo is principally engaged in the exploration and exploitation of phosphorous mine and production and sale of phosphate related products. Sichuan Cuyo had been granted by 四川省國土資源廳 (Department of Land and Resources of Sichuan Province) an exploration rights with 26.2 sq. km, including the Mine with effective period between December 2002 and December 2003 in December 2002. However, only 6.5 sq. km had been explored by 四川省化工地質勘查院 (Sichuan Province Chemicals Geological Exploration Centre) during the period from May 2001 to September 2002. As such, Sichuan Cuyo subsequently applied for another exploration right for such area with effective period between March 2004 and March 2006 in March 2004 for the purpose of application relevant mine exploitation license. The audited financial figures of Sichuan Cuyo prepared by Sichuan Wan Bang CPA in accordance with the PRC GAAP are set out below:

	As at 31 December	
	2005	**2006**
	(in RMB'000)	*(in RMB'000)*
Total asset	11,613.9	11,858.8
Net asset value	5,000.4	5,000.4

Since its establishment and up to the Latest Practicable Date, Sichuan Cuyo has been engaged in mine exploration and has not yet commenced any production activities, and thus, no profit or loss was recorded for the two years ended 31 December 2006. According to Sichuan Cuyo, all expenses incurred during the same period were capitalised, which will be then subject to amortisation and/or depreciation upon commencement of the operation of the Mine.

The Mine

The Mine is located at 綿竹市清平鄉 (Qingping Village, Mianzhu City), Sichuan Province, the PRC with area of approximately 6.5 sq. km. According to geological exploration and reserves report prepared by Sichuan Province Chemicals Geological Exploration Centre in October 2002 and a letter issued by Department of Land and Resources of Sichuan Province in March 2005, the Mine contains approximately 117,300,000 tonnes mineral reserve. As at the Latest Practicable Date, exploration of the Mine had been completed. Sichuan Cuyo has surrendered the exploration permit of the Mine to Department of Land and Resources of Sichuan Province for the purpose of applying for the mine exploitation license in November 2005. According to a letter from the Department of Land and Resources of Sichuan Province dated 28 March 2007, such application has been approved by the Department of Land and Resources of Sichuan Province. As such, the legal adviser to the Company as to PRC laws, King and Wood, advised that the obtaining of mine exploitation license will then be subject to final approval by 國土資源部 (PRC Ministry of Land and Resources). As at the Latest Practicable Date, no mine exploitation license of the Mine had been obtained. The Directors expect to obtain such mine exploitation license in 2008.

Summary of key steps required for application for mine exploitation license

Given Sichuan Cuyo was granted the exploration rights to the Mine, it is qualified to apply for mine exploitation license in respect of the Mine. Sichuan Cuyo should apply to the registration and administration authority for designated mining areas based on the approved geological exploration and reserves report together with relevant documents such as its qualifications certificate, proposal for development and use of mineral resources and environmental report. When the application for registration is approved, Sichuan Cuyo shall pay mining license fee for the mine exploitation rights.

Renewal of mine exploitation license

According to the relevant PRC laws, the mine exploitation license of the Mine may have lifespan of 30 years subject to renewal within 30 days before the expiry date of such mine exploitation license. The relevant PRC authority may consider various matters including the conduct of the applicant and the term of the mine exploitation license in approving the application.

Latest development on mine exploration license application

As advised by the PRC legal advisers of the Company, to obtain final approval of the mine exploitation license of the mine from 國土資源部 (PRC Ministry of Land and Resources), Sichuan Cuyo is required to submit documents including but not limited to the following assessment reports to 國土資源部 (PRC Ministry of Land and Resources) for review:

— 環境評估報告 (Environmental assessment report);

— 安全評估報告 (Safety assessment report);

— 水土保持方案 (Environmental preservation plan);

— 土地覆墾方案 (Land reclamation plan);

— 採礦權申請人資質條件的證明 (Certificate on qualification of mining license applicant); and

— 礦產資源開發利用方案 (Mining resource application report).

According to relevant PRC laws, upon receipt of the aforementioned assessment reports together with formal application and other requisite documents from the Company, 國土資源部 (PRC Ministry of Land and Resources) is required to issue notice to the Company within 40 days from the date of application for notification of result of its application. Should the final approval be granted, the Company is required to pay mining license fee within 30 days from the date of notice issued by 國土資源部 (PRC Ministry of Land and Resources). Based on conversation with relevant regulatory bodies, the Directors believe that the formal mining license would be granted within one month from the date of making mining license fee payment.

Considering the aforementioned assessment reports and other requisite documents for mine exploitation license application will be ready in mid-2008, the registration procedure could be completed within 70 days from the date of formal application, which will be submitted together with required assessment reports and other requisite documents, and the formal mining license would be granted within one month from the date of making mining license fee payment, the Directors believe that the mine exploitation license of the Mine will be obtained by end of 2008.

ASSET VALUATION OF THE MINE

Assumptions

The valuation of the Mine is prepared based on the following principal assumptions extracted from the asset valuation report as set out in the Appendix V of this circular:

a) As advised by the Company, the Asset will be granted before March in year 2009.

b) As advised by the Company, the Asset will have an expected valid period of 30 years.

c) There will be no major changes in the existing political, legal, and economic conditions in the jurisdiction where the Asset is currently or will be exposed to, which will materially affect the revenues attributable to the Asset;

d) There will be no major changes in the current taxation law in the jurisdiction related to the Company, that the rates of tax payable remain unchanged and that all applicable laws and regulations will be complied with;

e) Exchange rates and interest rates will not differ materially from those presently prevailing;

f) The projection on the year that the Sichuan Phosphate Mine will achieve maximum production capacity was prepared on a reasonable basis, reflecting estimates that have been arrived at after due and careful consideration by the Directors; and

g) Economic conditions will not deviate significantly.

Based on the reasons set out below, the Directors are of the view that the aforementioned valuation assumptions are fair and reasonable.

In relation to assumption (a), considering required assessment reports would be ready in mid-2008 and registration procedure could be completed within 70 days from the date of formal application, which will be submitted together with required assessment reports, the Directors believe that the mining right of the Mine will be obtained by end of 2008.

In relation to assumption (b), considering Sichuan Cuyo is entitled to apply for mine exploitation license of the Mine up to 30 years and the mine contains approximately 117.3 million tonnes, which could meet annual production of 1.9 million tonnes for more than 60 years, the Directors are of the view that it is fair and reasonable to assume Sichuan Cuyo would obtain mine exploitation license of the Mine for 30 years.

In relation to assumption (f), with reference to technical assessment report as set out in the Appendix VI to this circular, the Directors believe that 1.9 million tonnes of phosphate rock production is achievable in 2010.

In relation to assumption (c), (d), (e) and (g), the Directors are of the view that it is common practice to assume that there is no material change in macro economic environment.

Valuation Methodology

Considering the Mine is the only principal asset of Sichuan Cuyo, the Directors are of the view that value of mining right approximates to value of Sichuan Cuyo, and thus, it is fair and reasonable to adopt enterprise value to sales to assess market value of the Mine.

RISKS RELATING TO THE MINING INDUSTRY

Risks relating to the industry are set out as below:

1. **As advised by the legal advisers to the Company as to PRC laws, King and Wood, mine exploitation license from the appropriate PRC government authorities is required for the exploitation of the Mine. As at the Latest Practicable Date, application for the mine exploitation license for the exploitation of the Mine had been submitted to the relevant PRC government authorities. However, any problem, delay, rejection arises in obtaining or completing these approvals, licenses, tests or steps may result in delay or prohibition in carrying out the mining operations on the Mine by the Group.**

2. **The profitability of the Group's exploitation operations on the Mine may be affected by fluctuations in the market price of phosphate and phosphate related products which may be influenced by numerous factors beyond the control of the Group.**

3. **The phosphate industry in the PRC is subject to regulation by the PRC government. The operations under the Mine may be materially and adversely affected by any future changes in the government regulations and policies.**

4. **Phosphate mine operations are subject to environmental protection laws and regulations in the PRC. The expenditure for environmental regulatory compliance will increase if the environment protection laws become more stringent.**

5. **The operations of the Mine are carried out in the PRC. Any adverse changes in economic policy and legal development in the PRC will affect the revenue generated.**

6. **The Group may face many operational risks, which include risk related to the geological structure of the Mine and geological disasters that occur during the mining process; and catastrophic events such as fires, earthquakes, floods or other natural disasters.**

7. **This is the Group's first venture into the phosphate mining industry which could present management challenges. The Company and its current management have no experience in the mining industry. However, the Company intends to build up a professional management and technical team with expertise in the mining area as soon as possible after the Completion to cope with the possible challenges.**

8. **According to the legal advisers to the Company, Sichuan Cuyo is entitled to apply for mine exploitation license of the Mine for a maximum of 30 years. However, there is no assurance that a mine exploitation license with a 30-year lifespan would be granted by the relevant authorities. Should the lifespan of the mine exploitation license to be granted by the relevant authorities be less than 30 years, the profitability of the Group's exploitation operations on the Mine may be adversely affected.**

REASONS FOR THE ACQUISITION

It has been the Group's strategy to vertically expand its business. The Directors are of the view that the Acquisition enables the Group to expand its business scope to the exploration and exploitation of phosphate.

Phosphate has wide variety of usage, such as farming, husbandry, steel production, and the manufacture of soda beverages, toothpaste, laundry detergent and industrial products. In agriculture, phosphate is one of the three primary plant nutrients and is a component of fertilisers. According to 磷肥工業"十一五"發展規劃思路 (11th Five-Year Development Plan for Phosphate Fertiliser Industry) issued by 中國磷肥工業協會 (China Phosphate Fertilisers Industry Association) in January 2006, it is the intention of the PRC Government to improve the business environment of the agriculture industry and it is expected that the demand for phosphate will increase in the coming years and there will be a shortage of phosphate of about 8 million tonnes in 2010. In addition, according to China Phosphate Fertilisers Industry Association, it is expected that the annual demand for phosphate fertilisers will reach 12 million tonnes in the PRC in 2010. The Directors therefore are optimistic about the future prospect of the demand for phosphate in the PRC and consider the Acquisition to be an opportunity to investment in the phosphate industry.

At the same time, the Acquisition will also secure supply of raw material for the Group's production of phosphate-related fertilisers. The Directors believe that with a secured supply of raw material, the Group is in a better position to expand its fertiliser business and to face any competition in the fertiliser industry due to its cost advantage.

Given the fact that Sichuan Cuyo has submitted its application for the mine exploitation license in respect of the Mine, that Mr. Li has provided a guarantee for the obtaining of such mine exploitation license, and the discount of the consideration in relation to the consideration of recent comparable transactions in the PRC, the Directors consider that the terms of the Sale and Purchase Agreement and the transaction contemplated therein are fair and reasonable, on normal commercial terms and are in the interests of the Company and the Shareholders as a whole.

Although the Company will pay a significant premium over original acquisition cost of equity interest in Hong Kong Cuyo paid by the Vendors, after considering factors as disclosed under the section headed "Consideration" of this circular and the reasons stated herein, the Directors are of the view that the consideration of the Acquisition is fair and reasonable.

THE WHITEWASH WAIVER

As at the Latest Practicable Date, Mr. Li was interested in 206,440,000 Shares, representing approximately 40.81% of the existing issued share capital of the Company, while Mr. Li and parties acting in concert with him in aggregate were interested in 241,888,000 Shares, representing approximately 47.82% of the existing issued share capital of the Company. Mr. Li and parties acting in concert with him had not acquired any securities of the Company within the six-month period immediately preceding the date of the Announcement. Mr. Li and parties acting in concert with him will not deal in the securities of the Company prior to the Completion unless otherwise permitted under the Takeovers Code or with the prior written consent of the Executive.

Immediately after the Completion, Mr. Li will be interested in 584,888,000 Shares, representing approximately 59.75% of the enlarged issued share capital of the Company, while Mr. Li and parties acting in concert with him in aggregate will be interested in approximately 714,948,000 Shares, representing approximately 73.04% of the enlarged issued share capital of Company. As the increase in shareholding of Mr. Li and parties acting in concert with him in the Company in aggregate exceeds 2% from the lowest collective percentage holding in the past 12-month ending on and inclusive of the date of the Sale and Purchase Agreement, Mr. Li and parties acting in concert with him will then be obliged to make a mandatory general offer for all the Shares not already owned or agreed to be acquired by them pursuant to Rule 26 of the Takeovers Code. Mr. Li and parties acting in concert with him have, in accordance with Note 1 on dispensations from Rule 26 of the Takeovers Code, made an application to the Executive for the Whitewash Waiver to waive their obligations to make a mandatory general offer for all the securities of the Company not already owned or agreed to be acquired by Mr. Li and parties acting in concert with him under Rule 26 of the Takeovers Code. The Executive has indicated that he would grant the Whitewash Waiver, which will be subject to, among other things, the approval of the Independent Shareholders to be taken by way of a poll at the EGM in accordance with Note 1 on dispensations from Rule 26 of the Takeovers Code. Mr. Li and parties acting in concert with him and those who are interested or involved in the Sale and Purchase Agreement and Whitewash Waiver will abstain from voting in respect of the proposed resolution to approve the Whitewash Waiver at the EGM. The Executive may or may not grant the Whitewash Waiver in which case the Company will not complete the Acquisition.

As Mr. Li will be interested in over 50% of the voting rights of the Company after the Completion, Mr. Li and his concert parties may further acquire the Shares at any time after the Completion without incurring any obligation to make general offers to acquire all the Shares other than those already owned by Mr. Li and parties acting in concert with him under Rule 26.1 of the Takeovers Code.

PROPOSED INCREASE OF AUTHORISED SHARE CAPITAL

The current authorised share capital of the Company is HK$100,000,000 divided into 1,000,000,000 Shares of HK$0.1 each. As at the Latest Practicable Date, the issued share capital of the Company was 505,820,000 Shares. To ensure that there is sufficient authorised unissued share capital to accommodate future expansion of the Group and to give flexibility for the Directors to raise fund by allotting and issuing Shares in the future, as and when necessary, the Directors propose to increase the authorised share capital of the Company from HK$100,000,000 divided into

1,000,000,000 Shares to HK$200,000,000 divided into 2,000,000,000 Shares by the creation of an additional 1,000,000,000 new Shares after the Completion. The additional new Shares shall rank pari passu in all respects with existing Shares. The Directors expect that the increase in the authorised share capital of the Company will facilitate its future equity fund raising activities. The proposed increase in authorised share capital is conditional upon the passing of an ordinary resolution by the Shareholders at the EGM.

SHARE SUBDIVISION AND CHANGE IN BOARD LOT SIZE

The Board proposes that conditional upon and immediately after the Completion taken place, each of the existing issued and unissued Shares be subdivided into five Subdivided Shares of HK$0.02 each. Upon the Share Subdivision becoming effective, the board lot size of the Shares for trading on the Stock Exchange will be changed from 5,000 Shares to 20,000 Subdivided Shares. The Board believes that the Share Subdivision will lower the minimum investment amount in the Shares thereby enhancing the liquidity in trading of the Shares and widening its Shareholders' base. Hence, the Board is of the view that the Share Subdivision is in the interests of the Company and the Shareholders as a whole. The Share Subdivision is conditional upon the passing of an ordinary resolution by the Shareholders at the EGM while the change in board lot size is not subject to the Shareholders' approval.

Conditions

The Share Subdivision is conditional upon (i) the passing of an ordinary resolution by the Shareholders at the EGM, and (ii) the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the Subdivided Shares and any new Subdivided Shares which may fall to be issued pursuant to the exercise of options granted under the Share Option Scheme. Apart from the payment of the expenses for the Share Subdivision, the implementation of the Share Subdivision will not, of itself, alter the underlying assets, business operations, and management or financial position of the Company or the proportional interests of the Shareholders in the Company.

Change in authorised and issued share capital

As at the Latest Practicable Date, the authorised share capital of the Company was HK$100,000,000 which is divided into 1,000,000,000 Shares of HK$0.1 each of which 505,820,000 Shares of HK$0.1 each are in issue. Immediately upon the Share Subdivision taking effect and on the basis that 505,820,000 Shares of HK$0.1 each are in issue, 2,529,100,000 Subdivided Shares of HK$0.02 each will be in issue pursuant to the Share Subdivision and the authorised share capital of the Company will be divided into 5,000,000,000 Subdivided Shares of HK$0.02 each. Following completion of the proposed increase in authorised share capital, authorised share capital will be increased to HK$200,000,000 which is divided into 10,000,000,000 Shares of HK$0.02 each. The Subdivided Shares will rank pari passu in all respects with each other and the Share Subdivision will not result in any change in the relevant rights of the Shareholders.

Arrangement on odd lot trading

In order to facilitate the trading of odd lots of Subdivided Shares as a result of the Share Subdivision, the Company will appoint the Agent to act as agent in providing a "matching service" to those Shareholders who wish to top-up or sell their holdings of odd lots of the Subdivided Shares.

The Agent will provide the service to match the sale and purchase of odd lots of Subdivided Shares during the period from Friday, 11 January 2008 to Friday, 1 February 2008 (both dates inclusive). Holders of Subdivided Shares in odd lots who wish to take advantage of this facility either to dispose of or top-up their odd lots to a board lot of 20,000 Subdivided Shares may, directly or through their brokers, contact the Agent during such period. Shareholders should note that successful matching of the sale and purchase of odd lots of Subdivided Shares is not guaranteed and will depend on there being adequate amounts of odd lots of Subdivided Shares available for such matching. Shareholders are recommended to consult their professional advisers if they are in any doubt about the matching facility described above.

Exchange of certificates

New certificates for Subdivided Shares will be issued in yellow in order to distinguish them from certificates for existing Shares which are green in colour.

Shareholders are urged to exchange their certificates for existing Shares for new certificates for Subdivided Shares as soon as possible on or after Thursday, 27 December 2007. This may be done free of charge by delivering the certificates for existing Shares to the share registrar of the Company in Hong Kong, Union Registrars Limited, Rooms 1901-02, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong before 4:00 p.m. on Monday, 11 February 2008. Thereafter, certificates for existing Shares will be accepted for exchange only on payment of a fee of HK$2.50 (or such higher amount as may from time to time be allowed by the Stock Exchange) for each new certificate for Subdivided Shares. A Shareholder will be entitled to aggregate his/her Shares registered in his/her name in order to obtain new certificates for Subdivided Shares.

Certificates for existing Shares will only be valid for delivery and settlement in respect of dealings for a period up to Friday, 1 February 2008 and will not be accepted for dealing purposes thereafter. However, the certificates for existing Shares will continue to be good evidence of legal title to the Subdivided Shares on the basis of one Share for five Subdivided Shares and may be exchanged for new certificates for Subdivided Shares at any time. Such Shareholders shall be entitled to tender their certificates for existing Shares in exchange for new certificates for the Subdivided Shares in board lots of 20,000 Subdivided Shares so that their shareholding may be accurately represented by the new certificates for the Subdivided Shares.

Trading arrangement for the Subdivided Shares

Subject to the Share Subdivision becoming effective, dealings in the Subdivided Shares are expected to commence on Thursday, 27 December 2007. Parallel trading in the Subdivided Shares (in the form of existing share certificates and new share certificates will be operated from Friday, 11 January 2008 to Friday, 1 February 2008 (both days inclusive). Upon the Share Subdivision becoming effective, the arrangements proposed for dealings in the Subdivided Shares are expected to be as follows:

(a) From Thursday, 27 December 2007 onwards, the original counter for trading in the Shares in board lot of 5,000 Shares each will be closed. A temporary counter will be opened for trading in the Subdivided Shares in board lot of 25,000 Subdivided Shares each (in the form of existing share certificates).

(b) With effect from Friday, 11 January 2008, the original counter will be re-opened for trading in the Subdivided Shares in board lot of 20,000 Subdivided Shares each (in the form of new share certificates).

(c) From Friday, 11 January 2008 to Friday, 1 February 2008 (both days inclusive), parallel trading will be permitted at the two counters mentioned in paragraphs (a) and (b) above.

(d) The temporary counter for trading in the Subdivided Shares in board lot of 25,000 Subdivided Shares (in the form of existing share certificates) will be closed after 4:00 p.m. on Friday, 1 February 2008.

(e) With effect from 9:30 a.m. on Monday, 4 February 2008, trading of Subdivided Shares will only be carried out in the original counter in board lot of 20,000 Subdivided Shares (in the form of the new share certificates).

Application for listing

Application will be made to the Stock Exchange for the listing of, and permission to deal in, the Subdivided Shares.

Application will be made to HKSCC for the admission of the Subdivided Shares into CCASS operated by HKSCC.

Subject to the granting of the listing of, and permission to deal in, the Subdivided Shares on the Stock Exchange, the Subdivided Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Subdivided Shares on the Stock Exchange or such other date as may be determined by HKSCC. Settlement of transaction between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

For those Shareholders whose interest in the Company are currently held through CCASS, dealings in the Subdivided Shares are expected to be capable of settlement through CCASS with effect from the commencement date of dealings in the Subdivided Shares on the Stock Exchange and without any need on the part of such Shareholders to deposit the new share certificates in respect of the Subdivided Shares with HKSCC.

Shareholders should seek the advice of their stockbrokers or other professional advisers for details of above settlement arrangements through CCASS and how such arrangement will affect their rights and interest.

Share Options

As at the Latest Practicable Date, the Company had 41,340,000 outstanding share options granted under the Share Option Scheme authorising the subscription of 41,340,000 Shares, which represent approximately 8.2% of the Company's Shares in issue as at the Latest Practicable Date. Save as disclosed, there were no other warrants, convertible securities or options in issue as at the Latest Practicable Date.

EFFECTS OF THE ACQUISITION, THE PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL AND THE SHARE SUBDIVISION ON THE AUTHORISED SHARE CAPITAL, ISSUED SHARE CAPITAL AND UNISSUED SHARE CAPITAL OF THE COMPANY

	As at the Latest Practicable Date	Immediately after the Completion	Immediately after the Completion and the proposed increase of authorised share capital	Immediately after the Completion, the proposed increase of authorised share capital and the Share Subdivision
Nominal value of each share	HK$0.1	HK$0.1	HK$0.1	HK$0.02
Number of authorised Shares	1,000,000,000	1,000,000,000	2,000,000,000	10,000,000,000
Authorised share capital	HK$100,000,000	HK$100,000,000	HK$200,000,000	HK$200,000,000
Number of Shares in issue	505,820,000	978,880,000	978,880,000	4,894,400,000
Issued share capital	HK$50,582,000	HK$97,888,000	HK$97,888,000	HK$97,888,000
Number of unissued Shares	494,180,000	21,120,000	1,021,120,000	5,105,600,000
Unissued share capital	HK$49,418,000	HK$2,112,000	HK$102,112,000	HK$102,112,000

GENERAL

Mr. Li and Mr. Yuan, being two of the Vendors, are the controlling shareholder and the management shareholder of the Company respectively, each is thus regarded as a connected person of the Company under the GEM Listing Rules. Therefore, the Acquisition constitutes a connected transaction to the Company pursuant to Rule 20.13(a) of the GEM Listing Rules. The Acquisition also constitutes a very substantial acquisition to the Company pursuant to Rule 19.06(5) of the GEM Listing Rules. Accordingly, the Acquisition is subject to the Independent Shareholders' approval by way of a poll at the EGM. Mr. Li, Mr. Yuan and their respective associates, who in aggregate were interested in and were entitled to exercise control over the voting rights of 241,888,000 Shares, representing 47.82% of the issued share capital of the Company as at the Latest Practicable Date, will abstain from voting in respect of the proposed resolution approving the Sale and Purchase Agreement at the EGM.

Pursuant to the Takeovers Code, the Whitewash Waiver is subject to, among others, the approval by the Independent Shareholders at the EGM by way of a poll. Mr. Li and parties acting in concert with him and those who are interested or involved in the Sale and Purchase Agreement and the Whitewash Waiver will abstain from voting in respect of the proposed resolution to approve the Whitewash Waiver at the EGM.

An Independent Board Committee comprising all of the independent non-executive Directors has been formed to advise the Independent Shareholders on the Sale and Purchase Agreement and the Whitewash Waiver. Optima Capital has been appointed to advise the Independent Board Committee and the Independent Shareholders regarding the Sale and Purchase Agreement and the Whitewash Waiver in accordance with the GEM Listing Rules and the Takeovers Code.

EGM

Notice convening the EGM is set out on page 255 to 257 of this circular. At the EGM, resolutions will be proposed to approve the Sale and Purchase Agreement and the transaction contemplated therein, the Whitewash Waiver, the proposed increase in Share capital of the Company and the Share Subdivision.

If you are not able to attend the EGM, you are requested to complete and return the form of proxy for the EGM enclosed in this circular in accordance with the instructions printed thereon to the office of the Company's share registrar, Union Registrars Limited, Rooms 1901-02, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjourned meeting (as the case may be). Completion and return of the relevant form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting (as the case may be) if you so wish.

PROCEDURE FOR DEMANDING A POLL

Subject to the requirements under the GEM Listing Rules and pursuant to the articles of association of the Company, at any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands) demanded:

(a) by the chairman of the meeting;

(b) by at least three Shareholders present in person or by proxy and entitled to vote;

(c) by any Shareholder or Shareholders present in person or by proxy and representing in aggregate not less than (inclusive) one-tenth of the total voting rights of all the Shareholders having the right to vote at the meeting; or

(d) a Shareholder or Shareholders present in person or in the case of a Shareholder being a corporation by its duly authorised representative or by proxy and holding Shares conferring a right to vote at the meeting being Shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the Shares conferring the right.

RECOMMENDATION

The Directors believe that the terms of the Sales and Purchase Agreement, the Whitewash Waiver, the proposed increase of authorised share capital and the Share Subdivision are fair, reasonable and in the best interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend that you should vote in favour of the resolutions set out in the notice of EGM.

You are advised to read carefully the letter from the Independent Board Committee on page 30 to 31 of this circular. The Independent Board Committee, having taken into account the advice of Optima Capital, the text of which is set out on page 32 to 48 of this circular, considers that the terms of the Sale and Purchase Agreement and the Whitewash Waiver are fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the Sale and Purchase Agreement and the Whitewash Waiver.

FURTHER INFORMATION

Your attention is drawn to the text of the letters from the Independent Board Committee and Optima Capital respectively containing their opinion regarding the Sale and Purchase Agreement and the transaction contemplated thereunder and the Whitewash Waiver.

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
Koyo Ecological Agrotech (Group) Limited
Li Weiruo
Chairman

The following is the text of a letter from the Independent Board Committee setting out its recommendation to the Independent Shareholders in relation to the Sale and Purchase Agreement and the Whitewash Waiver.

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)

7 December 2007

To the Independent Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION; AND APPLICATION FOR WHITEWASH WAIVER

We refer to the circular dated 7 December 2007 issued by the Company (the "**Circular**"), of which this letter forms part. Terms used in this letter shall bear the same meanings as given to them in the Circular unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to consider the Sale and Purchase Agreement and the transaction contemplated thereunder and the Whitewash Waiver and to advise the Independent Shareholders as to the fairness and reasonableness of the Sale and Purchase Agreement and the transaction contemplated thereunder and the Whitewash Waiver and to recommend how the Independent Shareholders should vote at the EGM. Optima Capital has been appointed to advise us in this regard.

We wish to draw your attention to the letter from the Board, as set out on page 5 to 29 of the Circular, and the letter from Optima Capital to us and the Independent Shareholders which contains their advice to us in respect of the Sale and Purchase Agreement and the transaction contemplated thereunder and the Whitewash Waiver as set out on page 32 to 48 of the Circular.

Having taken into account the terms of the Sale and Purchase Agreement and the Whitewash Waiver and the advice of Optima Capital, we are of the view that the terms of the Sale and Purchase Agreement and the Whitewash Waiver are on normal commercial terms in the ordinary and usual course of business of the Group and fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM in respect of the Sale and Purchase Agreement and the transaction contemplated thereunder and the Whitewash Waiver.

Yours faithfully
Independent Board Committee of
Ko Yo Ecological Agrotech (Group) Limited
Mr. Hu Xiaoping **Mr. Woo Che-wor, Alex** **Mr. Qian Laizhong**

The following is the text of the letter of advice from Optima Capital to the Independent Board Committee and the Independent Shareholders in respect of the Sale and Purchase Agreement and the Whitewash Waiver prepared for incorporation in this Circular.

OPTIMA CAPITAL

Optima Capital Limited
Unit 3618, 36th Floor
Bank of America Tower
12 Harcourt Road
Central, Hong Kong

7 December 2007

To the Independent Board Committee and the
Independent Shareholders of Ko Yo Ecological Agrotech (Group) Limited

Dear Sirs,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION AND APPLICATION FOR WHITEWASH WAIVER

INTRODUCTION

We refer to our appointment, as approved by the Independent Board Committee, as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Sale and Purchase Agreement and the transaction contemplated thereunder and the Whitewash Waiver, details of which are set out in the circular of the Company dated 7 December 2007 (the "**Circular**") to the Shareholders of which this letter forms part. Capitalized terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 21 September 2007, the Company announced that on 17 September 2007, the Purchaser, a wholly owned subsidiary of the Company, entered into the Sale and Purchase Agreement with the Vendors, pursuant to which the Purchaser conditionally agreed to acquire and the Vendors conditionally agreed to sell the 4,720,000 Sale Shares for a total consideration of HK$312.0 million. The consideration will be satisfied by the allotment and issue of the 473,060,000 Consideration Shares at approximately HK$0.6595 per Share. The Acquisition constitutes a very substantial acquisition and connected transaction for the Company under the GEM Listing Rules and is subject to the approval of the Independent Shareholders by the way of poll at the EGM. As at the Latest Practicable Date, Mr. Li and parties acting in concert with him, in aggregate were interested in 241,888,000 Shares, representing approximately 47.82% of the issued share capital of the Company. Upon completion of the Acquisition, Mr. Li and parties acting in concert with him will be interested in 714,948,000 Shares, representing approximately 73.04% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares. Pursuant to Rule 26 of the Takeovers Code, Mr. Li and parties acting in concert with him are obliged to make a mandatory general offer for all the Shares not already owned or agreed to be acquired by them. An application has been made to the Executive by Mr. Li and parties acting in convert with him for the Whitewash Waiver in accordance with Note 1 on dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver, if granted by the Executive, would be subject to the approval of the Independent Shareholders by way of poll at the EGM.

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Hu Xiaoping, Mr. Woo Che-wor, Alex and Mr. Qian Laizhong, all of whom have neither involved in nor interested in the Acquisition and the Whitewash Waiver and thus being independent, has been established to advise the Independent Shareholders in respect of the Sale and Purchase Agreement and the transaction contemplated thereunder and the Whitewash Waiver. In our capacity as the independent financial adviser to the Company, our role is to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Sale and Purchase Agreement are on normal commercial terms and in the ordinary and usual course of business of the Group, and the Sale and Purchase Agreement and the transaction contemplated thereunder and the Whitewash Waiver are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

BASIS OF OUR ADVICE

In formulating our recommendation, we have relied on the information and facts contained or referred to in the Circular and supplied to us by the Company, and the opinion expressed by and the representations of the Directors and management of the Company. We have assumed that all the information and representations provided to us or contained or referred to in the Circular were true, accurate and complete in all respects at the time they were made and continue to be so up to the date of the EGM and may be relied upon. We have also assumed that all opinions made by the Directors in the Circular were made reasonably after due and careful enquiry and were based on honestly-held opinion. We have also relied on the responsibility statement set out in Appendix VII to the Circular that the Directors collectively and individually accept full responsibility for the accuracy of the information contained in the Circular. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors. We have also been advised by the Directors and believe that no material facts have been omitted from the information provided and referred to in the Circular.

We considered that we have reviewed currently available information and documents, which are available under the present circumstances, and have performed all reasonable steps as required under Rule 17.92 of the GEM Listing Rules, to enable us to reach an informed view and to justify our reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendation. In particular, we have reviewed, among others, the asset valuation report (the "Valuation Report") prepared by the independent valuer, Greater China Appraisal Limited (the "Valuer"), dated 7 December 2007 as set out in Appendix V to the Circular and the technical assessment report (the "Technical Report") prepared by the independent technical adviser, Minarco Asia Pacific Pty Limited (the "Technical Adviser"), dated 21 November 2007 as set out in Appendix VI to the Circular for the technical review on the Mine including, among others, geology, mineral resources and exploitation potential. We have discussed with the Valuer the basis and assumptions made in determining the value of the Mining Right (as defined hereinafter) and the Technical Adviser the basis and assumptions underlying the Technical Report. We have no reason to suspect that any relevant information or reports have been withheld, nor are we aware of any facts on circumstances which would render the information provided and the representations made to us to be untrue, inaccurate or misleading. We have not, however, carried out an independent verification of the information provided, nor have we conducted an independent investigation into the business, affairs, operations, financial position or future prospects of the Company, Hong Kong Cuyo, Sichuan Cuyo, or any of their respective subsidiaries or associates.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendation in relation to the Sale and Purchase Agreement and the transaction contemplated thereunder and the Whitewash Waiver, we have taken into account the principal factors as set out below:

A THE ACQUISITION

1. **Background to and reasons for the Acquisition**

Background

The Group is principally engaged in the research and development, manufacture, marketing and distribution of chemical fertilisers and chemical products in the PRC. As referred to in the letter from the Board contained in the Circular ("**Letter from the Board**"), major production facilities of the Group produce urea, ammonia, sodium carbonate, ammonium chloride and BB and complex fertilisers. On 17 September 2007, the Purchaser, a wholly owned subsidiary of the Company, entered into the Sale and Purchase Agreement with the Vendors, pursuant to which the Purchaser conditionally agreed to acquire and the Vendors conditionally agreed to sell the 4,720,000 Sale Shares, representing the entire equity interest in Hong Kong Cuyo for a total consideration of HK$312.0 million. The Directors are of the view that the Acquisition enables the Group to expand its business scope to the exploration and exploitation of phosphate.

Pursuant to the Sale and Purchase Agreement, the shareholders' loans of RMB6 million owned by Hong Kong Cuyo and Sichuan Cuyo to Mr. Li and HK$3 million owned by Hong Kong Cuyo to Mr. Lo Wah Wai will be waived upon the Completion.

Information on Hong Kong Cuyo and Sichuan Cuyo

Hong Kong Cuyo is principally engaged in investment holding and the principal assets of which is the entire issued share capital of Sichuan Cuyo which in turn wholly owns the Mine. Hong Kong Cuyo was incorporated in October 2001 and as at the Latest Practicable Date, Hong Kong Cuyo is owned by Mr. Li, Well Sunshine, Mr. Yuan and Mr. Yan as to 80%, 10%, 8% and 2% respectively. Hong Kong Cuyo recorded audited consolidated loss before and after tax, both of approximately RMB0.90 million for the year ended 31 December 2005 and approximately RMB0.26 million for the year ended 31 December 2006 respectively. The audited consolidated net asset value of Hong Kong Cuyo was approximately RMB1.83 million and RMB1.57 million as at 31 December 2005 and 31 December 2006 respectively.

Sichuan Cuyo is principally engaged in the exploration and exploitation of phosphorous mine and production and sale of phosphate related products. Sichuan Cuyo was established in July 2002. The registered equity capital of Sichuan Cuyo is RMB5 million. Since its establishment and up to the Latest Practicable Date, Sichuan Cuyo has been engaged in mine exploration and has not yet commenced any production activities. The audited net asset value of Sichuan Cuyo was approximately RMB5.00 million as at 31 December 2006.

The Mine is located at 綿竹市清平鄉 (Qingping Village, Mianzhu City), Sichuan Province, the PRC with area of approximately 6.5 sq. km. According to geological exploration and reserves report prepared by Sichuan Province Chemicals Geological Exploration Centre in October 2002 and a letter issued by Department of Land and Resources of Sichuan Province in March 2005, the Mine contains approximately 117,300,000 tonnes mineral reserve.

As referred to in the Technical Report, Sichuan Cuyo completed exploration, resource and reserve reporting, mine feasibility and engineering design work back in 2003 and 2004. These reports consider the development of an opencut mine initially producing 1.9 million tonne per annum of phosphate ore using traditional opencut mining techniques. This ore will be fed to a processing plant which will produce 85% industrial grade phosphoric acid suitable for use as a feedstock in chemical manufacturing. The Technical Adviser is advised by the management of the Company that they intend to develop the project on the basis of the aforementioned pre-feasibility and design reports prepared in February 2004.

We understand from the Letter from the Board that the application of exploitation license of the Mine ("Exploitation License") was submitted by Sichuan Cuyo in November 2005 and has been approved by the Department of Land and Resources of Sichuan Province as referred to in a letter from the Department of Land and Resources of Sichuan Province dated 28 March 2007, and will be subject to final approval by 國土資源部 (PRC Ministry of Land and Resources). As at the Latest Practicable Date, the Exploitation License has not been obtained. Pursuant to the Sale and Purchase Agreement, Mr. Li undertakes and warrants to the Company that among others, he will procure all the necessary approvals, permits and licences to conduct mining activities of the Mine under the applicable laws and regulations of the PRC will be obtained on or before 17 March 2009, being eighteen (18) months from the date of the Sale and Purchase Agreement, and the Directors expect to obtain such mine exploitation license in 2008. As referred to in the legal opinion dated 7 December 2007 ("PRC Legal Opinion") issued by King and Wood, the PRC legal advisers of the Company ("PRC Legal Advisers"), that they are of the view that there will not be any major legal obstacle for Sichuan Cuyo to obtain the Exploitation License as long as Sichuan Cuyo could fulfill all its obligations as the applicant as required by 國土資源部 (PRC Ministry of Land and Resources) and PRC laws.

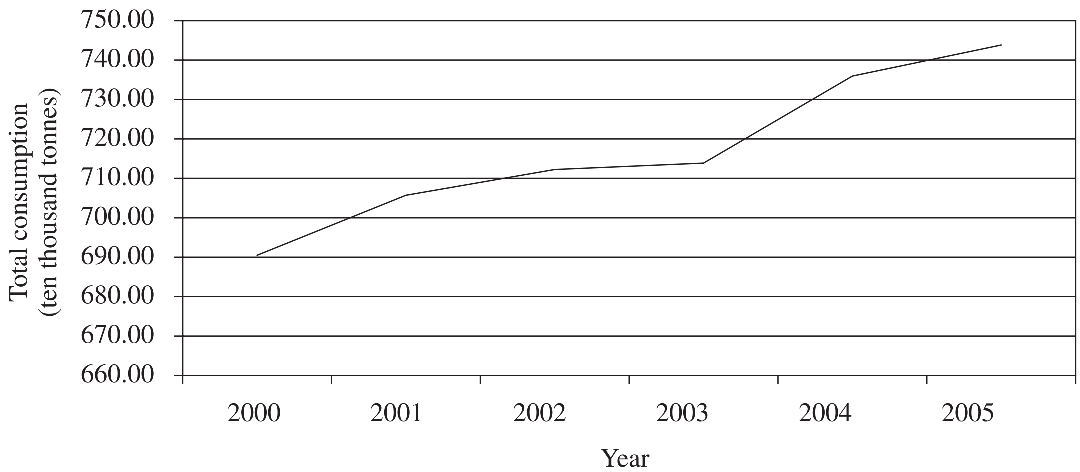
Overview of the phosphate rock and its market

Phosphorus is an essential element for plant and animal nutrition and a basic raw material in a wide range of industries, such as farming, husbandry, steel production, and the manufacture of soda beverages, toothpaste, laundry detergent and industrial products. Most phosphorus is consumed as a principal component of nitrogen-phosphorus-potassium fertilisers used on food crops throughout the world.

According to a report named Mineral Commodity Summaries published by the U.S. Geological Survey in 2007 (the "US Report"), the PRC is the world's leading producer and consumer of phosphate rock, which is used to manufacture phosphate fertilisers and industrial products. Phosphate rock minerals are the only significant global resources of phosphorus and there are no substitutes for phosphorus in agriculture.

According to the Technical Report prepared by the Technical Adviser and information from the U.S. Report, more than 80% of the phosphate rock mined was used to manufacture wet-process phosphoric acid and superphosphoric acid, which were used as intermediate feedstocks in the manufacture of granular and liquid ammonium phosphate fertilisers and animal feed supplements. Approximately 45% of the wet-process phosphoric acid produced was exported in the form of upgraded granular di-ammonium and mono-ammonium phosphate fertiliser, merchant-grade phosphoric acid, and triple superphosphate fertiliser. Phosphate fertiliser production increasingly is being located in the large consuming regions of Asia like the PRC and India as a result of their rapid agriculture developments and in order to meet their increasing demands. Set out below is the chart depicting the consumption of phosphate fertiliser in the PRC from 2000 to year 2005.

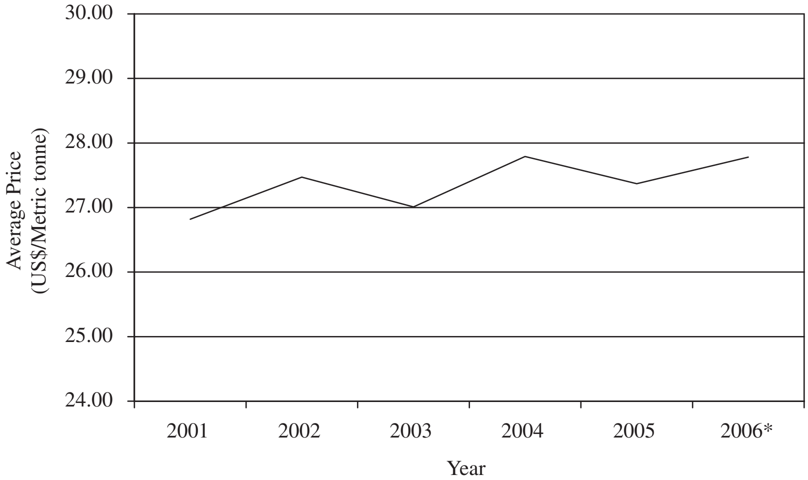
China Consumption of Chemical Fertilizer — Phosphate



Source: Bloomberg

As shown in the above table, the consumption of phosphate fertilizer increased from approximately 6.9 million tonnes in 2000 to approximately 7.4 million tonnes in 2005, representing an increase of approximately 7.25%. According to the 磷肥工業"十一五"發展規劃思路 (11th Five-Year Development Plan for Phosphate Fertiliser Industry) issued by 中國磷肥工業協會 (China Phosphate Fertilisers Industry Association) in January 2006 (the "Article"), it is expected that the continuous growth in the population and the scarcity of agricultural area in the PRC will continuously drive up the demand for fertilizers in the near future in order to feed the growing demand for food and other agricultural products.

Average price of marketable phosphate rock



* *Estimated figure*
Source: U.S. Geological Survey

From the market statistics regarding the phosphate rock production and price from year 2001 to year 2006 as presented above, we notice that the price for phosphate rock is relatively stable. We also noted from the Article that owning to the intention of the PRC Government to improve the business environment of the agriculture industry , the internal demand for phosphate is optimistic in the future and it is expected that the annual demand for phosphate fertilisers will reach 12 million tonnes in the PRC in 2010 representing a possible increase of approximately 62.16% from the approximately 7.4 million tonnes in 2005. There will be a shortage of phosphate of about 8 million tonnes at that time and the demand is believed to be mounting in the near future.

Reasons for the Acquisition

As disclosed in the Letter from the Board, it has been the Group's strategy to vertically expand its business. The Directors are of the view that the Acquisition enables the Group to expand its business scope to the exploration and exploitation of phosphate. The Directors are also optimistic about the future prospect of the demand for phosphate in the PRC and consider the Acquisition to be an opportunity to investment in the phosphate industry while the Acquisition will also secure supply of raw material for the Group's production of phosphate-related fertilisers. The Directors believe that with a secured supply of raw material, the Group is in a better position to expand its fertiliser business and to face any competition in the fertiliser industry due to its cost advantage.

According to the latest published interim report of the Group for the six months ended 30 June 2007, the Group's turnover from the production and sales of BB fertilisers, complex fertilisers, sodium carbonate, urea, ammonium chloride, ammonium bicarbonate and liquid ammonia as well as the trading of ammonium sulfate, ammonium di-hydrogen phosphate and mono-ammonium phosphate amounted to approximate RMB491 million with approximately 40% growth compared with the same period last year and the growth in turnover for the period under review was attributable to the increase in trading of ammonium sulfate, ammonium di-hydrogen phosphate and mono-ammonium phosphate. Furthermore, the sales of BB fertilisers and complex fertilisers remained to be one of the major revenue sources of the Group.

Having taken into account that phosphate is the essential raw material of ammonium di-hydrogen phosphate, mono-ammonium phosphate, BB fertilisers and complex fertilisers and the importance and substantial contribution of these products to the Group's turnover, we concur with the view of the Directors that the Acquisition secures supply of phosphate as raw material for the Group's production and place the Group in a better position to expand its fertiliser business and to face any competition in the fertiliser industry due to its cost advantage and the Acquisition is in line with the strategy of the Group to establish and represent the Group as an one-stop-shop fertiliser supplier.

Having considered the above information of the phosphate market in the PRC, the importance of phosphate as a raw material to the Group's main products and the Group's business strategy of vertical business integration, we concur with the view of the Directors that the Acquisition is in the interests of the Company and the Shareholders as a whole.

2. **Consideration of the Acquisition**

Pursuant to the Sale and Purchase Agreement, the Purchaser agreed to acquire and the Vendors agreed to sell the 4,720,000 Sale Shares for a total consideration of HK$312.0 million. The consideration will be satisfied by the allotment and issue of 473,060,000 Consideration Shares to the Vendors at the price of approximately HK$0.6595 per Consideration Share.

As stated in the Letter from the Board, the consideration of the Acquisition of HK$312 million was determined after arm's length negotiations between the Purchaser and the Vendors with reference to, among other things, the following factors: (i) current market price of phosphate rock which ranges from RMB150 to RMB200 per tonne; (ii) the Mine's reserve base of 117,300,000 tonnes of phosphate; (iii) the financial position of Hong Kong Cuyo and Sichuan Cuyo; and (iv) the outlook of phosphate and related products prices; and (v) comparable market transaction in recent years.

In order to assess the fairness and reasonableness of the consideration of the Acquisition, we seek to compare the consideration of the Acquisition against the value of the mining right of the Mine ("Mining Right") based on valuation conducted by the Valuer as set out in the Valuation Report contained in Appendix V to the Circular.

As stated in the Valuation Report prepared by the Valuer, the indicated market value of the Mining Right was approximately HK$332 million as at 31 October 2007.

Valuation methodology

We have reviewed the Valuation Report and discussed with the Valuer regarding the methodology employed in arriving at the indicated value of the Mining Right. We noted that the Valuer has considered among the three generally accepted valuation methodologies in valuing the Mining Right, including the market approach, the cost approach and the income approach. In particular, the Valuer considered that (i) the income approach involves adoption of much more assumptions, not all of which can be easily quantified or ascertained; and (ii) the cost approach is inadequate as this approach does not take future growth potential of the Mining Right into consideration. Having considered the reliance of the income approach on much more assumptions and the inadequacy of the cost approach to take into account the growth potential of the Mine, we would concur with the Valuer's views that the market approach is the most appropriate valuation approach for the valuation of the Mining Right.

As set out in the Valuation Report, the Valuer considered using the "enterprise value to sales" as the most appropriate price multiple to value the Mining Rights. We are given to understand by the Valuer that notwithstanding that such price multiple is generally used to value a company, it is appropriate to use the said price multiple to value the Mining Right given the principal assets of Hong Kong Cuyo is the Mining Right. In this connection, we noted from the accountants' report of Hong Kong Cuyo set out in Appendix II to this circular that the Mining Right represented approximately 97.9% of the audited total assets of Hong Kong Cuyo as at 30 June 2007. As such, we would concur with the view with the Valuer that the adoption of the "enterprise value to sales" for the valuation of the Mining Right to be appropriate.

Valuation bases and assumptions

We have also discussed with the Valuer bases adopted and key assumptions employed in arriving at the indicated value of the Mining Right. We noted from the Valuation Report that the adopted bases and assumptions were provided by the senior management of the Company and the Valuer has conducted the following steps to evaluate the reasonableness of the adopted bases and assuptions: (i) obtained all relevant financial and operational information related to the Mining Right; (ii) performed market research and obtained statistical figures from public sources; (iii) examined all relevant bases and assumptions of both the financial and operational information of the Mining Right, which were provided by the senior management of the Company; (iv) prepared a business financial model to derive the indicated value of the Mining Right; and (v) presented all relevant information on the background of the Mining Right, valuation methodology, source of information, scope of works, major assumptions, comments and their conclusion of value in the Valuation Report.

The valuation assumptions adopted by the Valuer which are specific to this valuation (other than those assumptions which are general to any other valuations) include

(a) the Mining Right will be granted by the relevant PRC government authority before March 2009;

(b) the Mining Right is expected to have a valid period of 30 years; and

(c) the projection on the year that the Mine will achieve maximum production capacity was prepared on a reasonable basis, reflecting estimates that have been arrived at after due and careful consideration by the Directors.

Having considered that (i) the Company and the Purchaser, being parties to the Sale and Purchase Agreement, can initiate legal proceedings against Mr. Li for breach of warranty and undertaking under the Sale and Purchase Agreement should Mr. Li fails to procure all the necessary approvals, permits and licences to conduct mining activities of the Mine under the applicable laws and regulations of the PRC to be obtained on or before 17 March 2009; and (ii) the PRC Legal Advisers have given their view in the PRC Legal Opinion that there will not be any major legal obstacle for Sichuan Cuyo to obtain the Exploitation License as long as Sichuan Cuyo could fulfill all its obligations as the applicant as required by 國土資源部 (PRC Ministry of Land and Resources) and PRC laws, we consider the above assumption (a) to be appropriate.

As stated in the Letter from the Board, the Exploitation License may have lifespan of 30 years subject to renewal within 30 days before the expiry date of the Exploitation License according to the relevant PRC laws. We also noted from the Letter from the Board that Sichaun Cuyo is entitled to apply for the Exploitation License for a maximum of 30 years. In this connection, we have discussed with the Valuer and understand that in arriving at the valuation of the Mining Right, the sensitivity of the concluded value of the Mining Right to the exact lifespan of the Exploitation License is relatively low as it will only affect their selection of comparables under the market approach. Nevertheless, we wish to draw the attention of the Independent Shareholders that as set out in the Letter from the Board, should the lifespan of the Exploitation License to be granted by the relevant authorities be less than 30 years, the profitability of the Group's exploitation operation on the Mine may be adversely affected. Taking into account of the above, we consider the above assumption (b) to be appropriate.

We have discussed with the Valuer in respect of assumption (c) and understand that the projection on the year that the Mine will achieve maximum production capacity, which is expected to be in 2010 or approximately 3.17 years from the date of the Valuation Report with annual production capacity of approximately 1.9 million tonnes, was prepared on a reasonable basis after due and careful consideration by the Directors given they have made reference to the Technical Report in arriving at the said production schedule. As such, we consider that the above assumption (c) to be appropriate.

In addition, we further noted from the Technical Report and the Valuation Report that the average grade of the phosphate ore of the Mine is 14.57%, which by Chinese and International Standard is low. We have discussed with the Valuer and noted from the Valuation Report that in arriving at the concluded value of the Mining Right, they have taken into account the grade of the phosphate ore of the Mine in their selection of the comparables. As such, we consider that the valuation of the Mining Right as reported in the Valuation Report has already reflected the said grade of the phosphate ore of the Mine.

In the course of our discussions with the Valuer, nothing material came to our attention that would lead us to believe that the valuation was not prepared on a reasonable basis nor reflect estimates and assumptions which have been arrived at after due and careful consideration. We are satisfied that (i) the Valuer has the appropriate qualifications, industry experience and competence to conduct the valuation; (ii) the Valuer is independent of the Company, the Vendors, Hong Kong Cuyo and Sichuan Cuyo; and (iii) the methodologies used in its valuation are consistent with generally accepted industry practice. Therefore, we consider that the valuation is fair and reasonable.

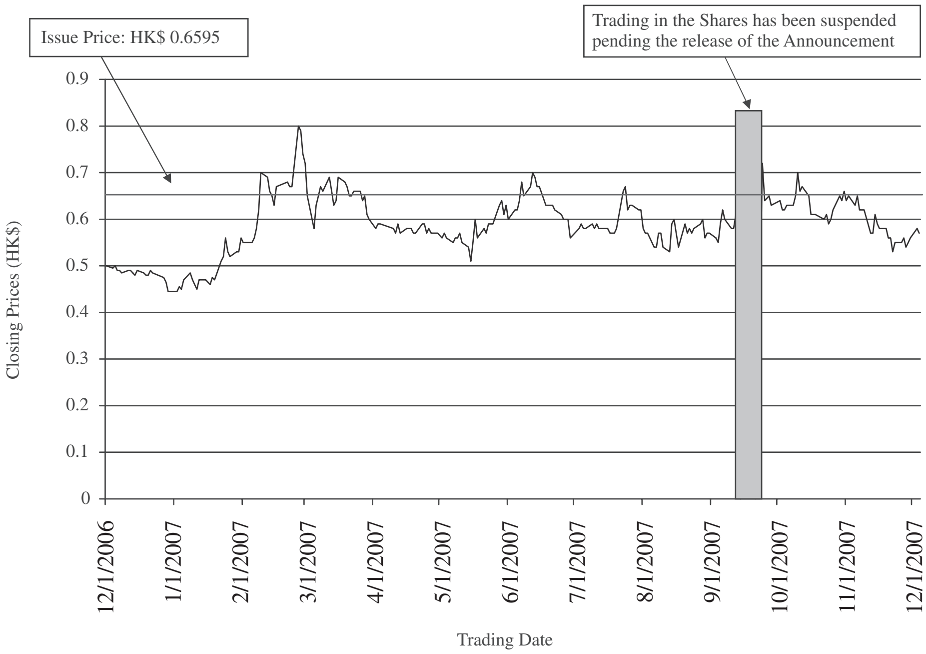
Given the consideration for the Acquisition of HK$312 million represents a discount of approximately 6% to the value of the Mining Right of HK$332 as indicated in the Valuation Report, we are of the view that the consideration for the Acquisition is fair and reasonable so far as the Independent Shareholders are concerned.

3. **Financing of the Acquisition**

Pursuant to the Sale and Purchase Agreement, the Purchaser conditionally agreed to acquire and the Vendors conditionally agreed to sell the 4,720,000 Sale Shares for a total consideration of HK$312.0 million. The consideration will be satisfied by the allotment and issue of the 473,060,000

Consideration Shares at approximately HK$0.6595 per Share. The chart below shows the daily closing prices of the Shares traded on the Stock Exchange from 1 December 2006 (being one year preceding the Latest Practicable Date) up to and including the Latest Practicable Date (the "Review Period"):

Closing prices of the Shares during the Review Period



As stated in the Letter from the Board, the issue price of HK$0.6595 per Consideration Share ("Issue Price") represents:

i) a premium of approximately 15.7% over the closing price of HK$0.57 as quoted on the Stock Exchange as at the Latest Practicable Date;

ii) a discount of approximately 4.4% to the closing price of HK$0.69 per Share as quoted on the Stock Exchange on 13 September 2007, being the last trading day immediately before the publication of the Announcement;

iii) a premium of approximately 8.1% over the average closing price of HK$0.61 per Share as quoted on the Stock Exchange from 7 September 2007 to 13 September 2007, being the five trading days immediately before the publication of the Announcement;

iv) a premium of approximately 9.9% over the average closing price of HK$0.60 per Share as quoted on the Stock Exchange from 31 August 2007 to 13 September 2007, being the 10 trading days immediately before the publication of the Announcement; and

v) a premium of approximately 13.7% over the Group's consolidated audited net asset per Share as at 31 December 2006 of approximately HK$0.58 (based on a total of 505,820,000 issued Shares as at the Latest Practicable Date).

During the Review Period, the Shares were traded with closing prices in the range of HK$0.445 per Share to HK$0.800 per Share, with an average of approximately HK$0.588 per Share for the Review Period. The Issue Price represents a premium of approximately 48.20% over and a discount of approximately 17.56% to the lowest and highest closing price of the Shares respectively during the Review Period. Out of the 242 trading days (excluding the trading days on which trading in the Shares has been suspended) during the Review Period, there are a total of 208 days in which the Shares closed below the Issue Price, representing more than 85% of the trading days during the Review Period.

For the purpose of assessing the Issue Price, we have, to the best of our effort, identified 28 transactions announced by companies listed on the Stock Exchange involving issue of consideration shares ("Consideration Shares Comparables") from 1 September 2007 to the Latest Practicable Date.

Date of announcement	Company Name	Stock Code	Amount settled by consideration shares Approximate (HK$ million)	Premium/ (discount) of the consideration share price over/ (to) the closing price on the last trading day before the respective announcement Approximate (%)	Premium/ (discount) of the consideration share price over/ (to) the 5-day average closing price prior to and including the last trading day before the respective announcement Approximate (%)	Premium/ (discount) of the consideration share price over/ (to) the 10-day average closing price prior to and including the last trading day before the respective announcement Approximate (%)
5-Sep-2007	SHOUGANG CONCORD TECHNOLOGY HOLDINGS LIMITED	521	102.00	(23.60)	(11.20)	0.00
10-Sep-2007	DORE HOLDINGS LIMITED	628	304.75	0.00	9.41	(6.77)
11-Sep-2007	CHI CHEUNG INVESTMENT COMPANY LIMITED	112	469.70	(10.10)	(12.80)	(9.50)
12-Sep-2007	SINO UNION PETROLEUM & CHEMICAL INTERNATIONAL LIMITED	346	200.00	6.70	5.40	4.60
14-Sep-2007	HENRY GROUP HOLDINGS LIMITED	859	132.38	0.00	(5.87)	1.30
14-Sep-2007	REGENT PACIFIC GROUP LIMITED	575	252.31	(11.57)	(3.95)	1.90
18-Sep-2007	SHANGHAI ALLIED CEMENT LIMITED	1060	530.00	(76.70)	(75.00)	(73.40)
18-Sep-2007	FINTRONICS HOLDINGS COMPANY LIMITED	706	23.08	20.50	19.60	16.30
18-Sep-2007	ENVIRO ENERGY INTERNATIONAL HOLDINGS LIMITED	8182	187.88	(40.90)	(26.00)	(22.36)
28-Sep-2007	GALILEO HOLDINGS LIMITED	8029	154.00	(66.46)	(66.26)	(61.21)
2-Oct-2007	I.T LIMITED	999	183.00	0.00	(2.80)	(4.40)
3-Oct-2007	VALUE CONVERGENCE HOLDINGS LIMITED	8101	227.47	33.93	31.64	35.90

Date of announcement	Company Name	Stock Code	Amount settled by consideration shares Approximate (HK$ million)	Premium/ (discount) of the consideration share price over/ (to) the closing price on the last trading day before the respective announcement Approximate (%)	Premium/ (discount) of the consideration share price over/ (to) the 5-day average closing price prior to and including the last trading day before the respective announcement Approximate (%)	Premium/ (discount) of the consideration share price over/ (to) the 10-day average closing price prior to and including the last trading day before the respective announcement Approximate (%)
9-Oct-2007	CHITALY HOLDINGS LIMITED	1198	18.00	(4.50)	(4.28)	(11.80)
10-Oct-2007	KARCE INTERNATIONAL HOLDINGS COMPANY LIMITED	1159	69.86	(38.90)	(36.50)	(28.30)
11-Oct-2007	PEKING APPAREL INTERNATIONAL GROUP LIMITED	761	88.70	(63.19)	(59.13)	(51.88)
15-Oct-2007	HUA YI COPPER HOLDINGS LIMITED	559	110.00	(6.36)	(1.82)	(3.64)
17-Oct-2007	UNITED POWER INVESTMENT LIMITED	674	235.60	2.12	0.00	(1.89)
18-Oct-2007	WAFER SYSTEMS LIMITED	8198	61.20	(48.48)	(42.02)	(35.07)
26-Oct-2007	ZHONG HUA INTERNATIONAL HOLDINGS LIMITED	1064	60.95	(10.70)	(10.70)	(16.60)
30-Oct-2007	YUNNAN ENTERPRISES HOLDINGS LIMITED	455	167.00	(61.00)	(60.29)	(60.12)
9-Nov-2007	GREENFIELD CHEMICAL HOLDINGS LIMITED	582	300.00	(58.30)	(54.00)	(50.60)
9-Nov-2007	SINO UNION PETROLEUM & CHEMICAL INTERNATIONAL LIMITED	346	615.00	7.46	4.20	8.76
12-Nov-2007	CITIC 1616 HOLDINGS LIMITED	1883	253.01	(5.40)	(0.30)	0.20
23-Nov-2007	PROSPERITY INTERNATIONAL HOLDINGS (H.K.) LIMITED	8139	18.40	(49.00)	(50.10)	(50.57)
29-Nov-2007	NEPTUNE GROUP LIMITED	70	432.00	(13.04)	(8.26)	(7.98)
30-Nov-2007	K.P.I. COMPANY LIMITED	605	58.5	(4.26)	1.11	2.86
3-Dec-2007	TIANJIN DEVELOPMENT HOLDINGS LIMITED	882	265.00	(8.67)	(6.94)	(5.99)
3-Dec-2007	CHINA RESOURCES LAND LIMITED	1109	4,528.80	(9.20)	(2.69)	0.00
	Highest:			33.93	31.64	35.90
	Lowest:			(76.70)	(75.00)	(73.40)
	Average:			(19.27)	(16.77)	(15.37)
21-Sep-2007	THE COMPANY	8042	312.00	4.40	(8.10)	(9.90)

Source: Bloomberg / website of the Stock Exchange

As shown in the above table, the premium of the Issue Price over the closing price of the Shares on the Last Trading Day and the discount of the Issue Price to the 5-day and 10-day average closing price of the Shares immediately prior to the Last Trading Day are within the ranges of the premiums/discounts of those of the Consideration Share Comparables and also better that the respective average discounts of the Consideration Shares Comparables. Accordingly, we considered that the Issue Price is fair and reasonable so far as the Independent Shareholders are concerned.

We wish to highlight that the above comparisons with the Consideration Shares Comparables are for illustrative purposes only as each of the issue of the Consideration Shares Comparables may not be entirely comparable to the issue of the Consideration Share given the respective companies may not be direct comparable with the Company in terms of the geographical spread of activities, scale of operations, asset base, risk profile, track record, composition of their business activities, future prospects and other relevant criteria. All these factors may affect the price of consideration shares issued and alloted as indicated by the varied range of result in our comparison. Therefore, in forming our opinion, we have considered the results of the above Consideration Shares Comparables together with all other factors stated in this letter as a whole.

4. **Dilution effect on the Independent Shareholders**

As set out in the Letter from the Board, the following table shows the changes in shareholding structure of the Company upon completion of the Acquisition:

	As at the Latest Practicable Date		**Immediately after the Completion**	
	No. of Shares	*%*	*No. of Shares*	*%*
Mr. Li and his parties acting in concert				
Mr Li *(note)*	206,440,000	40.81	584,888,000	59.75
Mr. Yuan *(note)*	35,448,000	7.01	73,292,800	7.49
Well Sunshine	—	—	47,306,000	4.83
Mr. Yan	—	—	9,461,200	0.97
	241,888,000	47.82	714,948,000	73.04
Ms. Chi Chuan *(note)*	12,528,000	2.48	12,528,000	1.28
Ms. Man Au Vivian *(note)*	6,264,000	1.24	6,264,000	0.64
Public Shareholders	245,140,000	48.46	245,140,000	25.04
Total	505,820,000	100.00	978,880,000	100.00

Note: Mr. Li, Mr. Yuan, Ms. Chi Chuan and Ms. Man Au Vivian are executive Directors.

As illustrated in the above table, upon the completion of the Acquisition, a total of 473,060,000 Consideration Shares will be issued, representing approximately 48.33% of total issued share capital of the Company as enlarged. The issuance of Consideration Shares will result in dilution of the interest of the existing public Shareholders from approximately 48.46% to approximately 25.04%. Taking into account the reasons and benefits of the Acquisition as discussed above, among others, to have the Group's business expanded vertically, to secure the supply of phosphate, one of the major raw materials for production of the Group, which compliment its existing business, to get enrolled into the profitable phosphate mining business and to establish the Group as an one-stop-shop fertiliser supplier, we considered that the dilution effect of the issuance of Consideration Shares to be acceptable.

5. **Possible financial effects of the Acquisition**

(a) *Earnings*

Upon completion of the Acquisition, Hong Kong Cuyo will become an indirect wholly-owned subsidiary of the Company and the accounts of Hong Kong Cuyo will be consolidated into those of the Group. As referred to in the annual report of the Company for the year ended 31 December 2006, the audited consolidated profit of the Group was approximately RMB28.60 million. As set out in the unaudited pro forma financial information of the enlarged Group in Appendix III to the Circular (the "Proforma Financial Statement"), the unaudited pro forma net profit of the enlarged Group will become approximately RMB28.34 million assuming completion of the Acquisition, representing a slight decrease of approximately 0.91%. While the production of the Mine is yet to be commenced, we are unable to quantify the effect on the earnings of the Group at that time.

(b) *Net asset value*

As referred to in the interim report of the Company for the six months ended 30 June 2007, the unaudited net asset value of the Group as at 30 June 2007 was approximately RMB306.74 million. As set out in the Proforma Financial Statement, the unaudited pro forma net asset value of the enlarged Group will become RMB610.75 million assuming completion of the Acquisition, representing an increase of approximately 99.11%.

Having considered that the Acquisition will have a positive effect to the net asset value of the Group and will not have material adverse effect on the earnings of the Group, we are of the view that the Acquisition is in the interests of the Company and the Shareholders as a whole.

Recommendation in relation to the Acquisition

Having taken into account the above principal factors and reasons, in particular,

(i) the general positive prospect of the phosphate market;

(ii) the possible complementary effect of the Acquisition to the existing fertiliser business of the Group;

(iii) the consideration of the Acquisition represents a discount to the value of the Mining Right as set out in the Valuation Report to be fair and reasonable;

(iv) the premium/discounts of the Issued Price are within the ranges of the discounts of those of the Consideration Share Comparables and also better than the respective average discounts of those of the Consideration Share Comparables;

(v) the dilution effect of the issuance of Consideration Shares is acceptable; and

(vi) the positive effect to the net asset value of the Group and no material adverse effect on the earnings of the Group,

we are of the view that the Acquisition is on normal commercial terms, in ordinary and usual course of the business of the Group and **fair and reasonable** so far as the Shareholders are concerned and **in the interests** of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to recommend the Independent Shareholders and also advise the Independent Shareholders to vote **in favour of** the relevant resolution(s) to be proposed at the EGM to approve the Sale and Purchase Agreement and the transaction contemplated thereunder.

B. THE WHITEWASH WAIVER

Upon completion of the Acquisition, Mr. Li and parties acting in concert with him will be interested in 714,948,000 Shares, representing approximately 73.04% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares. As disclosed in the Letter from the Board, there were no dealings in the Shares by Mr. Li and parties acting in concert with him for the past 6 months prior to 21 September 2007, being the date of the Announcement up to and including the Latest Practicable Date. Under Rule 26 of the Takeovers Code, in the absence of the Whitewash Waiver, Mr. Li and parties acting in concert with him should be obliged to make a mandatory general offer to acquire all the Shares other than those already owned by Mr. Li and parties acting in concert with him.

Application has been made by Mr. Li and parties acting in concert with him to the Executive for the Whitewash Waiver under Note 1 on dispensations from Rule 26 of the Takeovers Code and the Executive has indicated that subject to the approval of the Whitewash Waiver by the Independent Shareholders at the EGM by way of a poll, the Executive will grant the Whitewash Waiver. As stated in the Letter from the Board, the Acquisition is conditional upon, among other things, the Executive granting the Whitewash Waiver to Mr. Li and parties acting in concert with him.

Given the benefits which may be accrued to the Company from the Acquisition as discussed above and that the granting of the Whitewash Waiver is among the conditions precedent to the completion of the Acquisition, we consider that it would be **in the interest** of the Independent Shareholders to vote **in favour of** the relevant resolution in relation to the grant of the Whitewash Waiver to be proposed at the EGM.

Yours faithfully,
For and on behalf of
Optima Capital Limited
Gary Mui
Executive Director
Head of Corporate Finance

1. SUMMARY OF FINANCIAL INFORMATION

Set out below is a summary of the results, assets and liabilities of the Group as extracted from the annual, interim and quarterly reports of the Company. Financial information of the Group for the years ended 31 December 2004 and 2005 have been reclassified to confirm with the presentation for the year ended 31 December 2006.

RESULTS

	Nine months ended 30 September		**Year ended 31 December**		
	2007	**2006**	**2006**	**2005**	**2004**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Turnover	660,591	488,896	610,587	627,616	422,728
Cost of Sales	(574,455)	(406,973)	(513,212)	(497,767)	(336,679)
Gross profit	86,136	81,923	97,375	129,849	86,049
Interest income	470	1,101	—	—	—
Other income	8,112	6,988	6,322	3,780	5,777
Distribution costs	(22,873)	(18,789)	(22,182)	(34,640)	(22,062)
Administrative expenses	(29,329)	(25,348)	(41,282)	(38,646)	(28,394)
Operating profit	42,516	45,875	40,233	60,343	41,370
Finance costs	(10,798)	(5,919)	(6,909)	(7,143)	(7,476)
Profit before taxation	31,718	39,956	33,324	53,200	33,894
Taxation	(5,686)	(4,822)	(4,728)	(6,421)	(1,215)
Profit for the period/year	26,032	35,134	28,596	46,779	32,679
Attributable to:					
Equity holders of the Company	26,032	35,134	28,596	46,802	32,712
Minority interests	—	—	—	(23)	(33)
	26,032	35,134	28,596	46,779	32,679
Basic earnings per Share (RMB cents) *(Note 1)*	5.15	7.57	6.00	11.11	7.80
Diluted earnings per share (RMB cents) *(Note 2)*	5.15	7.55	6.00	11.11	7.80
Dividends per Share (HK cents)	0.30	0.50	1.20	2.00	1.45

Notes:

1. 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.

2. Diluted earnings per share is calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

ASSETS AND LIABILITIES

	As at 30 June	As at 31 December		
	2007	**2006**	**2005**	**2004**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
ASSETS				
Non-current assets				
Negative goodwill	—	—	—	(12,366)
Land use rights	34,453	44,346	45,124	42,957
Property, plant and equipment	320,079	304,351	189,528	163,878
Deferred income tax assets	865	771	—	—
Available-for-sale investment	—	—	1,000	1,000
	355,397	349,468	235,652	195,469
Current assets				
Inventories	71,148	76,804	74,340	51,037
Trade and other receivables	84,521	64,378	53,329	46,802
Pledged bank deposits	58,064	20,801	77,800	53,940
Cash and cash equivalents	31,787	12,839	47,758	13,926
	245,520	174,822	253,227	165,705
Total assets	600,917	524,290	488,879	361,174
EQUITY				
Capital and reserves attributable to the Company's equity holders				
Share capital	53,449	53,449	44,713	44,713
Reserves				
— Proposed final dividends	1,517	3,541	6,580	5,142
— Others	251,770	235,872	151,634	101,239
	306,736	292,862	202,927	151,094
Minority interest	—	—	—	567
Total equity	306,736	292,862	202,927	151,661

	As at 30 June 2007	As at 31 December 2006	2005	2004
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
LIABILITIES				
Non-current liabilities				
Long-term loans, secured	—	—	8,800	37,200
Provision for staff compensation	3,586	4,573	7,330	7,388
Deferred income tax liabilities	—	—	162	266
	3,586	4,573	16,292	44,854
Current liabilities				
Trade and other payables	104,819	90,919	121,693	69,229
Current income tax liabilities	—	1,660	3,097	—
Current portion of long-term loans, secured	5,800	8,800	9,000	—
Short-term bank loans, secured	179,976	125,476	135,870	95,430
	290,595	226,855	269,660	164,659
Total liabilities	294,181	231,428	285,952	209,513
Total equity and liabilities	600,917	524,290	488,879	361,174
Net current liabilities	(45,075)	(52,033)	(16,433)	1,046
Total assets less current liabilities	310,322	297,435	219,219	196,515

The Company's consolidated financial statements for the years ended 31 December 2004, 2005 and 2006 were audited by PricewaterhouseCoopers and the relevant auditor's reports did not contain any qualifications. Under the prevailing Hong Kong Financial Reporting Standards, the terms "extraordinary items" and "exceptional items" are no longer in use.

2. AUDITED FINANCIAL INFORMATION OF THE GROUP FOR THE TWO YEARS ENDED 31 DECEMBER 2005 AND 2006

Set out below are the audited financial statement of the Group together with accompanying notes as extracted from the annual report of the Company for the year ended 31 December 2006:

Consolidated Balance Sheet

	Note	As at 31 December 2006	2005
		RMB'000	*RMB'000*
ASSETS			
Non-current assets			
Land use rights	5	44,346	45,124
Property, plant and equipment	6	304,351	189,528
Deferred income tax assets	18	771	—
Available-for-sale investment	7	—	1,000
		349,468	235,652
Current assets			
Inventories	9	76,804	74,340
Trade and other receivables	10	64,378	53,329
Pledged bank deposits	11, 12, 13	20,801	77,800
Cash and cash equivalents	13	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	15	53,449	44,713
Reserves			
— Proposed final dividends	16, 26	3,541	6,580
— Others	16	235,872	151,634
		292,862	202,927
Minority interest		—	—
Total equity		292,862	202,927
LIABILITIES			
Non-current liabilities			
Long-term loans, secured	14	—	8,800
Provision for staff compensation	17	4,573	7,330
Deferred income tax liabilities	18	—	162
		4,573	16,292

	Note	As at 31 December 2006 RMB'000	2005 RMB'000
Current liabilities			
Trade and other payables	11	90,919	121,693
Current income tax liabilities		1,660	3,097
Current portion of long-term loans, secured	14	8,800	9,000
Short-term bank loans, secured	12	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

Balance Sheet

	Note	As at 31 December 2006 RMB'000	2005 RMB'000
ASSETS			
Non-current assets			
Investments in subsidiaries	8	132,310	74,803
Current assets			
Other receivables	10	39,509	39,367
Cash		20	52
		39,529	39,419
Total assets		171,839	114,222
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	15	53,449	44,713
Reserves			
— Proposed final dividends	16, 26	3,541	6,580
— Others	16	111,434	59,454
Total equity		168,424	110,747
LIABILITIES			
Current liabilities			
Accruals and other payables	11	3,415	3,475
Total liabilities		3,415	3,475
Total equity and liabilities		171,839	114,222
Net current assets		36,114	35,944
Total assets less current liabilities		168,424	110,747

Consolidated Income Statement

	Note	**Year ended 31 December 2006** *RMB'000*	**2005** *RMB'000*
Turnover	19	610,587	627,616
Cost of sales	21	(513,212)	(497,767)
Gross profit		97,375	129,849
Other income	20	6,322	3,780
Distribution costs	21	(22,182)	(34,640)
Administrative expenses	21	(41,282)	(38,646)
Operating profit		40,233	60,343
Finance costs — net	22	(6,909)	(7,143)
Profit before income tax		33,324	53,200
Income tax expense	23	(4,728)	(6,421)
Profit for the year		28,596	46,779
Attributable to:			
Equity holders of the Company	24	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)	25		
— Basic		0.060	0.111
— Diluted		0.060	0.111
Dividends	26	6,172	8,773

Consolidated Statement of Changes in Equity

		Attributable to equity holders of the Company			
	Note	**Share capital**	**Reserves**	**Minority interest**	**Total**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2005		44,713	118,747	567	164,027
Profit for the year		—	46,802	(23)	46,779
Acquisition of minority interest		—	—	(544)	(544)
Dividends	26	—	(7,335)	—	(7,335)
Balance at 31 December 2005		44,713	158,214	—	202,927
Balance at 1 January 2006		44,713	158,214	—	202,927
Employee share option scheme:					
— value of employee services		—	4,188	—	4,188
Issue of ordinary shares		8,736	57,626	—	66,362
Profit for the year		—	28,596	—	28,596
Dividends	26	—	(9,211)	—	(9,211)
Balance at 31 December 2006		53,449	239,413	—	292,862

Consolidated Cash Flow Statement

	Note	**Year ended 31 December 2006** *RMB'000*	**2005** *RMB'000*
Cash generated from operating activities	29(a)	1,513	99,559
Income tax paid		(7,098)	(6,891)
Interest paid		(7,905)	(8,060)
Net cash (outflow)/inflow from operating activities		(13,490)	84,608
Cash flows from investing activities			
Acquisition of minority interest		—	(600)
Payments for land use rights		(183)	(3,140)
Purchases of property, plant and equipment and payments for construction-in-progress		(119,235)	(38,887)
Proceeds from disposal of property, plant and equipment		77	525
Dividend received from available-for -sale investment		—	130
Proceeds from disposal of available-for-sale investment		1,733	—
Interest income received		1,423	1,351
Net cash used in investing activities		(116,185)	(40,621)
Net cash (outflow)/inflow before financing activities		(129,675)	43,987
Cash flows from financing activities	29(b)		
Decrease/ (increase) in pledged bank deposits		56,999	(23,860)
Issue of ordinary shares		66,362	—
New loans payable		125,476	135,870
Repayment of bank loans		(144,870)	(114,830)
Dividends paid	26	(9,211)	(7,335)
Net cash inflow/(used) in financing activities		94,756	(10,155)
Net (decrease)/ increase in cash and cash equivalents		(34,919)	33,832
Cash and cash equivalents at 1 January		47,758	13,926
Cash and cash equivalents at end of the year		12,839	47,758

Notes to the Consolidated Financial Statements

1 GENERAL INFORMATION

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

The 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.

These consolidated financial statements are presented in thousands of units of Renminbi Yuan (RMB'000), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 28 March 2007.

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 33, 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. One 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 4.

(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 **FINANCIAL RISK MANAGEMENT**

3.1 **Financial risk factors**

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

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

(a) *Foreign exchange risk*

The Group exposes to foreign exchange risks as certain portion of 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.

The conversion of RMB into foreign currencies and the remittance of bank balances and cash out of Mainland China are subject to the rules and regulations of foreign exchange control promulgated by the Mainland China government.

(b) *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 as at 31 December 2006 (2005: RMB8,800,000).

(c) *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.

(d) *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.

3.2 **Fair value estimation**

The carrying value less impairment provision of trade receivables and payables are a reasonable approximation of their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

4.1 **Estimates**

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

(a) *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.

4.2 **Judgements**

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

(a) *Impairment of 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*

As mentioned in Note 15(b), 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.

5 LAND USE RIGHTS — GROUP

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

	2006	**2005**
	RMB'000	*RMB'000*
Opening net book value	45,124	42,957
Additions	183	3,140
Amortisation of prepaid operating lease payment	(961)	(973)
	44,346	45,124

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

As at 31 December 2006, certain land use rights with a total net book value of approximately RMB42,872,000 (2005: RMB43,817,000) were pledged as collateral for the Group's short-term bank loans and long-term bank loans (Notes 12 and 14).

6 PROPERTY, PLANT AND EQUIPMENT — GROUP

	Buildings	Plant and machinery	Motor vehicles	Office equipment and others	Construction in-progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2005						
Cost	58,605	99,156	4,609	7,450	26,917	196,737
Accumulated depreciation	(6,788)	(21,557)	(743)	(3,771)	—	(32,859)
Net book amount	51,817	77,599	3,866	3,679	26,917	163,878
Year ended 31 December 2005						
Opening net book amount	51,817	77,599	3,866	3,679	26,917	163,878
Transfers	3,453	24,241	—	4,741	(32,435)	—
Additions	2,391	391	887	678	34,540	38,887
Disposals *(Note 29)*	—	(1,362)	(229)	(8)	—	(1,599)
Depreciation *(Note 21)*	(1,497)	(8,571)	(417)	(1,153)	—	(11,638)
Closing net book amount	56,164	92,298	4,107	7,937	29,022	189,528
At 31 December 2005						
Cost	64,449	121,535	5,137	12,858	29,022	233,001
Accumulated depreciation	(8,285)	(29,237)	(1,030)	(4,921)	—	(43,473)
Net book amount	56,164	92,298	4,107	7,937	29,022	189,528
Year ended 31 December 2006						
Opening net book amount	56,164	92,298	4,107	7,937	29,022	189,528
Transfers	8,969	9,609	—	530	(19,108)	—
Additions	—	765	947	402	126,389	128,503
Disposals *(Note 29)*	—	(220)	(33)	(21)	—	(274)
Depreciation *(Note 21)*	(1,443)	(9,724)	(484)	(1,755)	—	(13,406)
Closing net book amount	63,690	92,728	4,537	7,093	136,303	304,351
At 31 December 2006						
Cost	73,418	131,588	6,047	13,731	136,303	361,087
Accumulated depreciation	(9,728)	(38,860)	(1,510)	(6,638)	—	(56,736)
Net book amount	63,690	92,728	4,537	7,093	136,303	304,351

Depreciation expense of RMB12,209,000 (2005: RMB10,631,000) had been charged in cost of goods sold and RMB1,197,000 (2005: RMB1,007,000) in administrative expenses.

All the Group's buildings are located in Mainland China. As at 31 December 2006, certain buildings with a total net book value of approximately RMB40,518,000 (2005: RMB41,720,000) and plant and machinery with a total net book value of approximately RMB24,296,000 (2005: RMB25,092,000) were pledged as collateral for the Group's short-term bank loans and long-term bank loans (Notes 12 and 14).

7 AVAILABLE-FOR-SALE INVESTMENT — GROUP

	2006	**2005**
	RMB'000	*RMB'000*
Unlisted equity investment, at cost		
Beginning of the year	1,000	1,000
Additions	—	—
Disposals	(1,000)	—
	—	1,000

The unlisted equity investment is denominated in RMB and represents 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.

During the year, the Group sold this investment to the largest investor of Sichuan Jiuda with consideration of RMB1,733,300. The difference between consideration and net book value had been recognised to other income in the income statement (Note 20).

8 INVESTMENTS IN SUBSIDIARIES — COMPANY

	2006	**2005**
	RMB'000	*RMB'000*
Unlisted investments, at cost	70,361	70,361
Investment arising from share-based compensation *(Note a)*	4,188	—
Amounts due from subsidiaries *(Note b)*	63,544	10,225
Amounts due to subsidiaries *(Note b)*	(5,783)	(5,783)
	132,310	74,803

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

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

The following is a list of the subsidiaries as at 31 December 2006:

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 Industry Co., Ltd. ("Chengdu Ko Yo Chemical")	Mainland China, wholly foreign owned enterprise	Manufacture and sale of chemical products including sodium carbonate, ammonia, and chemical fertilisers including urea and ammonium chloride in Mainland China	RMB27,000,000**	100%
Chengdu Ko Yo Compound Fertilisers Co., Ltd. ("Chengdu Ko Yo Compound")	Mainland China, wholly foreign owned enterprise	Manufacture, research, development and sale of bulk blended fertilisers in Mainland China	RMB15,000,000	100%
Dezhou Ko Yo Compound Fertilisers Co., Ltd. ("Dezhou Ko Yo Compound")	Mainland China, wholly foreign owned enterprise	Manufacture, research, development and sale of bulk blended fertilisers in Mainland China	RMB3,000,000	100%
Dazhu city Dazhu Ko Yo Chemical Industry Co., Ltd. ("Dazhu Ko Yo Chemical")	Mainland China, wholly foreign owned enterprise	Manufacture and sale of chemical products including ammonia, ammonia carbonate and urea in Mainland China	RMB112,323,000**	100%
Qingdao Ko Yo Chemical Industry Co., Ltd. ("Qingdao Ko Yo Chemical")	Mainland China, wholly foreign owned enterprise	Manufacture, research, development and sale of bulk blended fertilisers in Mainland China	USD2,100,000 (equivalent to RMB17,032,000)	100%

* Shares held directly by the Company.

** During the year, RMB14,000,000 and RMB64,323,000 were injected in Chengdu Ko Yo Chemical and Dazhu Ko Yo Chemical, respectively, as paid-in capital, by Ko Yo Hong Kong. The additional capital injections had been verified by local certified public accountants.

9 INVENTORIES — GROUP

	2006	2005
	RMB'000	*RMB'000*
Raw materials	48,095	47,615
Work in progress	10,001	4,840
Finished goods	18,708	21,885
	76,804	74,340

The cost of inventories recognised as expense and included in cost of goods sold amounted to RMB333,057,000 (2005: RMB334,010,000).

At 31 December 2006, there were no inventories stated at net realisable value (2005: Nil).

10 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.

11 TRADE AND OTHER PAYABLES

	Group		Company	
	2006	**2005**	**2006**	**2005**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Due to related companies *(Note 31)*	—	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).

12 SHORT-TERM BANK LOANS, SECURED

The bank loans are denominated in RMB and bear interest with rates ranging from 4.80% to 7.50% (2005: 4.80% to 6.98%) per annum and are secured by a bank deposit of RMB15,200,000 (2005: RMB59,000,000) and certain land use rights and properties, plants and equipments of the Group (Notes 5 and 6).

13 PLEDGED BANK DEPOSITS/CASH AND CASH EQUIVALENTS — GRUOP

The effective interest rates on pledged bank deposits are ranging from 0.72% to 0.73% (2005: 0.72% to 1.71%).

The effective interest rate on cash and cash equivalents is 0.72% (2005: 0.72%).

14 LONG-TERM BANK LOANS, SECURED

	Group	
	2006	**2005**
	RMB'000	*RMB'000*
Amounts due:		
Less than 1 year	8,800	9,000
More than 1 year but not exceeding 2 years	—	8,800
	8,800	17,800
Amounts due within 1 year included in current liabilities	(8,800)	(9,000)
	—	8,800

The bank loans are denominated in RMB and bear interest with rates ranging from 6.14% to 6.21% (2005: 6.14% to 6.21%) per annum and are secured by certain land use rights and properties, plants and equipments of the Group (Notes 5 and 6).

15 SHARE CAPITAL

	Authorised	
	Number of shares	**Share capital**
		RMB'000
At 31 December 2006 and 2005	1,000,000,000	106,000

	Issued and fully paid	
	Number of shares	**Share capital**
		RMB'000
At 1 January 2005 and 31 December 2005	421,820,000	44,713
Issue of ordinary shares	84,000,000	8,736
At 31 December 2006	505,820,000	53,449

(a) **Issue of ordinary shares**

On 17 May 2006, the issued share capital of the Company was increased to approximately RMB53,449,000 by issuing 84,000,000 ordinary shares to third party investors at a price of HKD0.78 per share through a placing and subscription arrangement, these shares rank pari passu with the existing shares. The difference between the amount recognised in share capital and total net consideration was recognised to share premium reserve in the balance sheet (Note 16).

(b) **Share options**

Date of grant	**23 September 2003**	**11 April 2006**	**16 May 2006**	
Exercise price (HKD per option)	0.62	0.75	0.75	
Granted to	**2 executive directors, 2 independent directors and 6 employees**	**18 employees**	**2 executive directors and 1 independent director**	**Total**
Exercisable period	**10 years** *(Note i)*	**10 years**	**10 years** *(Note ii)*	
At 1 January 2005 and 31 December 2005	25,200,000	—	—	25,200,000
Granted	—	10,500,000	1,240,000	11,740,000
Lapsed due to resignation of employees	(800,000)	—	—	(800,000)
At 31 December 2006	24,400,000	10,500,000	1,240,000	36,140,000

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

The number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other schemes must not exceed 30% of the shares in issue from time to time. The total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes must not exceed 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. The subscription price will be determined by the Company's board of directors, and will not be less than the highest of (a) the closing price of the shares quoted on the GEM of the Stock Exchange on the date of the offer; (b) the average closing price of the shares quoted on the GEM of the Stock Exchange for the five business days immediately preceding the date of the offer and (c) the nominal value of the shares.

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

Exercise period	Directors	Number of options 2006
23 September 2004 to 22 September 2013	Ms. Chi Chuan	4,200,000
23 September 2004 to 22 September 2013	Mr. Li Shengdi (appointed on 29 April 2004)	4,200,000
23 September 2004 to 22 September 2013	Ms. Man Au, Vivian	3,800,000
23 September 2004 to 22 September 2013	Mr. Hu Xiaoping	400,000
23 September 2004 to 22 September 2013	Mr. Woo Che-wor, Alex	400,000
		13,000,000
23 September 2004 to 22 September 2013	Other employees	11,400,000
		24,400,000

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

Exercise period	Directors	Number of options 2006
16 May 2006 to 15 May 2016	Mr. Li Weiruo	420,000
16 May 2006 to 15 May 2016	Mr. Yuan Bai	400,000
16 May 2006 to 15 May 2016	Mr. Qian Laizhong	420,000
		1,240,000

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

	2006		2005	
	Average exercise price (HKD per share)	Options (thousands)	Average exercise price (HKD per share)	Options (thousands)
At 1 January	0.62	25,200	0.62	25,200
Granted	0.75	11,740		—
Lapsed	0.62	(800)		—
At 31 December	0.66	36,140	0.62	25,200

The weighted average fair value of options granted during the year determined using the Black-Scholes valuation model was HKD0.36 (RMB0.36) per option. The significant inputs into the model were share price of HKD0.75 (11 April 2006) and HKD1.08 (16 May 2006) respectively, at each grant date, the exercise price shown above, volatility of 68.7%, dividend yield of 4.75%, an expected option life of ten years and on annual risk-free interest rate of 4.8%. The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of daily share prices over the last one year before 11 April 2006. Given that the total number of share options granted in 2006 is 11,740,000, the total fair value was HKD4,188,000 (approximate to RMB4,188,000), which was recognised as administrative expense and a corresponding increase in reserve (Note 16).

16 RESERVES

Movements of the Group's reserves were as follows:

	Share premium	**Merger reserve**	**Reserve fund**	**Enterprise expansion fund**	**Retained earnings**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
		(Note c)				
At 1 January 2006	19,204	(22,041)	11,307	943	148,801	158,214
Fair value of share options *(Note 15 b)*	—	—	4,188	—	—	4,188
Issue of ordinary shares *(Note a)*	59,405	—	—	—	—	59,405
Cost of share issue *(Note a)*	(1,779)	—	—	—	—	(1,779)
Profit for the year	—	—	—	—	28,596	28,596
Appropriation *(Note b)*	—	—	3,307	—	(3,307)	—
Dividends *(Note 26)*	—	—	—	—	(9,211)	(9,211)
At 31 December 2006	76,830	(22,041)	18,802	943	164,879	239,413
Representing:						
2006 final dividend proposed					3,541	3,541
Others					161,338	235,872
					164,879	239,413

Movements of the Company's reserves were as follows:

	Share premium *RMB'000*	Other reserves *RMB'000*	Retained earnings *RMB'000*	Total *RMB'000*
At 1 January 2006	56,366	—	9,668	66,034
Fair value of share options *(Note 15 b)*	—	4,188	—	4,188
Issue of ordinary shares *(Note a)*	59,405	—	—	59,405
Cost of share issue *(Note a)*	(1,779)	—	—	(1,779)
Profit attributable to shareholders	—	—	(3,662)	(3,662)
Dividends *(Note 26)*	—	—	(9,211)	(9,211)
At 31 December 2006	113,992	4,188	(3,205)	114,975
Representing:				
2006 final dividend proposed			3,541	3,541
Others			(6,746)	111,434
			(3,205)	114,975

(a) **Share premium reserve**

The net consideration of subscription received was HKD63,809,000 (RMB66,362,000). Accordingly, HKD8,400,000 (RMB8,736,000) and HKD55,409,000 (RMB57,626,000) were recorded as share capital and share premium reserve, respectively.

(b) **Statutory reserves**

The Company's subsidiaries established in Mainland China are governed by the laws and regulations of Mainland China and their articles of association. They are required to provide for certain statutory funds, namely, reserve fund, 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 financial statements prepared in accordance with accounting principles and relevant financial regulations applicable to enterprises established in Mainland China. They are required to allocate at least 10% of their net profit to the reserve fund until the balance of such fund has reached 50% of its registered capital. 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.

(c) **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.

17 PROVISION FOR STAFF COMPENSATION

	2006	2005
	RMB'000	*RMB'000*
At 1 January	7,330	7,388
Payments	(2,757)	(58)
At 31 December	4,573	7,330

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 2.14), 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.

18 DEFERRED INCOME TAX — GROUP

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

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

	2006	2005
	RMB'000	*RMB'000*
Deferred tax assets:		
— Deferred tax asset to be recovered after more than 12 months	532	239
— Deferred tax asset to be recovered within 12 months	239	223
	771	462
Deferred tax liabilities:		
— Deferred tax liabilities to be settled after more than 12 months	—	—
— Deferred tax liabilities to be settled within 12 months	—	(624)
	—	(624)
	771	(162)

The gross movement on the deferred income tax account is as follows:

	2006	2005
	RMB'000	*RMB'000*
At 1 January	(162)	(266)
Deferred taxation credited to income statement *(Note 23)*	933	104
At 31 December	771	(162)

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	Deferred tax liabilities		**Deferred tax assets**		**Total**	
	Difference in tax depreciation		**Impairment of assets**			
	2006	**2005**	**2006**	**2005**	**2006**	**2005**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January	(624)	(624)	462	358	(162)	(266)
Credited to income statement	624	—	309	104	933	104
At 31 December	—	(624)	771	462	771	(162)

19 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%.

20 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 *(Note 7)*	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.

21 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 *(Note 27)*	47,024	38,710
Depreciation, amortisation and impairment charges *(Note 5 and 6)*	14,367	12,611
Provisions for doubtful receivables *(Note 10)*	1,798	1,356
Loss on disposal of property, plant and equipment *(Note 29 (a))*	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

22 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

23 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 *(Note 18)*	(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	33,324	53,200
Calculated at statutory taxation rate of 18% (2005: 15%)	5,998	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	(1,270)	(486)
Taxation	4,728	6,421

24 LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The loss attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of RMB3,661,000 (2005: profit of RMB11,784,000).

25 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

26 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.

27 STAFF COSTS

	2006	2005
	RMB'000	*RMB'000*
Wages and salaries	36,207	33,669
Pension costs — defined contribution plans	3,977	3,093
Social security costs	2,652	1,948
Share options granted to directors and employees *(Note 15 b)*	4,188	—
	47,024	38,710

28 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) **Directors' emoluments**

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

Name of director	Fees	Salaries, allowances, and benefits in kind	Bonuses	Contributions to pension schemes	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive Directors					
Mr. Li Weiruo	618	250	200	22	1,090
Mr. Yuan Bai	124	220	150	10	504
Ms. Chi Chuan	124	220	150	10	504
Mr. Li Shengdi	124	250	150	11	535
Ms. Man Au, Vivian	124	371	150	12	657
Independent non-executive directors					
Mr. Hu Xiaoping	62	—	10	—	72
Mr. Woo Che-wor, Alex	62	—	10	—	72
Mr. Qian Laizhong	62	—	10	—	72
	1,300	1,311	830	65	3,506

The remuneration of every director for the year ended 31 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 Au, Vivian	125	377	156	11	669
Independent non-executive directors					
Mr. Hu Xiaoping	62	—	11	—	73
Mr. Woo Che-wor, Alex	62	—	11	—	73
Mr. Qian Laizhong	62	—	11	—	73
	1,310	1,076	863	56	3,305

(b) **Five highest paid individuals**

The five individuals whose emoluments were the highest in the Group for both years include four directors (2005: four) whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining individual (2005: also only one individual) during the year are as follows:

	2006	**2005**
	RMB'000	*RMB'000*
Basic salaries, housing allowances, other allowances and benefits in kind	460	638
Bonuses	—	—
Contributions to pension schemes	12	13
	472	651

The emoluments fell within the following bands:

	Number of individuals	
	2006	**2005**
	RMB'000	*RMB'000*
Emolument bands		
Nil to RMB1,000,000 (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.

29 CONSOLIDATED CASH FLOW STATEMENT

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

	2006	**2005**
	RMB'000	*RMB'000*
Profit before taxation	33,325	53,200
Depreciation	13,406	11,638
Amortisation of land use rights	961	973
Loss on disposal of property, plant and equipment	197	1,074
Impairment of goodwill arising from acquisition of minority interest	—	56
Interest income	(1,425)	(917)
Interest expenses	7,928	8,060
Dividend income	—	(130)
Gain from disposal of available-for-sale investment	(733)	—
Share options granted to directors and employees	4,188	—
Operating profit before working capital changes	57,847	73,954
Increase in inventories	(648)	(23,303)
Decrease in trade and other receivables	(12,862)	(4,566)
(Decrease)/ increase in trade and other payables	(40,017)	53,606
Decrease in other long-term payables	(2,757)	(58)
Decrease in amount due to related companies	(50)	(74)
Cash generated from operating activities	1,513	99,559

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

	2006	**2005**
	RMB'000	*RMB'000*
Net book amount *(Note 6)*	274	1,599
Loss on disposal of property, plant and equipment	(197)	(1,074)
Proceeds from disposal of property, plant and equipment	77	525

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

	Pledged bank deposit		Share capital including premium		Minority interest		Loans	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January	(77,800)	(53,940)	63,917	63,917	—	567	153,670	132,630
Decrease/(increase) in pledged bank deposit	56,999	(23,860)	—	—	—	—	—	—
Issue of share capital	—	—	66,362	—	—	—	—	—
New loans payable	—	—	—	—	—	—	125,476	135,870
Repayment of amounts borrowed	—	—	—	—	—	—	(144,870)	(114,830)
Minority interest' share of profits	—	—	—	—	—	(23)	—	—
Acquisition of monitory interests	—	—	—	—	—	(544)	—	—
At 31 December	(20,801)	(77,800)	130,279	63,917	—	—	134,276	153,670

30 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 32)*	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

31 RELATED-PARTY TRANSACTIONS

The following transactions were carried out with related parties:

(a) **Key management compensation (excluding directors' emoluments)**

	2006	**2005**
	RMB'000	*RMB'000*
Salaries and other short-term employee benefits	949	987

The directors' emoluments are disclosed in Note 28.

(b) The amounts due to related companies as of 31 December 2005 as disclosed in Note 11 are due to parties controlled by relatives of Mr. Li Weiruo, a shareholder and director, arose from advances fro 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 and were settled in 2006.

32 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 30 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.

33 EVENT AFTER THE 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.

34 COMPARATIVE FIGURES

Certain comparative figures have been reclassified so as to conform with current year's presentation and details are as follows:

— Current income tax liabilities, which were included in with trade and other payables in 2005, have been separately disclosed; and

— Interest income, which was included in other income in 2005, has been included in finance costs.

3. UNAUDITED FINANCIAL INFORMATION OF THE GROUP FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2006 AND 2007

Set out below are the unaudited information statement of the Group together with accompanying notes as extracted from the third quarter report of the Company for the nine months ended 30 September 2007:

Consolidated Income Statement

	Notes	Nine months ended 30 September 2007 *RMB'000*	2006 *RMB'000*
Turnover	2	660,591	488,896
Cost of sales		(574,455)	(406,973)
Gross profit		86,136	81,923
Interest income		470	1,101
Distribution costs		(22,873)	(18,789)
Administrative expenses		(29,329)	(25,348)
Other income		8,112	6,988
Operating profit		42,516	45,875
Finance costs		(10,798)	(5,919)
Profit before taxation		31,718	39,956
Taxation	3	(5,686)	(4,822)
Profit after taxation		26,032	35,134
Minority interests		N/A	N/A
Profit attributable to shareholders		26,032	35,134
Basic earnings per share (RMB cents)	4	5.15	7.57
Diluted earnings per share (RMB cents)	4	N/A	7.55
Dividends per share (HK cents)	5	0.30	0.50

NOTES:

(Amounts expressed in Renminbi unless otherwise stated)

1. **Basis of preparation**

The Company is an investment holding company. The Group is principally engaged in the manufacture and sale of chemical products and chemical fertilizers in Mainland China.

The unaudited condensed consolidated accounts have been prepared to comply with the disclosure requirements of the Rules Governing the Listing of the Securities on the Growth Enterprises Market of the Stock Exchange of Hong Kong Limited.

Principal accounting policies adopted by the Group in arriving at the financial information set out in this report are consistent with those adopted in the annual accounts for the year ended 31 December 2006. The measurement basis used in the preparation of the unaudited financial statements is historical cost, except for certain investment properties and financial investments, which are measured at fair values. All inter-company transactions and balance within the Group have been eliminated on consolidation.

The consolidated results for the nine months ended 30 September 2007 are unaudited but have been reviewed by the audit committee of the Board.

2. **Turnover**

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

Turnover consisted the following products:

	(unaudited) For the three months ended 30 September				**(unaudited) For the nine months ended 30 September**			
	2007		**2006**		**2007**		**2006**	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
BB & compound fertilizers	74,181	43.8	47,982	34.5	245,046	37.1	215,861	44.1
Sodium carbonate	28,613	16.9	25,199	18.1	79,689	12.1	70,149	14.4
Ammonium chloride	12,713	7.5	8,419	6.0	32,564	4.9	28,706	5.9
Urea	47,057	27.8	53,362	38.4	156,272	23.7	163,802	33.5
Ammonia	2,324	1.4	2,598	1.9	8,254	1.2	6,152	1.3
Ammonium bicarbonate	776	0.5	222	0.2	2,728	0.4	2,581	0.5
Others	3,570	2.1	1,249	0.9	136,038	20.6	1,645	0.3
	169,234	100	139,031	100	660,591	100	488,896	100

Note: Others include sales of foliar and highly water soluble fertilizers, trading of ammonium sulfate, ammonium di-hydrogen phosphate, mono-ammonium phosphate and urea.

3. **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 nine months ended 30 September 2007.

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% except for Dezhou Ko Yo Compound which the EIT rate is 33%, and are entitled to full exemption from EIT in the first two profitable years and a 50% reduction for the next three years thereafter.

Pursant 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 and Chengdu Ko Yo Compound, the overall rate (both EIT and LEIT) applicable to both Chengdu Ko Yo Chemical and Chengdu Ko Yo Compound in 2007 is 18%. Accordingly, current income tax provision made for Chengdu Ko Yo Chemical and Chengdu Ko Yo Compound for the nine months ended 30 September 2007 were approximately RMB5,282,000 and RMB209,000 respectively.

The preferential EIT rate applicable to Dazhu Ko Yo Chemical for the nine months ended 30 September 2007 is 0%, together with the rate of 3% of LEIT, the overall rate applicable is 3%. Accordingly, current income tax provision made for Dazhu Ko Yo Chemical for the nine months ended 30 September 2007 was RMB195,000.

Dezhou Ko Yo Compound and Qingdao Ko Yo Chemical did not have current income tax provision for the nine months ended 30 September 2007.

Taxation in income statements represents the provision for EIT and net movement of deferred tax liabilities.

4. **Earnings per share**

The calculation of the basic earnings per share for the three months and nine months ended 30 September 2007 were based on the unaudited consolidated profit attributable to shareholders of the Company of approximately RMB8,617,000 and RMB26,032,000 for the relevant periods (2006: RMB6,899,000 and RMB35,134,000) and on the weighted average number of shares of approximately 505,820,000 in issue during the relevant periods (2006: 505,820,000 for three months ended and 463,974,000 for nine months ended 30 September 2006). For the three months and nine months ended 30 September 2007, diluted earning per share was not presented as there was no dilutive potential share. Diluted earning per share for the three months and nine months ended 30 September 2006 is based on the weighted average number of shares together with the effect of dilutive potential shares on the outstanding share options and of approximately 507,878,000 and 465,628,000 for the relevant periods.

5. **Dividend**

The Board does not recommend the payment of interim dividend for the three months ended 30 September 2007 (30 September 2006: Nil).

6. **Reserve**

	Share capital	Share premium	Merger reserve	Reserve fund	Enterprise expansion fund	Retained earnings	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance as at 1 January 2006 (audited)	44,713	19,204	(22,041)	11,307	943	148,801	202,927
Issue of new shares*	8,736	57,626	—	—	—	—	66,362
Net profit for the nine months ended 30 September 2006	—	—	—	—	—	35,134	35,134
2005 Final dividend paid	—	—	—	—	—	(6,580)	(6,580)
2006 Interim dividend paid	—	—	—	—	—	(2,630)	(2,630)
Balance as at 30 September 2006	53,449	76,830	(22,041)	11,307	943	174,725	295,213
Balance as at 1 January 2007 (audited)	53,449	76,830	(22,041)	18,802	943	164,879	292,862
Net profit for the nine months ended 30 September 2007	—	—	—	—	—	26,032	26,032
2006 Final dividend paid	—	—	—	—	—	(3,541)	(3,541)
2007 Interim dividend paid	—	—	—	—	—	(1,517)	(1,517)
Balance as at 30 September 2007	53,449	76,830	(22,041)	18,802	943	185,853	313,836

* On 17 May 2006, 84,000,000 new shares were issued at HK$0.78 per share.

4. MANAGEMENT DISCUSSION AND ANALYSIS ON 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.

For the year ended 31 December 2004

Business review

For the year ended 31 December 2004, the company recorded a turnover of approximately RMB423 million, representing an increase of 50% as compared to the corresponding period in 2003. Such increase was mainly due to increase in both selling price and sales volume of the Group's products. Profit attributable to shareholders for the year ended 31 December 2004 was RMB33 million, representing an increase of approximately 36% over that of the previous year.

Liquidity, financial resources and gearing ratio

As at 31 December 2004, the Group had net current assets of approximately RMB1,046,000. Current assets as at 31 December 2004 comprised cash and bank deposits of approximately RMB13,926,000, pledged bank deposits of approximately RMB53,940,000, inventories of approximately RMB51,037,000, trade receivables of approximately RMB10,642,000 and prepayments and other current assets of approximately RMB36,160,000. Current liabilities as at 31 December 2004 comprised short-term bank loans of approximately RMB95,430,000, trade and notes payables of approximately RMB27,566,000, deposits from customers of approximately RMB17,225,000 and accrued charges and other payables of approximately RMB24,438,000.

The gearing ratio is calculated by dividing total liabilities by total assets, and was approximately 58% (2003: 54%). The increase in the gearing ratio was mainly due to increase in bank loan.

Exchange rate exposure

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

Charges on assets

As at 31 December 2004, certain land use rights and buildings with a total net book value of approximately RMB69,116,000 (2003: RMB70,962,000), plant and machinery with a total net book value of approximately RMB23,675,000 (2003:RMB29,248,000) and bank deposits approximately RMB53,940,000 (2003:RMB13,032,000) were pledged as collateral for the Group's bank loans and notes payable.

Segment information

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

Contingent liabilities

As at 31 December 2004, the Company had no significant contingent liabilities.

Material acquisitions

On 30 December 2004, Dazhu Ko Yo Chemical Industry Co. Ltd., an indirectly wholly-owned subsidiary of the Company entered into an assets acquisition agreement with Dazhu Hongsen Chemical Industry Co., Limited, a third party independent of the Company, to acquire the fixed assets, which comprised land use right, building and plant, equipment and machinery and inventories of Dazhu Hongsen Chemical Industry Co., Limited, at the total consideration of RMB24,263,828 of which RMB11,370,000 was paid by cash while the balance was settled by repaying the liabilities owed by Dazhu Hongsen Chemical Industry Co., Limited, which consisted of trade payables, accruals and other payables. Please refer to the announcement of the Company dated 7 January 2005 for further details.

Save as disclosed above, the Company had no material acquisitions or disposals of subsidiaries and affiliated companies during the year ended 31 December 2004.

Human resources

As at 31 December 2004, the Group had 1,857 (2003:1,368) employees, comprising 8 (2003:11) in management, 115 (2003:70) in finance and administration, 1,651 (2003:1,212) in production, 76 (2003:68) in sales and marketing and 7 (2003:7) in research and development, 1,851 (2003:1,362) of these employees were located in the PRC and 6 (2003:6) were located in Hong Kong.

For the year ended 31 December 2005

Business review

For the year ended 31 December 2005, the company recorded a turnover of approximately RMB628 million, representing an increase of 48% as compared to the corresponding period in 2004. Such increase was mainly due to increase in both selling price and sales volume of the Group's products and enhancement of the production line of ammonium bicarbonate and urea in Dazhu. Profit attributable to shareholders for the year ended 31 December 2005 was RMB47 million, representing an increase of approximately 43% over that of the previous year.

Liquidity, financial resources and gearing ratio

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

The gearing ratio is calculated by dividing total liabilities by total assets, and was approximately 58.5% (2004: 58.0%). The increase in the gearing ratio was mainly due to increase in bank loan.

Exchange rate exposure

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

Charges on assets

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

Segment information

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

Contingent liabilities

As at 31 December 2005, the Company had no significant contingent liabilities.

Material acquisitions

On 30 December 2004, Dazhu Ko Yo Chemical Industry Co. Ltd., an indirectly wholly-owned subsidiary of the Company entered into an assets acquisition agreement with Dazhu Hongsen Chemical Industry Co., Limited, a third party independent of the Company, to acquire the fixed assets, which comprised land use right, building and plant, equipment and machinery and inventories of Dazhu Hongsen Chemical Industry Co., Limited, at the total consideration of RMB24,263,828 of which RMB11,370,000 was paid by cash while the balance was settled by repaying the liabilities owed by Dazhu Hongsen Chemical Industry Co., Limited, which consisted of trade payables, accruals and other payables. Please refer to the announcement of the Company dated 7 January 2005 for further details.

Save as disclosed above, the Company had no material acquisitions or disposals of subsidiaries and affiliated companies during the year ended 31 December 2005.

Human resources

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

For the year ended 31 December 2006

Business review

For the year ended 31 December 2006, the company recorded a turnover of approximately RMB611 million, representing a decrease of 2.7% as compared to the corresponding period in 2005. Such decrease was mainly due to decrease in selling price of the Group's products which was offset by an increase in sales volume of the Group's products. Profit attributable to shareholders for the year ended 31 December 2006 was RMB29 million, representing a decrease of approximately 39% over that of the previous year.

Liquidity, financial resources and gearing ratio

As at 31 December 2006, the Group had net current liabilities of approximately RMB52,033,000. Current assets as at 31 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 31 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 RMB20,547,000.

The gearing ratio is calculated by dividing total liabilities by total assets, and was approximately 44.1% (2005: 58.5%). The improvement of the gearing ratio was mainly due to repayment of bank loan.

Exchange rate exposure

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

Charges on assets

As at 31 December 2006, certain land use rights and buildings with a total net book value of approximately RMB83,390,000 (2005: RMB85,537,000), plant and machinery with a total net book value of approximately RMB24,296,000 (2005: RMB25,092,000) and bank deposits approximately RMB20,801,000 (2005: RMB77,800,000) were pledged as collateral for the Group's bank loans and notes payable.

Segment information

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

Contingent liabilities

As at 31 December 2006, the Company had no significant contingent liabilities.

Material acquisitions

On 29 September 2006, Dazhu City Dazhu Ko Yo Chemical Industry Co., Ltd. entered into sale and purchase agreement with Sigma Investment Holdings, L.L.C., pursuant to which Dazhu City Dazhu Ko Yo Chemical Industry Co., Ltd. acquire certain equipments for a total consideration of US$35.90 million. Please refer to the announcement of the Company dated 5 October 2006 for further details.

Save as disclosed above, the Company had no material acquisitions or disposals of subsidiaries and affiliated companies during the year ended 31 December 2006.

Human resources

As at 31 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.

For the period ended 30 September 2007

Business review

For the nine months ended 30 September 2007, the Group recorded a turnover of approximately RMB661 million, representing an increase of 35% as compared to the corresponding period in 2006. Such increase was mainly due to the increase in the sale of chemical fertilisers and trading of ammonium sulfate, ammonium di-hydrogen phosphate and mono-ammonium phosphate. Profit attributable to shareholders for the nine months ended 30 September 2007 was RMB26 million, representing a decrease of approximately 26% over that of the previous year.

Liquidity, financial resources and gearing ratio

As at 30 June 2007, the Group had net current liabilities of approximately RMB45,075,000. Current assets as at 30 June 2007 comprised cash and bank deposits of approximately RMB31,787,000, pledged bank deposits of approximately RMB58,064,000, inventories of approximately RMB71,148,000, trade and other receivables of approximately RMB84,521,000. Current liabilities as at 30 June 2007 comprised short-term bank loans of approximately RMB179,976,000, current portion of long-term loans of approximately RMB5,800,000 and trade and other payables of approximately RMB104,819,000.

The gearing ratio is calculated by dividing total liabilities by total assets, and was approximately 49.0% (31 December 2006: 44.1%). The increase of the gearing ratio was mainly due to increase of bank loan.

Exchange rate exposure

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 management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

Charges on assets

As at 30 June 2007, certain land use rights and buildings with a total net book value of approximately RMB104,505,000 (31 December 2006: RMB83,390,000), plant and machinery with a total net book value of approximately RMB56,680,000 (31 December 2006: RMB24,296,000) and bank deposits approximately RMB58,064,000 (31 December 2006: RMB20,801,000) were pledged as collateral for the Group's bank loans and notes payable.

Segment information

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

Contingent liabilities

As at 30 June 2007, the Company had no significant contingent liabilities.

Material acquisitions

The Company had no material acquisitions or disposals of subsidiaries and affiliated companies for the six months ended 30 June 2007.

Human resources

As at 30 June 2007, the Group had 1,808 (31 December 2006: 1,822) employees, comprising 6 (31 December 2006: 6) in management, 105 (31 December 2006: 168) in finance and administration, 1,594 (31 December 2006: 1,555) in production, 95 (31 December 2006: 87) in sales and marketing and 8 (31 December 2006: 6) in research and development, 1,802 (31 December 2006: 1,816) of these employees were located in the PRC and 6 (31 December 2006: 6) were located in Hong Kong.

5. INDEBTEDNESS STATEMENT

Borrowings

As at the close of business on 30 September 2007, being the latest practicable date for the purpose of this indebtedness statement, the Enlarged Group had outstanding bank borrowings of approximately RMB215.5 million, which comprised secured short-term bank loans of RMB213.5 million, unsecured short-term bank loans of RMB2 million. In addition, the Enlarged Group had outstanding shareholders' loans of approximately RMB9.0 million.

Security

As at 30 September 2007, the Enlarged Group's utilised bank facilities of approximately RMB222.6 million (comprising bank borrowings of RMB215.5 million, bank acceptance of approximately RMB7.1 million) were secured by pledged bank balances of approximately RMB67.1 million and the Enlarged Group's leasehold land and buildings and machinery, which are all situated in the PRC, with a total net book value of approximately RMB123.4 million. Among the above bank borrowings, short-term bank loans of RMB12 million were guaranteed by Mr. Li Weiruo, a director of the Company. Save as disclosed above, the Enlarged Group had no outstanding mortgages and charges as at 30 September 2007.

Debt Securities

As at 30 September 2007, the Enlarged 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 30 September 2007, the Enlarged Group did not have any contingent liabilities or guarantees outstanding.

Save as disclosed, at the close of business on 30 September 2007, the Enlarged Group did not have any outstanding indebtedness, any loan capital, bank overdrafts and liabilities under acceptance or other similar indebtedness, debentures, mortgages, charges or loans or acceptance credits or hire purchase or finance lease commitments, guarantees or other contingent liabilities.

6. WORKING CAPITAL

On 30 September 2007 (being the latest practicable date in determining the indebtedness of the Enlarged Group), the Enlarged Group had total banking facilities of approximately RMB223.2 million, of which RMB222.6 million (comprising bank borrowings of RMB215.5 million, bank acceptance of approximately RMB7.1 million) was utilised and approximately RMB0.6 million was unutilised. As at 30 September 2007, existing bank borrowings of approximately RMB215.5 million were due for repayment or renewal within 12 months.

In determining the sufficiency of the working capital of the Enlarged Group, the Directors have made the assumption that the existing bank borrowings of the Enlarged Group of approximately RMB215.5 million, which are due for repayment or renewal within 12 months, will be duly renewed or otherwise replaced by new facilities of equivalent amounts.

The Directors are of the opinion that after taking account of the internal resources and based on the assumption regarding the banking facilities as set out in the preceding paragraph, the Enlarged Group will have sufficient working capital, in the absence of unforeseen circumstances, for its present requirements, that is for at least the next 12 months from the date of this circular.

7. FINANCIAL AND TRADING PROSPECTS

The Group

For the year ended 31 December 2006, the Group achieved turnover of approximately RMB611 million and a profit attributable to the Group of approximately RMB29 million. The turnover of the Group decreased by approximately 2.7% and the profit attributable to the shareholders of the Group decreased by approximately 39% as compared to the previous year. Such decrease was mainly due to the different degrees of reduction in selling price of the Group's products.

Despite the challenges from high international prices of, oil and natural gas which are used for production of chemical fertilisers, 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 fertilisers as the PRC's governmental policy continued to be beneficial on chemical fertilisers.

The Enlarged Group

The Directors believe that the Group may broaden its source of income by diversifying into the exploration and mining of natural resources. As stated in the Letter from Board, it is expected that the demand for phosphate will increase in the coming years and there will be shortage of phosphate of about 8 million tones in 2010. The Directors therefore are optimistic about the future prospect of the demand for phosphate in the PRC and consider the Acquisition to be an opportunity to investment in the phosphate industry.

8. MATERIAL CHANGE

Save as disclosed below, the Directors were not aware of any material change in the financial or trading position or outlook of the Group since 31 December 2006, being the date to which the latest published audited accounts of the Company were made up, to the Latest Practicable Date:

a) major production facilities temporarily shut down due to upgrade of Cyclic Catalytic Regenerative Reforming system which has negatively affected the results of the Group for the six months ended 30 June 2007 as disclosed in 2007 interim report of the Company;

b) the entering into of the loan agreement dated 15 November 2007 relating to term loan facility of up to US$15,900,000 between the Company and industrial and Commercial Bank of China (Asia) Limited; and

c) the Sale and Purchase Agreement dated 17 September 2007 in relation to the Acquisition as disclosed in the letter from the board of the Circular.

Save as major production facilities temporarily shut down due to upgrade of Cyclic Catalytic Regenerative Reforming system which has negatively affected the results of the Group for the six months ended 30 June 2007 as disclosed in 2007 interim report of the Company, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2006 (being the date to which the latest published audited accounts of the Company were made up).

The following is the text of a report, prepared for the purpose of incorporation in this circular, received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong.

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

7 December 2007

The Directors
Ko Yo Ecological Agrotech (Group) Limited

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") of Hong Kong Cuyo Investment Limited ("Hong Kong Cuyo") and its subsidiary (together, the "Cuyo Group") set out in Sections I to IV below, for inclusion in the circular of Ko Yo Ecological Agrotech (Group) Limited (the "Company") dated 7 December 2007 (the "Circular") in connection with the proposed acquisition of the entire interest in Hong Kong Cuyo by the Company. The Financial Information comprises the balance sheets of Hong Kong Cuyo and the Cuyo Group as at 31 December 2004, 2005 and 2006 and 30 June 2007, and the consolidated income statements, the consolidated statements of changes in equity and the consolidated cash flow statements of the Cuyo Group for each of the years ended 31 December 2004, 2005 and 2006 and the six months ended 30 June 2006 and 2007 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory notes.

Hong Kong Cuyo was incorporated in Hong Kong on 5 October 2001 as a company with limited liability under Hong Kong Companies Ordinance.

As at the date of this report, Hong Kong Cuyo has one subsidiary, which is a private company. Details of the subsidiary are set out below:

Name	**Place and date of incorporation and kind of legal entity**	**Principal activities and place of operation**	**Registered and paid-up capital**	**Percentage of equity interest directly attributable to Hong Kong Cuyo**
四川承源化工有限公司 (Sichuan Chengyuan Chemical Company Limited ("Sichuan Cuyo"))	People's Republic of China (the "PRC"), 1 July 2002, wholly foreign-owned enterprise	Exploration and exploitation of a phosphorous mine in the PRC	RMB5,000,000	100%

The statutory financial statements of Hong Kong Cuyo for each of the years ended 31 December 2004, 2005 and 2006 were prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA) and were audited by Ng Wing Cheong & Co, Certified Public Accountants in Hong Kong.

The statutory financial statements of Sichuan Cuyo for the year ended 31 December 2004 and for each of the years ended 31 December 2005 and 2006, which were prepared in accordance with Accounting Standards for Business Enterprises and Accounting System for Business Enterprises ("PRC GAAP"), were audited by 四川興精誠會計師事務所有限公司 (Sichuan Xingjingcheng Certified Public Accountants Limited Company) and 四川萬邦會計師事務所有限公司 (Sichuan Wanbang Certified Public Accountants Limited Company), Certified Public Accountants in the PRC, respectively.

For the purpose of this report, the directors of Hong Kong Cuyo have prepared the consolidated financial statements of the Cuyo Group (the "HKFRS Financial Statements") for each of the years ended 31 December 2004, 2005 and 2006 in accordance with HKFRS. The HKFRS Financial Statements were audited by PricewaterhouseCoopers, Hong Kong.

The Financial Information has been prepared based on the HKFRS Financial Statements or where appropriate, unaudited consolidated financial statements of Hong Kong Cuyo with no adjustment made thereon.

Directors' responsibility

The directors of Hong Kong Cuyo are responsible for the preparation and the true and fair presentation of the consolidated financial statements of the Cuyo Group in accordance with HKFRS. The directors of the Company are responsible for the preparation and the true and fair presentation of the Financial Information in accordance with HKFRS. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements and the preparation and the true and fair presentation of Financial Information that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Reporting accountant's responsibility

For the financial information for each of the years ended 31 December 2004, 2005 and 2006 and the six months ended 30 June 2007, our responsibility is to express an opinion on the financial information based on our examination and to report our opinion to you. We examined the HKFRS Financial Statements or, where appropriate, the unaudited consolidated financial statements of Hong Kong Cuyo in preparing the Financial Information, and carried out such additional procedures as are necessary in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

For the financial information for the six months ended 30 June 2006, it is our responsibility to form an independent conclusion, based on our review, on the financial information and to report our conclusion to you. We conducted our review on the financial information in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the HKICPA. A review consists principally of making enquiries of the group management and applying analytical procedures to the financial information and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information for the six months ended 30 June 2006.

Opinion and review conclusion

In our opinion, the financial information for each of the years ended 31 December 2004, 2005 and 2006 and six months ended 30 June 2007, for the purpose of this report, gives a true and fair view of the state of affairs of Hong Kong Cuyo and the Cuyo Group as at 31 December 2004, 2005 and 2006 and 30 June 2007 and of the Cuyo Group's results and cash flows for the years and period then ended.

On the basis of our review which does not constitute an audit, for the purpose of this report, we are not aware of any material modifications that should be made to the financial information for the six months ended 30 June 2006.

I. FINANCIAL INFORMATION

The Financial Information of the Cuyo Group as at 31 December 2004, 2005 and 2006 and 30 June 2007 and for each of the years ended 31 December 2004, 2005 and 2006 and the six months ended 30 June 2006 and 2007 is summarised below:

(A) Consolidated balance sheets

		As at 31 December			As at 30 June
	Note	**2004**	**2005**	**2006**	**2007**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
ASSETS					
Non-current assets					
Property, plant and equipment	5	46	41	36	32
Exploration and evaluation assets	6	4,286	7,717	7,720	7,720
		4,332	7,758	7,756	7,752
Current assets					
Other receivables	8	67	519	519	20
Cash and cash equivalents	9	176	81	50	110
		243	600	569	130
Total assets		4,575	8,358	8,325	7,882
OWNERS' EQUITY					
Capital and reserves attributable to the equity holders of Hong Kong Cuyo					
Share capital	10	5,007	5,007	5,007	5,007
Accumulated losses		(2,280)	(3,182)	(3,442)	(3,571)
Total equity		2,727	1,825	1,565	1,436
LIABILITIES					
Current liabilities					
Accruals and other payables	12	10	623	869	429
Bank borrowings	13	1,000	—	—	—
Shareholders' loans	14	838	5,910	5,891	6,017
Total liabilities		1,848	6,533	6,760	6,446
Total equity and liabilities		4,575	8,358	8,325	7,882
Net current liabilities		(1,605)	(5,933)	(6,191)	(6,316)
Total assets less current liabilities		2,727	1,825	1,565	1,436

(B) **Balance sheets of Hong Kong Cuyo**

	Note	As at 31 December 2004 *RMB'000*	As at 31 December 2005 *RMB'000*	As at 31 December 2006 *RMB'000*	As at 30 June 2007 *RMB'000*
ASSETS					
Non-current assets					
Investment in a subsidiary	7	5,000	5,000	5,000	5,000
Current assets					
Cash and cash equivalents	9	26	25	24	23
Total assets		5,026	5,025	5,024	5,023
OWNERS' EQUITY					
Capital and reserves attributable to the equity holders of Hong Kong Cuyo					
Share capital	10	5,007	5,007	5,007	5,007
Accumulated losses	11	(17)	(25)	(34)	(33)
Total equity		4,990	4,982	4,973	4,974
LIABILITIES					
Current liabilities					
Shareholders' loans	14	36	43	51	49
Total equity and liabilities		5,026	5,025	5,024	5,023
Net current liabilities		(10)	(18)	(27)	(26)
Total assets less current liabilities		4,990	4,982	4,973	4,974

(C) **Consolidated income statements**

		Year ended 31 December			Six months ended 30 June	
	Note	**2004**	**2005**	**2006**	**2006**	**2007**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(Unaudited)	
Turnover	15	—	—	—	—	—
Administrative expenses	16	(581)	(911)	(287)	(128)	(153)
Operating loss		(581)	(911)	(287)	(128)	(153)
Finance income		3	20	27	7	24
Finance cost		(34)	(11)	—	—	—
Finance income/(costs) — net	18	(31)	9	27	7	24
Loss before income tax		(612)	(902)	(260)	(121)	(129)
Income tax expense	19	—	—	—	—	—
Loss attributable to equity holders of Hong Kong Cuyo for the year/period		(612)	(902)	(260)	(121)	(129)

(D) **Consolidated statements of changes in equity**

	Note	**Share capital**	**Accumulated losses**	**Total equity**
		RMB'000	*RMB'000*	*RMB'000*
Balance at 1 January 2004		5,007	(1,668)	3,339
Loss for the year		—	(612)	(612)
Balance at 31 December 2004 and 1 January 2005		5,007	(2,280)	2,727
Loss for the year		—	(902)	(902)
Balance at 31 December 2005 and 1 January 2006		5,007	(3,182)	1,825
Loss for the year		—	(260)	(260)
Balance at 31 December 2006 and 1 January 2007		5,007	(3,442)	1,565
Loss for the period		—	(129)	(129)
Balance at 30 June 2007		5,007	(3,571)	1,436
For the six months ended 30 June 2006 (unaudited)				
Balance at 31 December 2005		5,007	(3,182)	1,825
Loss for the period		—	(121)	(121)
Balance at 30 June 2006		5,007	(3,303)	1,704

(E) **Consolidated cash flow statements**

	Notes	Year ended 31 December 2004 RMB'000	2005 RMB'000	2006 RMB'000	Six months ended 30 June 2006 RMB'000 (Unaudited)	2007 RMB'000
Cash flows from operating activities						
Cash used in operations	21	(565)	(825)	(39)	(45)	(90)
Interest paid		(34)	(11)	—	—	—
Net cash used in operating activities		(599)	(836)	(39)	(45)	(90)
Cash flows from investing activities						
Payments for exploration and evaluation assets		(762)	(3,352)	(3)	(3)	—
Interest income earned		1	3	2	1	—
Net cash used in investing activities		(761)	(3,349)	(1)	(2)	—
Cash flows from financing activities						
Proceeds from shareholders' loans		410	5,090	9	—	150
Proceeds from bank borrowings		1,000	—	—	—	—
Repayments of bank borrowings		—	(1,000)	—	—	—
Net cash generated from financing activities		1,410	4,090	9	—	150
Net increase/(decrease) in cash and cash equivalents		50	(95)	(31)	(47)	60
Cash and cash equivalents at beginning of the year/period		126	176	81	81	50
Cash and cash equivalents at end of the year/period		176	81	50	34	110

II NOTES TO THE FINANCIAL INFORMATION

1 General information

Hong Kong Cuyo (formerly known as Sharp Gains Investment Limited) is a private limited liability company incorporated in Hong Kong.

Hong Kong Cuyo is an investment holding company and its subsidiary is principally engaged in the exploration and evaluation of a phosphorous mine located in Sichuan, PRC.

The address of the registered office of Hong Kong Cuyo is Unit 05-06, 14/F, Harbour Road, Wanchai, Hong Kong.

The Financial Information is presented in Renminbi ("RMB"), unless otherwise stated.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of the Financial Information are set out below. These policies have been consistently applied to the Relevant Periods.

2.1 *Going concern basis*

As at 30 June 2007, the Cuyo Group had net current liabilities of RMB6,316,000 (31 December 2004: RMB1,605,000; 31 December 2005: RMB5,933,000; 31 December 2006: RMB6,191,000). Given the Cuyo Group's consolidated liabilities mainly comprise shareholders' loans of RMB6,017,000, its ability to continue as a going concern depends on the support from the shareholders. Mr. Li Weiruo, the controlling shareholder of Hong Kong Cuyo, has undertaken to provide continuing financial support to the Cuyo Group as may be necessary to enable it to operate as a going concern and meet its obligation for the next twelve months from the date of this report.

Based on the above, the directors are of the opinion that the Cuyo Group will remain as a going concern in the foreseeable future. Accordingly, the directors are satisfied that it is appropriate to prepare the Financial Information on a going concern basis. The Financial Information does not include any adjustments relating to the carrying amounts and reclassification of assets and liabilities that might be necessary should the Cuyo Group be unable to continue as a going concern.

2.2 *Basis of preparation*

The Financial Information has been prepared in accordance with HKFRS. The Financial Information has been prepared under the historical cost convention.

The preparation of the Financial Information 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 Hong Kong Cuyo's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Information, are disclosed in Note 4.

As at the date of this report, the following new/revised standards, amendments and interpretations have been issued by the HKICPA but are not yet effective and have not been early adopted by the Cuyo Group:

HK(IFRIC)-Int 11, HKFRS 2 — Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007)

HK(IFRIC)-Int 11 provides guidance on how to account for share-based payment arrangements to an entity's employees involving equity instruments of its parent company. If the equity instruments are granted by its parent company and accounted for as equity-settled in its parent's consolidated financial statements, the entity should account for the share-based payment arrangements as equity-settled. If the equity instruments are granted by the entity, the entity should account for the share-based payment arrangements as cash-settled. HK(IFRIC)-Int 11 is not relevant to Hong Kong Cuyo's Financial Information.

HK(IFRIC)-Int 12, Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008)

HK(IFRIC)-Int 12 applies to companies that participate in service concession arrangements. It provides guidance on the accounting by operators in public-to-private service concession arrangements. HK(IFRIC)-Int 12 specifies the accounting treatment an operator applies to recognise the rights received under a service concession arrangement. HK(IFRIC)-Int 12 is not relevant to Hong Kong Cuyo's Financial Information.

HK(IFRIC)-Int 13, Customer Loyalty Programmes (effective for annual periods beginning on or after 1 January 2008)

HK(IFRIC)-Int 13 addresses accounting by companies that grant loyalty award credits to customers who buy other goods or services. Specifically, it explains how such companies should account for their obligations to provide free or discounted goods or services ('awards') to customers who redeem award credits. HK(IFRIC)-Int 13 is not relevant to Hong Kong Cuyo's Financial Information.

HK(IFRIC)-Int 14, HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1 January 2008)

HK(IFRIC)-Int 14 provides guidance on assessing the limit in HKAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. HK(IFRIC)-Int 14 is not relevant to Hong Kong Cuyo's Financial Information.

HKFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009)

HKFRS 8 introduces the management approach to segment reporting and emphasises the disclosures of the measures used to manage the business in place of the rigidly defined disclosures required by HKAS 14 - Segment Reporting. A single set of operating segments replaces the primary and secondary segments. There is a new concept, the chief operating decision-maker ("CODM"). This is the function within an entity that allocates resources and monitors performance. The information reviewed by the CODM is the key driver of external segment reporting and is used to determine both the segments and the measure of segment performance reported in the financial statements. HKFRS 8 changes the emphasis of segment reporting. Hong Kong Cuyo will apply HKFRS 8 from 1 January 2009, but it is not expected to have a significant impact on Hong Kong Cuyo's accounting policies.

HKAS 23 (Revised), Borrowing Costs (effective for annual periods beginning on or after 1 January 2009)

HKAS 23 (Revised) requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. HKAS 23 (Revised) is not relevant to Hong Kong Cuyo's Financial Information.

2.3 ***Consolidation***

A subsidiary is an entity over which the Cuyo Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights.

Subsidiary is fully consolidated from the date on which control is transferred to the Cuyo Group.

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

In Hong Kong Cuyo's balance sheet the investment in subsidiary is stated at cost less provision for impairment losses. The results of the subsidiary are accounted for by Hong Kong Cuyo on the basis of dividend received and receivable.

2.4 ***Foreign currency translation***

(a) *Functional and presentation currency*

Items included in the financial statements of each of the Cuyo Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The Financial Information is presented in Renminbi ("RMB"), which is Hong Kong Cuyo'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 period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(c) *Group companies*

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

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

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

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

On consolidation, exchange differences arising from the translation of the net investment in foreign 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 consolidated income statement as part of the gain or loss on sale.

2.5 ***Property, plant and equipment***

Property, plant and equipment 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 Cuyo 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 is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Machinery	12 years
Office equipment	5 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.

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

2.6 ***Exploration and evaluation assets***

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

The full cost of exploration rights and the expenditures incurred in the search for mineral resources as well as the determination of the technical feasibility and commercial viability of extracting those resources are capitalised as part of exploration and evaluation assets. Exploration and evaluation assets mainly comprise exploration rights, study and exploratory drilling expenses, consulting and experiment expenses and staff costs directly attributable to exploration and evaluation activities. Administrative expenses which are not directly attributable to exploration and evaluation activities are expensed as incurred. Management has used its judgement in determining whether the expenses are directly attributable to exploration and evaluation activities.

When the technical feasibility and commercial viability of extracting a mineral resource becomes demonstrable, any previously recognised exploration and evaluation assets are reclassified as property, plant and equipment, mining rights or other intangible assets. These assets are assessed for impairment and any impairment loss is recognised before reclassification. If the evaluation fails to demonstrate that there are commercially viable reserves, the Exploration and Evaluation assets associated with unsuccessful exploration is written off to the income statement.

2.7 ***Impairment of exploration and evaluation assets***

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

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

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

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

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

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

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

2.8 ***Impairment of assets (other than exploration and evaluation assets and financial asssets)***

Assets that have an indefinite useful life or are 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 impairment are reviewed for possible reversal of the impairment at each reporting date.

2.9 ***Financial assets***

The Cuyo 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. The Cuyo Group's financial assets are mainly 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. The Cuyo Group's loans and receivables comprise other receivables and cash and cash equivalents in the balance sheet (note 2.10 and 2.11).

2.10 ***Other receivables***

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 other receivables is established when there is objective evidence that the Cuyo 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 other receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within administrative expenses. When an other receivable is uncollectible, it is written off against the allowance account for other receivables. Subsequent recoveries of amounts previously written off are credited to the income statement.

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 ***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.

2.13 ***Borrowings***

Borrowings (including bank borrowings and shareholders' loans) 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 Cuyo 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.

2.14 ***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.

2.15 ***Employee pension obligations***

Pursuant to laws and regulations in the PRC, contributions to the basic old age insurance for the Cuyo Group's PRC 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 Cuyo Group and the remainder is borne by the employees. Except for the monthly contribution of 20% on standard salary to the government agency, the Cuyo Group has no further obligation in connection with PRC 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.

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

2.16 ***Revenue recognition***

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

2.17 ***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.

3 **Financial risk management**

3.1 ***Financial risk factors***

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

(a) *Foreign exchange risk*

The Cuyo Group mainly operates in the PRC with most of the transactions settled in Renminbi and most of its assets and liabilities are denominated in Renminbi during the Relevant Periods. Foreign exchange risk arises from certain cash and cash equivalents (note 9) and shareholders' loans (note 14) which are denominated in Hong Kong dollar. The directors are of the opinion that the foreign exchange exposure of the Cuyo Group is not material. The Cuyo Group has not implemented or entered into any type of instruments or arrangements to hedge against currency exchange fluctuation for the Relevant Periods.

(b) *Price risk*

The Cuyo Group is not significantly exposed to price risk as the Cuyo Group has no significant financial instruments that subject to change of commodity prices or equity price.

(c) *Cash flow and fair value interest rate risk*

The Cuyo Group's cash flow interest rate risk arises from cash and cash equivalents and bank borrowings which are at variable rates. The directors are of the opinion that the variability of the Cuyo Group's operating result and operating cash flows arising from changes in interest rate is low and the Cuyo Group has no other significant interest-bearing assets and liabilities. Hence, the Cuyo Group is not significantly exposed to cash flow interest rate risk.

As the Cuyo Group has no assets and liabilities which are at fixed interest rate, it is not exposed to fair value interest rate risk.

(d) *Credit risk*

The maximum exposure of credit risks arises from cash and cash equivalents, and credit exposures to outstanding other receivables.

For cash and cash equivalents, management manages the credit risk by placing the deposits mainly at large state-controlled banks in the PRC, including Industrial and Commercial Bank of China and China Everbright Bank.

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

(e) *Liquidity risk*

The Cuyo Group currently depends on shareholders' loans and shareholder's equity to fund its operations. The financial liabilities of the Cuyo Group, including shareholders' loans, bank borrowings and other payables, are all contractually repayable on demand or within twelve months. The amounts disclosed in the balance sheets are contractual undiscounted cash flows. As disclosed in Note 2.1, the controlling shareholder of Hong Kong Cuyo has undertaken to provide continuing financial support to the Cuyo Group as may be necessary to enable it to operate as a going concern for the next twelve months from the date of this report and thus the directors are of the opinion that the Cuyo Group will remain as a going concern in the foreseeable future.

3.2 ***Capital risk management***

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

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

The Cuyo Group monitors capital on the basis of the debt-to-adjusted capital ratio. This ratio is calculated as bank borrowings divided by adjusted capital. Adjusted capital comprises owners' equity and shareholders' loans.

The debt-to-adjusted capital ratios as at 31 December 2004, 2005 and 2006 and 30 June 2007 were as follows:

		31 December		**30 June**
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Bank borrowings	1,000	—	—	—
Owners' equity	2,727	1,825	1,565	1,436
Shareholders' loans	838	5,910	5,891	6,017
	3,565	7,735	7,456	7,453
Debt-to-adjusted capital ratio	0.28	—	—	—

During each of the years ended 31 December 2005 and 2006 and six months ended 30 June 2007, the Cuyo Group mainly relied on owners' equity and shareholders' loans to fund its business and thus the debt-to-adjusted capital ratio as at 31 December 2005 and 2006 and 30 June 2007 was nil.

3.3 ***Fair value estimation***

The carrying values of other receivables, cash and cash equivalents, shareholders' loans, bank borrowings and other payables as at the respective balance sheet dates approximate their fair values due to the short-term in nature.

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

4 **Critical accounting estimates and judgements**

The Cuyo 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) *Impairment of exploration and evaluation assets*

In determining whether the Cuyo Group's exploration and evaluation assets are impaired, management has to exercise judgement in the area of asset impairment, particularly in assessing: (1) whether the Cuyo Group is able to obtain the right to exploit in the specific mining site; (2) whether carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale. In any such case, the Cuyo Group shall perform an impairment test in accordance with the accounting policy stated in Note 2.7.

(b) *Deferred taxation*

As at 31 December 2004, 2005 and 2006 and 30 June 2007, the Cuyo Group has not recognised any deferred tax assets in the consolidated balance sheet in relation to its estimated unused tax losses. The recognition of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the estimated future taxable profits are increased as a result of change in underlying assumptions, a deferred tax asset of up to RMB 890,000 as at 30 June 2007 (31 December 2004: RMB750,000; 31 December 2005: RMB1,046,000; 31 December 2006: RMB1,131,000) would be recognised, which would be credited to the consolidated income statement for the year. Details of unused tax losses not recognised are disclosed in note 19.

5 **Property, plant and equipment — the Cuyo Group**

	Machinery	Ofiice equipment	Total
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2004			
Cost	43	11	54
Accumulated depreciation	(1)	(2)	(3)
Net book amount	42	9	51
Year ended 31 December 2004			
Opening net book amount	42	9	51
Depreciation charge	(3)	(2)	(5)
Closing net book amount	39	7	46
At 31 December 2004			
Cost	43	11	54
Accumulated depreciation	(4)	(4)	(8)
Net book amount	39	7	46
Year ended 31 December 2005			
Opening net book amount	39	7	46
Depreciation charge	(3)	(2)	(5)
Closing net book amount	36	5	41
At 31 December 2005			
Cost	43	11	54
Accumulated depreciation	(7)	(6)	(13)
Net book amount	36	5	41
Year ended 31 December 2006			
Opening net book amount	36	5	41
Depreciation charge	(3)	(2)	(5)
Closing net book amount	33	3	36
At 31 December 2006			
Cost	43	11	54
Accumulated depreciation	(10)	(8)	(18)
Net book amount	33	3	36
Period ended 30 June 2007			
Opening net book amount	33	3	36
Depreciation charge	(3)	(1)	(4)
Closing net book amount	30	2	32

No property, plant and equipment of the Cuyo Group had been pledged.

All depreciation expenses have been charged as administrative expenses.

6 **Exploration and evaluation assets — the Cuyo Group**

	Exploration rights	Evaluation expenditure	Total
	RMB'000	*RMB'000*	*RMB'000*
Balance at 1 January 2004	2,096	641	2,737
Addition	523	1,026	1,549
Balance at 31 December 2004 and 1 January 2005	2,619	1,667	4,286
Addition	—	3,431	3,431
Balance at 31 December 2005 and 1 January 2006	2,619	5,098	7,717
Addition	3	—	3
Balance at 31 December 2006 and 1 January 2007	2,622	5,098	7,720
Addition	—	—	—
Balance at 30 June 2007	2,622	5,098	7,720

7 **Investment in a subsidiary — Hong Kong Cuyo**

	31 December			30 June
	2004	2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Unlisted investment, at cost	5,000	5,000	5,000	5,000

The particulars of the subsidiary are:

Name	Place and date of incorporation and kind of legal entity	Principal activities and place of operation	Registered and paid-up capital	Percentage of equity interest directly attributable to Hong Kong Cuyo
Sichuan Cuyo	People's Republic of China (the "PRC"), 1 July 2002, wholly foreign-owned enterprise	Exploration and exploitation of phosphorous mine in the PRC	RMB5,000,000	100%

Sichuan Cuyo adopts 31 December as the financial year end date.

8 **Other receivables — the Cuyo Group**

	As at 31 December			As at 30 June
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Deposits with service suppliers	50	500	500	—
Others	17	19	19	20
	67	519	519	20

The other receivables of the Cuyo Group have no fixed maturity term and bears no interest. The ageing of other receivables is as follows:

	As at 31 December			As at 30 June
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 12 months	67	519	19	20
Over 12 months and within 24 monthes	—	—	500	—
	67	519	519	20

The carrying amounts of other receivables as at the respective balance sheet dates approximate their fair values. All other receivables are denominated in Renminbi.

9 **Cash and cash equivalents**

Cash and cash equivalents of the Cuyo Group and Hong Kong Cuyo are cash at bank and in hand.

The effective interest rate on cash at bank as at 31 December 2004, 2005, 2006 and 30 June 2007 was 0.7%, 0.7%, 0.72% and 0.81%, respectively.

Cash and cash equivalents are denominated in the following currencies:

The Cuyo Group

	As at 31 December			As at 30 June
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Renminbi	150	56	26	87
Hong Kong dollar	26	25	24	23
	176	81	50	110

Hong Kong Cuyo

	As at 31 December			As at 30 June
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Hong Kong dollar	26	25	24	23

At 31 December 2004, 2005 and 2006 and 30 June 2007, funds of the Cuyo Group amounting to RMB149,000, RMB52,000, RMB22,000 and RMB54,000 are kept in bank accounts opened with banks in the PRC where the remittance of funds is subject to foreign exchange controls.

10 **Share capital**

	Issued and fully paid Ordinary shares of HKD1 each		
	Number of shares	*HKD'000*	*RMB'000*
At 31 December 2004, 2005, 2006 and 30 June 2007	4,720,000	4,720	5,007

The total authorised number of ordinary shares is 5,000,000 shares with a par value of HKD1 per share during the Relevant Periods. All issued shares are fully paid.

11 **Accumulated losses — Hong Kong Cuyo**

	Accumulated losses
	RMB'000
Balance at 1 January 2004	(8)
Loss for the year	(9)
Balance at 31 December 2004 and 1 January 2005	(17)
Loss for the year	(8)
Balance at 31 December 2005 and 1 January 2006	(25)
Loss for the year	(9)
Balance at 31 December 2006 and 1 January 2007	(34)
Profit for the period	1
Balance at 30 June 2007	(33)
Unaudited	
Balance at 31 December 2005 and 1 January 2006	(25)
Profit for the period	—
Balance at 30 June 2006	(25)

Hong Kong Cuyo had no distributable reserve as at 31 December 2004, 2005 and 2006 and 30 June 2007.

12 **Accruals and other payables — the Cuyo Group**

The carrying amounts of accruals and other payables as at the respective balance sheet dates approximate their fair value. All accruals and other payables are denominated in Renminbi.

13 **Bank borrowing — the Cuyo Group**

	As at 31 December			As at 30 June
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Repayable within 1 year — secured	1,000	—	—	—

The effective interest rate was 4.563% per annum. As at 31 December 2004, the borrowing was secured by a fixed deposit of Chengdu Ko Yo Chemical Industry Co., Ltd. Chengdu Ko Yo Chemical Industry Co., Ltd is a related party of the Cuyo Group.

As at 31 December 2004, the carrying amount of the short-term borrowing approximate its fair value. The borrowing as at that date was denominated in the Renminbi.

14 **Shareholders' loans**

The Cuyo Group

	31 December			30 June
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Amounts due to:				
Mr. Li Weiruo	838	5,910	5,891	6,017

Hong Kong Cuyo

	31 December			30 June
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Amounts due to:				
Mr. Li Weiruo	36	43	51	49

All shareholders' loans are unsecured, interest free and repayable on demand.

As at 31 December 2004, 2005, 2006 and 30 June 2007, the shareholders' loans include balances of RMB838,000, RMB1,614,000, RMB1,568,000 and RMB1,520,000 respectively, which are denominated in Hong Kong dollars. The remaining shareholders' loans at each balance sheet date are denominated in Renminbi.

15 **Turnover**

No turnover has been generated during the Relevant Periods as the Cuyo Group has not yet commenced exploitation activities.

16 **Expenses by nature**

Expenses included in administrative expenses are analysed as follows:

	Year ended 31 December			Six months ended 30 June	
	2004	**2005**	**2006**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Employee benefit expenses *(Note 17)*	331	251	253	109	81
Consulting expenses	76	417	—	—	—
Travel expenses	88	64	1	1	49
Entertainment	45	48	3	2	1
Rental expenses	—	48	—	—	—
Other expenses	41	83	30	16	22
	581	911	287	128	153

17 **Employee benefit expenses**

	Year ended 31 December			Six months ended 30 June	
	2004	**2005**	**2006**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Wages and salaries	318	241	243	109	81
Social security costs	13	10	10	—	—
	331	251	253	109	81

(a) ***Directors' remunerations***

No remuneration has been paid or is payable to Hong Kong Cuyo's directors by Hong Kong Cuyo or its subsidiary in respect of the Relevant Periods.

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

The aggregate amounts of emoluments of up to five highest paid individuals for the Relevant Periods are set out below:

	Year ended 31 December			Six months ended 30 June	
	2004	**2005**	**2006**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Basic salaries and benefits in kind	315	241	243	109	81
Pensions	13	10	10	—	—
	328	251	253	109	81

The emoluments fell within the following bands:

	Year ended 31 December			Six months ended 30 June	
	2004	**2005**	**2006**	**2006**	**2007**
				(Unaudited)	
Nil to RMB1,000,000	5	4	3	3	2

The number of individuals who received emoluments from the Cuyo Group starting the year ended 31 December 2005 is less than 5.

18 **Finance income/(costs) — Net**

	Year ended 31 December			Six months ended 30 June	
	2004	**2005**	**2006**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Finance income:					
- Interest income on short-term bank deposits	1	3	2	1	—
- Exchange gain	2	17	25	6	24
	3	20	27	7	24
Finance costs:					
- Interest expenses of bank borrowings	(34)	(11)	—	—	—
Net finance income/(costs)	(31)	9	27	7	24

19 **Income tax expense**

No provision for PRC Enterprise Income Tax or Hong Kong Profit Tax has been made as the Cuyo Group has no assessable profits for the Relevant Periods.

As at 30 June, 2007, the Cuyo Group had unused tax losses of approximately RMB3,571,000 (31 December.2004: RMB2,280,000; 31 December 2005: RMB3,182,000; 31 December 2006: RMB3,442,000) available to offset against future profits. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams. The tax losses can be carried forward for five years from the year in which they arose.

The expiry dates of the unused tax losses are as follows:

	31 December			30 June
	2004	**2005**	**2006**	**2007**
Year	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
2008	1,668	1,668	1,668	1,668
2009	612	612	612	612
2010	—	902	902	902
2011	—	—	260	260
2012	—	—	—	129
	2,280	3,182	3,442	3,571

20 **Dividend**

No dividend has been paid or declared by Hong Kong Cuyo during the Relevant Periods.

21 **Cash used in operations**

Reconciliation of profit for the year/period to cash used in operations is as follows:

	Year ended 31 December			Six months ended 30 June	
	2004	**2005**	**2006**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (*Unaudited*)	*RMB'000*
Loss for the year/period	(612)	(902)	(260)	(121)	(129)
Adjustment for:					
- Depreciation *(Note 5)*	5	5	5	3	4
- Interest income	(1)	(3)	(2)	(1)	—
- Interest expenses	34	11	—	—	—
- Unrealised exchange gain	(2)	(17)	(25)	(6)	(24)
Changes in working capital:					
- Decrease/(increase) in other receivables	6	(501)	—	—	499
- Increase/(decrease) in other payables	5	582	243	80	(440)
Cash used in operations	(565)	(825)	(39)	(45)	(90)

22 **Commitments**

The Cuyo Group had no commitment as at 31 December 2004, 2005, 2006 and 30 June 2007.

23 **Related party transactions**

Apart from the related transactions and balances as stated in note 14 and the security given by related party as stated in note 13, the Cuyo Group had the following related party transaction:

Key management compensation

	Year ended 31 December			Six months ended 30 June	
	2004	**2005**	**2006**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (*Unaudited*)	*RMB'000*
Salaries and other short-term employee benefits	206	188	226	109	81

The directors' emoluments are disclosed in Note 17.

III SUBSEQUENT EVENTS

No significant events occurred subsequent to 30 June 2007.

IV SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Hong Kong Cuyo or its subsidiary in respect of any period subsequent to 30 June 2007. In addition, no dividend or distribution has been declared, made or paid by Hong Kong Cuyo or its subsidiary in respect of any period subsequent to 30 June 2007.

Yours faithfully
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

(A) UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

Introduction to the unaudited pro forma financial information of the Enlarged Group

The accompanying unaudited pro forma financial information of the Enlarged Group ("Unaudited Pro Forma Financial Information"), including the unaudited pro forma consolidated balance sheet, the unaudited pro forma consolidated income statement, the unaudited pro forma consolidated cash flow statement and the unaudited pro forma statement of adjusted net tangible assets, have been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the proposed acquisition of the entire interest in Hong Kong Cuyo Investment Limited by the Company (the "Acquisition") as if it had taken place on 30 June 2007 for the pro forma consolidated balance sheet and pro forma statement of adjusted net tangible assets and on 1 January 2006 for the pro forma consolidated income statement and consolidated cash flow statement.

The Unaudited Pro Forma Financial Information has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position, results of operation and cash flows of the Enlarged Group had the Acquisition been completed as at 30 June 2007 and 1 January 2006 or any future date.

For the purpose of Unaudited Pro Forma Financial Information, the balances stated in Hong Kong dollars have been translated into Renminbi at an exchange rate of RMB0.9743 to HK$1.00

A. **Unaudited pro forma consolidated balance sheet of the Enlarged Group**

		Pro forma adjustments			
	The Group as at 30 June 2007	**The Cuyo Group as at 30 June 2007**	**Other pro forma adjustments**	*Notes*	**Pro forma Enlarged Group**
	RMB'000	*RMB'000*	*RMB'000*		*RMB'000*
	Note 1	*Note 2*			
ASSETS					
Non-current assets					
Fixed assets	320,079	32			320,111
Deferred income tax assets	865	—			865
Exploration and evaluation assets	—	7,720	323,468	*4(i)*	331,188
Land use rights	34,453	—			34,453
Goodwill	—	—	56,036	*4(iii)*	56,036
	355,397	7,752			742,653
Current assets					
Inventories	71,148	—			71,148
Trade and other receivables	84,521	20			84,541
Pledged bank deposits	58,064	—			58,064
			(5,000)	*3*	
Cash and bank deposits	31,787	110	2,923	*4(ii)*	29,820
	245,520	130			243,573
Total assets	600,917	7,882			986,226

	The Group as at 30 June 2007	Pro forma adjustments: The Cuyo Group as at 30 June 2007	Pro forma adjustments: Other pro forma adjustments	*Notes*	Pro forma Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*		*RMB'000*
	Note 1	*Note 2*			
EQUITY					
Capital and reserves					
			46,095	*3*	
Share capital	53,449	5,007	(5,007)	*4(i)*	99,544
Reserves					
- Declared interim dividends	1,517	—			1,517
			257,918	*3*	
- Others	251,770	(3,571)	3,571	*4(i)*	509,688
Total equity	306,736	1,436			610,749
Non-current liabilities					
Provision for staff compensation	3,586	—			3,586
Deferred tax liabilities	—	—	80,867	*4(i)*	80,867
	3,586	—			84,453
Current liabilities					
Trade and other payables	104,819	429			105,248
Current portion of long-term loans, secured	5,800	—			5,800
Short-term bank loans, secured	179,976	—			179,976
			2,923	*4(ii)*	
Shareholders' loans	—	6,017	(8,940)	*4(ii)*	—
	290,595	6,446			291,024
Total liabilities	294,181	6,446			375,477
Total equity and liabilities	600,917	7,882			986,226
Net current liabilities	(45,075)	(6,316)			(47,451)
Total assets less current liabilities	310,322	1,436			695,202

Notes to unaudited pro forma consolidated balance sheet of the Enlarged Group:

1. The balances are extracted from the unaudited consolidated balance sheet of the Group as at 30 June 2007 as set out in Appendix I of this Circular (page 52 and 53).

2. The balances are extracted from the accountant's report of Hong Kong Cuyo as set out in Appendix II of this Circular.

3. This adjustment reflects the settlement of the cost of the acquisition.

   In accordance with the terms of the Sale and Purchase Agreement, the consideration of the Acquisition will be settled by the issuance of 473,060,000 new Consideration Shares with a par value of HK$0.1 each. The cost of the acquisition is the aggregate of the fair value of the Consideration Shares issued by the Company and the estimated transaction costs of approximately RMB5,000,000 which are directly attributable to the Acquisition.

   For the purpose of the Unaudited Pro Forma Financial Information, the fair value of the Consideration Shares is HK$312,000,000 which is estimated based on the market price of HK$0.6595 (equivalent to approximately RMB0.6426) per Share as adopted in the Sale and Purchase Agreement, which represents:

   (a) a discount of approximately 4.4% to the closing price of HK$0.69 per Share as quoted on the Stock Exchange on 13 September 2007, being the last trading day immediately before the publication of the announcement of the Acquisition;

   (b) a premium of approximately 8.1% to the average closing price of HK$0.61 per Share as quoted on the Stock Exchange from 7 September 2007 to 13 September 2007, being the last five trading days immediately before the publication of the announcement of the Acquisition;

   (c) a premium of approximately 9.9% to the average closing price of HK$0.60 per Share as quoted on the Stock Exchange from 31 August 2007 to 13 September 2007, being the last 10 trading days immediately before the publication of the announcement of the Acquisition;

   (d) a premium of approximately 9.9% to the average closing price of HK$0.60 per Share as quoted on the Stock Exchange from 31 August 2007 to 13 September 2007, being the 10 trading days immediately before the publication of the Acquisition; and

   (e) a premium of approximately 13.7% over the Group's consolidated audited net asset per Share as at 31 December 2006 of approximately HK$0.58 (based on a total of 505,820,000 issued Shares as at the Latest Practicable Date).

   The difference between the fair value of HK$312,000,000 and the par value of HK$47,306,000 (equivalent to approximately RMB46,095,000) of the Consideration Shares, amounting to HK$264,694,000 (equivalent to RMB257,918,000), is credited to the share premium account.

4. The adjustment reflects the allocation of the cost of the acquisition to the identifiable assets and liabilities of the Cuyo Group, which represents:

   (i) fair value adjustment of the identifiable assets and liabilities of the Cuyo Group

   Upon completion of the Acquisition, the identifiable assets and liabilities of the Cuyo Group will be accounted for in the consolidated financial statements of the Enlarged Group at fair value under the purchase method of accounting. The identifiable assets and liabilities of the Cuyo Group are recorded in the unaudited pro forma consolidated balance sheet of the Enlarged Group at their fair values estimated by the Directors with reference to valuation reports. The pro forma adjustment represents the fair value adjustment to the exploration and evaluation assets of HK$332,000,000 (equivalent to RMB323,468,000) and the corresponding deferred tax liabilities of RMB80,867,000. Other than the exploration and evaluation assets, assets and liabilities of the Cuyo Group approximate their carrying amount.

Share capital of RMB5,007,000 and accumulated losses of RMB3,571,000 of the Cuyo Group are eliminated in the consolidated financial statements of the Enlarged Group.

(ii) adjustment on the receipt and waiver of shareholders' loans

Pursuant to the Sale and Purchase Agreement, HK$3,000,000 and RMB6,017,000 owed by the Cuyo Group to Mr. Lo Wah Wai and Mr. Li Weiruo respectively will be waived upon the Completion.

Pursuant to the loan agreement entered into between Mr. Lo Wah Wai and the Cuyo Group dated 24 August 2007, Mr. Lo Wah Wai agreed to provide interest-free and non-secured loan facility of HK$6,000,000 to the Cuyo Group. In September 2007, the Cuyo Group has drawn down in aggregate HK$3,000,000 (equivalent to RMB2,923,000). Given the loan is to be waived as one of the conditions for the Acquisition pursuant to the Sale and Purchase Agreement as mentioned in the preceding paragraph, the pro forma adjustment has been made as if the Cuyo Group had received the loan of HK$3,000,000 from Mr. Lo Wah Wai as at 30 June 2007 and as if the loan has been waived as at that date.

(iii) recognition of goodwill

Goodwill represents the excess of the cost of the acquisition over the estimated fair value of the identifiable net assets of the Cuyo Group after adjusting for the effect of the waiver of the shareholders' loans as mentioned in note 4(ii) above.

Since the closing market price of the Consideration Shares upon the Completion and the fair value of the identifiable assets and liabilities of the Cuyo Group at the Completion may be substantially different from their fair values used in the pro forma financial information, the final amount of goodwill may be different from the amount presented above.

5. No adjustments have been made to reflect any trading results or other transactions of the Group and the Cuyo Group entered into subsequent to 30 June 2007.

B. **Unaudited pro forma consolidated income statement of the Enlarged Group**

	The Group for the year ended 31 December 2006	Pro forma adjustments: The Cuyo Group for the year ended 31 December 2006	Pro Forma Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*
	Note 1	*Note 2*	
Turnover	610,587	—	610,587
Cost of sales	(513,212)	—	(513,212)
Gross profit	97,375	—	97,375
Other income	6,322	—	6,322
Distribution costs	(22,182)	—	(22,182)
Administrative expenses	(41,282)	(287)	(41,569)
Operating profit	40,233	(287)	39,946
Finance costs — net	(6,909)	27	(6,882)
Profit before income tax	33,324	(260)	33,064
Income tax expense	(4,728)	—	(4,728)
Profit for the year	28,596	(260)	28,336

Notes to the unaudited pro forma consolidated income statement of the Enlarged Group:

1. The amounts are extracted from the audited consolidated income statement of the Group for the year ended 31 December 2006 as set out in Appendix I of this Circular (page 55).

2. The amounts are extracted from the accountant's report of the Hong Kong Cuyo as set out in Appendix II of this Circular.

3. No adjustments have been made to reflect any trading results or other transactions of the Group and of the Cuyo Group entered into subsequent to 31 December 2006.

C. **Unaudited pro forma consolidated cash flow statement of the Enlarged Group**

		Pro forma adjustments			
	The Group for the year ended 31 December 2006	The Cuyo Group for the year ended 31 December 2006	Other pro forma adjustments	Notes	Pro forma Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*		*RMB'000*
	Note 1	*Note 2*			
Cash flows from operating activities					
Cash generated from operations	1,513	(39)			1,474
Income tax paid	(7,098)	—			(7,098)
Interest paid	(7,905)	—			(7,905)
Net cash outflow from operating activities	(13,490)	(39)			(13,529)
Cash flows from investing activities					
Payments for land use rights	(183)	—			(183)
Purchases of property, plant and equipment and payments for construction-in-progress	(119,235)	—			(119,235)
Payments for exploration and evaluation assets	—	(3)			(3)
Proceeds from disposal of property, plant and equipment	77	—			77
Proceeds from disposal of available-for-sale investment	1,733	—			1,733
Interest income received	1,423	2			1,425
Payments of transaction costs directly attributable to the Acquisition	—	—	(5,000)	*3*	(5,000)
Net cash used in investing activities	(116,185)	(1)			(121,186)
Net cash outflow before financing activities	(129,675)	(40)			(134,715)

	Pro forma adjustments				
	The Group for the year ended 31 December 2006	**The Cuyo Group for the year ended 31 December 2006**	**Other pro forma adjustments**	*Notes*	**Pro forma Enlarged Group**
	RMB'000	*RMB'000*	*RMB'000*		*RMB'000*
	Note 1	*Note 2*			
Cash flows from financing activities					
Decrease in pledged bank deposits	56,999	—			56,999
Issue of ordinary shares	66,362	—			66,362
Proceeds from shareholders' loans	—	9			9
New loans payable	125,476	—			125,476
Repayment of bank loans	(144,870)	—			(144,870)
Dividends paid	(9,211)	—			(9,211)
Net cash inflow from financing activities	94,756	9			94,765
Net decrease in cash and cash equivalents	(34,919)	(31)			(39,950)
Cash and cash equivalents at 1 January 2006	47,758	81	2,923	4	50,762
Cash and cash equivalents at 31 December 2006	12,839	50			10,812

Notes to the unaudited pro forma consolidated cash flow statement of the Enlarged Group:

1. The amounts are extracted from the audited consolidated cash flow statement of the Group for the year ended 31 December 2006 as set out in Appendix I of this Circular (page 57).

2. The amounts are extracted from the accountant's report of Hong Kong Cuyo as set out in Appendix II of this Circular.

3. The adjustment reflects the payment of estimated transaction costs directly attributable to the Acquisition of approximately RMB 5,000,000.

4. Pursuant to the Sale and Purchase Agreement, HK$3,000,000 and RMB6,017,000 owed by the Cuyo Group to Mr. Lo Wah Wai and Mr. Li Weiruo respectively will be waived upon the Completion.

   Pursuant to the loan agreement entered into between Mr. Lo Wah Wai and the Cuyo Group dated 24 August 2007, Mr. Lo Wah Wai agreed to provide interest-free and non-secured loan facility of HK$6,000,000 to the Cuyo Group. In September 2007, the Cuyo Group drawn down in aggregate HK$3,000,000 (equivalent to RMB2,923,000). Given the loan is to be waived as one of the conditions for the Acquisition pursuant to the Sale and Purchase Agreement as mentioned in the preceding paragraph, the pro forma adjustment has been made as if the Cuyo Group had received the loan of HK$3,000,000 from Mr. Lo Wah Wai as at 1 January 2006.

5. No adjustments have been made to reflect any trading results or other transactions of the Group and of the Cuyo Group entered into subsequent to 31 December 2006.

D. Unaudited pro forma statement of adjusted net tangible assets of the Enlarged Group

Unaudited net tangible assets of the Group as at 30 June 2007	Unaudited net tangible assets of the Group per Share as at 30 June 2007	Unaudited pro forma adjusted net tangible assets of the Enlarged Group as at 30 June 2007	Unaudited pro forma adjusted net tangible assets of the Enlarged Group per Share as at 30 June 2007
RMB'000	*RMB*	*RMB'000*	*RMB*
Note 1	*Note 2*	*Note 3*	*Note 4*
306,736	0.61	223,525	0.23

Notes to the unaudited pro forma adjusted net tangible assets of the Enlarged Group:

1. The unaudited net tangible assets of the Group as at 30 June 2007 is extracted from the unaudited consolidated balance sheet of the Group as at 30 June 2007 as set out in Appendix I of this Circular (page 52 and 53).

2. The number of shares used for the calculation of this figure is 505,820,000 shares of the Company as at 30 June 2007 without taking into account the proposed subdivision of the shares of the Company of HK$0.1 each into five shares of HK$0.02 each.

3. The unaudited pro forma adjusted net tangible asset value of the Enlarged Group as at 30 June 2007 is extracted from the unaudited pro forma consolidated balance sheet of the Enlarged Group set out in Section A, which is based on the unaudited pro forma adjusted net assets of the Enlarged Group as at 30 June 2007 of approximately RMB610,749,000 with adjustment of exploration and evaluation assets and goodwill of approximately RMB331,188,000 and RMB56,036,000 respectively.

4. The number of shares used for the calculation of this figure is 978,880,000 shares, comprising the shares of the Company of 505,820,000 as at 30 June 2007 and the Consideration Shares of 473,060,000 to be issued to settle the cost of the acquisition and without taking into account the proposed subdivision of the shares of the Company of HK$0.1 each into five shares of HK$0.02 each.

5. No adjustments have been made to reflect any trading results or other transactions entered into subsequent 30 June 2007.

(B) REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this Circular.

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

REPORT FROM ACCOUNTANT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION TO THE DIRECTORS OF KO YO ECOLOGICAL AGROTECH (GROUP) LIMITED

We report on the unaudited pro forma financial information set out on pages 133 to 142 under the heading of "Unaudited Pro Forma Financial Information of the Enlarged Group" (the "Unaudited Pro Forma Financial Information") in Appendix III of the circular dated 7 December 2007 (the "Circular") of Ko Yo Ecological Agrotech (Group) Limited (the "Company"), in connection with the proposed acquisition of the entire interests in Hong Kong Cuyo Investment Limited (the "Acquisition") by the Company. The Unaudited Pro Forma Financial Information has been prepared by the Directors, for illustrative purposes only, to provide information about how the Acquisition might have affected the relevant financial information of the Company and its subsidiaries (hereinafter collectively referred to as the "Group"). The basis of preparation of the Unaudited Pro Forma Financial Information is set out on pages 133 to 142 of the Circular.

Respective Responsibilities of Directors of the Company and the Accountant

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with rule 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by rule 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of Opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment

Circulars" issued by the HKICPA. Our work which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted consolidated balance sheet of the Group as at 30 June 2007 and its unadjusted consolidated income statement and consolidated cash flow statement for the year ended 31 December 2006 with the corresponding financial information set out in Appendix I of this Circular, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to rule 4.29(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

— the financial position of the Group as at 30 June 2007 or any future date, or

— the results and cash flows of the Group for the year ended 31 December 2006 or any future periods.

Opinion

In our opinion:

a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

b) such basis is consistent with the accounting policies of the Group; and

c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to rule 4.29(1) of the Listing Rules.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 7 December 2007

The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this circular received from Sallmanns (Far East) Limited, an independent valuer, in connection with its valuations as at 30 September 2007 of the property interests of the Enlarged Group.

Sallmanns
Corporate valuation and consultancy
www.sallmanns.com

22nd Floor, Siu On Centre
188 Lockhart Road
Wan Chai, Hong Kong
Tel: (852) 2169 6000
Fax: (852) 2528 5079

7 December 2007

The Board of Directors
Ko Yo Ecological Agrotech (Group) Limited
Suite No.02, 31st Floor
Sino Plaza
Nos.255-257 Gloucester Road
Causeway Bay
Hong Kong

Dear Sirs,

In accordance with your instructions to value the properties in which Ko Yo Ecological Agrotech (Group) Limited (the "Company") and its subsidiaries (hereinafter together referred to as the "Group") have interests in the People's Republic of China (the "PRC"), we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the capital value of the property interests as at 30 September 2007 (the "date of valuation").

Our valuations of the property interests represent the market value which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion".

Where, due to the nature of the buildings and structures of the properties in Group I, there are no market sales comparables readily available, the property nos. 1, 2, 3, 4, 6, 8 and 10 have been valued on the basis of their depreciated replacement cost.

Depreciated replacement cost is defined as "the current cost of replacement (reproduction) of a property less deduction for physical deterioration and all relevant forms of obsolescence and optimization". It is based on an estimate of the market value for the existing use of the land, plus the current cost of replacement (reproduction) of the improvements less deduction for physical deterioration and all relevant forms of obsolescence and optimization. The depreciated replacement costs of the property interests are subject to adequate potential profitability of the concerned business.

We have valued the property interests of properties nos. 5, 7 and 9 in Group I and property no. 14 in Group III by the direct comparison approach assuming sale of the property interests in their existing state with the benefit of immediate vacant possession and by making reference to comparable sale transactions as available in the relevant market.

We have valued the property nos. 11, 12 and 13 in Group II by investment method by capitalising the net rental income of the properties derived from the existing tenancies with due allowance for the reversionary value of the properties.

We have attributed no commercial value to the property nos. 15, 16, 17 and 18 in Group IV and V which are leased by the Group, due either to the short-term nature of the leaser the prohibition against assignment or sub-letting or otherwise due to the lack of substantial profit rent.

Our valuations have been made on the assumption that the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the values of the property interests.

No allowance has been made in our report for any charges, mortgages or amounts owing on any of the property interests valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

In valuing the property interests, we have complied with all the requirements contained in Chapter 8 of the Rules Governing the Listing of Securities on the Growth Enterprise Market issued by The Stock Exchange of Hong Kong Limited ("GEM Listing Rules"); the RICS Appraisal and Valuation Standards (5th Edition May 2003) published by the Royal Institution of Chartered Surveyors; and the HKIS Valuation Standards on Properties (1st Edition January 2005) published by the Hong Kong Institute of Surveyors.

We have relied to a very considerable extent on the information given by the Group and have accepted advices given to us on such matters as tenures, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

We have been shown copies of various title documents including State-owned Land Use Rights Certificates, Building Ownership Certificates and official plans relating to the property interests and have made relevant enquiries. Where possible, we have examined the original documents to verify the existing titles to the property interests in the PRC and any material encumbrance that might be attached to the property interests or any lease amendment. We have relied considerably on the advice given by the Company's PRC legal advisers — King & Wood Law Offices, concerning the validity of titles to the property interests.

We have not carried out detailed site measurements to verify the correctness of the site areas in respect of the properties but have assumed that the site areas shown on the documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the properties. However, we have not carried out investigation to determine the suitability of the ground conditions and services of the properties. Our valuation is prepared on the assumption that these aspects are satisfactory and that no unexpected cost and delay will be incurred during construction. Moreover, no structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are not, however, able to report whether the property is free of rot, infestation or any other structural defects. No tests were carried out on any of the services.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also sought confirmation from the Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and we have no reason to suspect that any material information has been withheld.

According to the information provided by the Group, the potential tax liability which would arise on the disposal of property interests in the PRC are business tax (5% of sale price), income tax (10% to 20% of profit), land value added tax (30%-60% of the appreciation amount) and stamp duty (0.05% of sale price). However, in the course of our valuation, we have not considered such tax liability. Since the Group uses the properties for business operation or staff quarters, there is no intention for the Group to dispose of these properties at present and such liability is not going to crystalise.

Unless otherwise stated, all monetary figures stated in the valuation certificates are in HK$. The exchange rate adopted in our valuation is HK$1 = RMB0.96 which was the prevailing exchange rate as at the date of valuation.

Our valuations are summarized below and the valuation certificates are attached.

Yours faithfully,
for and on behalf of
Sallmanns (Far East) Limited
Paul L. Brown
B.Sc. FRICS FHKIS
Director

Note: Paul L. Brown is a Chartered Surveyor who has 24 years' experience in the valuation of properties in the PRC and 27 years of property valuation experience in Hong Kong, the United Kingdom and the Asia-Pacific region.

SUMMARY OF VALUES

Group I — Property interests held and occupied by the Group in the PRC

No.	Property	Capital value in existing state as at 30 September 2007 *HK$*
1.	3 parcels of land, various buildings and structures No.108 Xinxin Road Xindu Town Xindu District Chengdu City Sichuan Province The PRC	70,110,000
2.	A parcel of land, various buildings and a structure No.126 Xinxin Road Xindu Town Xindu District Chengdu City Sichuan Province The PRC	5,275,000
3.	A parcel of land, a building and a structure No.118 Xinxin Road Xindu Town Xindu District Chengdu City Sichuan Province The PRC	817,000
4.	A parcel of land and various buildings No.108 Xinxin Road Xindu Town Xindu District Chengdu City Sichuan Province The PRC	7,562,000
5.	A parcel of land No.108 Xinxin Road Xindu Town Xindu District Chengdu City Sichuan Province The PRC	1,150,000

No.	Property	Capital value in existing state as at 30 September 2007 *HK$*
6.	A parcel of land, various buildings and structures No.108 Xinxin Road Xindu Town Xindu District Chengdu City Sichuan Province The PRC	2,871,000
7.	A parcel of land No.108 Xinxin Road Xindu Town Xindu District Chengdu City Sichuan Province The PRC	1,395,000
8.	5 parcels of land various buildings and structures located at Bolin Town Dazhu County Dazhou City Sichuan Province The PRC	45,078,000
9.	A unit on Level 1 of a composite building located at Lianyin Road Zhuyang Town Dazhu County Dazhou City Sichuan Province The PRC	312,000
10.	A parcel of land, various buildings and structures located at Wangcheng Street Office Laixi Qingdao City Shandong Province The PRC	14,373,000
	Sub-total:	148,943,000

Group II — Property interests held for investment by the Group in the PRC

No.	Property	Capital value in existing state as at 30 September 2007 *HK$*
11.	2 units on Level 2 of a composite building located at Xinhua Street Zhuyang Town Dazhu County Dazhou City Sichuan Province The PRC	1,802,000
12.	A commercial unit on Level 1 of a composite building located at Ziyou Street Zhuyang Town Dazhu County Dazhou City Sichuan Province The PRC	500,000
13.	A parcel of land located at Tiansheng Village Lianyin Town Dazhu County Dazhou City Sichuan Province The PRC	376,000
	Sub-total:	2,678,000

Group III — Property interest held for development by the Group

No.	Property	Capital value in existing state as at 30 September 2007 *HK$*
14.	A parcel of land located at Natural Gas Energy Sources and Chemical Industry Zone Dazhou City Sichuan Province The PRC	No commercial value
	Sub-total:	Nil

Group IV — Property interest leased and occupied by the Group in Hong Kong

No.	Property	Capital value in existing state as at 30 September 2007
		HK$
15.	Suite No.02 31st Floor Sino Plaza Nos.255-257 Gloucester Road Causeway Bay Hong Kong	No commercial value
	Sub-total:	Nil

Group V — Property interests leased and occupied by the Group in the PRC

No.	Property	Capital value in existing state as at 30 September 2007
		HK$
16.	A unit on Level 17 of Gaosu Plaza No.30 Ximianqiaojie Chengdu City Sichuan Province The PRC	No commercial value
17.	A unit on Level 19 of Gaosu Plaza No.30 Ximianqiaojie Chengdu City Sichuan Province The PRC	No commercial value
18.	A parcel of land, various buildings and structures located at No.103 Dongfengdonglu Decheng District Dezhou City Shandong Province The PRC	No commercial value
	Sub-total:	Nil
	Grand-total:	151,621,000

VALUATION CERTIFICATE

Group I — Property interests held and occupied by the Group in the PRC

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2007 *HK$*
1.	3 parcels of land, various buildings and structures No.108 Xinxin Road Xindu Town Xindu District Chengdu City Sichuan Province The PRC	The property comprises 3 parcels of land with a total site area of approximately 117,836.84 sq.m. and 45 buildings and various structures constructed thereon which were completed in various stages between 1977 and 1996. The total gross floor area of the buildings is approximately 38,090.53 sq.m. The buildings mainly include offices, workshops, storehouse, electricity room, pump room, boiler room, etc. The structures mainly include cooling tower, pool, boundary walls and chimney, etc. The land use rights of the property were granted for a term of 50 years expiring on 7 August 2050.	The property is currently occupied by the Group for office and production purposes.	70,110,000

Notes:

1. According to 3 State-owned Land Use Rights Certificates - Xindu Guo Yong (2000) Zi Nos. 390 to 392 issued by the Land Administration Bureau of Xindu County, the land use rights of the property with a total site area of approximately 117,836.84 sq.m. were granted to Chengdu Ko Yo Chemical Industry Co., Ltd., a wholly-owned subsidiary of the Company, for a term of 50 years expiring on 7 August 2050 for industrial purpose.

2. Pursuant to 15 Building Ownership Certificates - Xindu Fang Quan Zheng Xindu Zi Nos. 25694, 25695, 25701, 25702, 26217, 0110946 to 0110952, 0122555, 0122556 and 0122565 issued by the Building Administration Bureau of Xindu County, the 45 buildings of the property with a total gross floor area of approximately 38,090.53 sq.m. are owned by Chengdu Ko Yo Chemical Industry Co., Ltd.

3. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal advisers, which contains, inter alia, the following:

   i) The land use rights of the property are legally owned by Chengdu Ko Yo Chemical Industry Co., Ltd. and can be transferred, leased, mortgaged and utilized during its term of use;

   ii) Chengdu Ko Yo Chemical Industry Co., Ltd. is the legal owner of the buildings of the property and is entitled to possess, utilize, seek profits from and dispose of the buildings in accordance with law; and

   iii) The 3 parcels of land and buildings (except for the buildings stated in Building Ownership Certificate - Xindu Fang Quan Zheng Xindu Zi No. 0122556) of the property are currently subject to various mortgages and the mortgage contracts are valid in accordance with law.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2007 *HK$*
2.	A parcel of land, various buildings and a structure No.126 Xinxin Road Xindu Town Xindu District Chengdu City Sichuan Province The PRC	The property comprises a parcel of land with a site area of approximately 8,868.19 sq.m. and 5 buildings and a structure constructed thereon which were completed in various stages between 1982 and 1991. The total gross floor area of the buildings is approximately 5,372.07 sq.m. The buildings mainly include a warehouse and workshops, etc. The structure is a fence wall. The land use rights of the property were granted for a term of 50 years expiring on 7 August 2050.	The property is currently occupied by the Group for production purpose.	5,275,000

Notes:

1. According to a State-owned Land Use Rights Certificate - Xindu Guo Yong (2000) Zi No. 278 issued by the Land Administration Bureau of Xindu County, the land use rights of the property with a site area of approximately 8,868.19 sq.m. were granted to Chengdu Ko Yo Chemical Industry Co., Ltd., a wholly-owned subsidiary of the Company, for a term of 50 years expiring on 7 August 2050 for industrial purpose.

2. Pursuant to 5 Building Ownership Certificates - Xindu Fang Zheng Xindu Zi Nos. 0110948, 0122560, 0122563, 0122565 and 0122566 issued by the Building Administration Bureau of Xindu County, the buildings of the property with a total gross floor area of approximately 5,372.07 sq.m. are owned by Chengdu Ko Yo Chemical Industry Co., Ltd.

3. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal advisers, which contains, inter alia, the following:

   i) The land use rights of the property are legally owned by Chengdu Ko Yo Chemical Industry Co., Ltd. and can be transferred, leased, mortgaged and utilized during its term of use;

   ii) Chengdu Ko Yo Chemical Industry Co., Ltd. is the legal owner of the buildings of the property and is entitled to possess, utilize, seek profits from and dispose of the buildings in accordance with law; and

   iii) The land and buildings of the property are currently subject to various mortgages and the mortgage contracts are valid in accordance with law.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2007 *HK$*
3.	A parcel of land, a building and a structure No.118 Xinxin Road Xindu Town Xindu District Chengdu City Sichuan Province The PRC	The property comprises a parcel of land with a site area of approximately 1,075.63 sq.m. and a composite workshop/office building and a structure constructed thereon which were completed in 1992. The gross floor area of the building is approximately 692.01 sq.m. The structure is a fence wall. The land use rights of the property were granted for a term of 50 years expiring on 7 August 2050.	The property is currently occupied by the Group for office and production purposes.	817,000

Notes:

1. According to a State-owned Land Use Rights Certificate - Xindu Guo Yong (2000) Zi No. 279 issued by the Land Administration Bureau of Xindu County, the land use rights of the property with a site area of approximately 1,075.63 sq.m. were granted to Chengdu Ko Yo Chemical Industry Co., Ltd., a wholly-owned subsidiary of the Company, for a term of 50 years expiring on 7 August 2050 for industrial purpose.

2. Pursuant to a Building Ownership Certificate - Xindu Fang Zheng Xindu Zi No. 26221 issued by the Building Administration Bureau of Xindu County, the building of the property with a gross floor area of approximately 692.01 sq.m. is owned by Chengdu Ko Yo Chemical Industry Co., Ltd..

3. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal advisers, which contains, inter alia, the following:

    i) The land use rights of the property are legally owned by Chengdu Ko Yo Chemical Industry Co., Ltd. and can be transferred, leased, mortgaged and utilized during its term of use;

    ii) Chengdu Ko Yo Chemical Industry Co., Ltd. is the legal owner of the building of the property and is entitled to possess, utilize, seek profits from and dispose of the building in accordance with law; and

    iii) The land of the property is currently subject to a mortgage and the mortgage contract is valid in accordance with law.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2007 *HK$*
4.	A parcel of land and various buildings No.108 Xinxin Road Xindu Town Xindu District Chengdu City Sichuan Province The PRC	The property comprises a parcel of land with a site area of approximately 11,650.53 sq.m. and 9 buildings constructed thereon which were completed in various stages between 1984 and 1986. The total gross floor area of the buildings is approximately 7,298.45 sq.m. The buildings mainly include a guesthouse, bath-house, canteen and a children's care centre etc. The land use rights of the property were granted for a term of 50 years expiring on 7 August 2050.	The property is currently occupied by the Group for staff accommodation purpose.	7,562,000

Notes:

1. According to a State-owned Land Use Rights Certificate - Xindu Guo Yong (2000) Zi No. 281 issued by the Land Administration Bureau of Xindu County, the land use rights of the property with a site area of approximately 11,650.53 sq.m. were granted to Chengdu Ko Yo Chemical Industry Co., Ltd., a wholly-owned subsidiary of the Company, for a term of 50 years expiring on 7 August 2050 for industrial purpose.

2. Pursuant to 4 Building Ownership Certificates - Xindu Fang Zheng Xindu Zi Nos. 25693, 0122561, 0122562 and 0122564 issued by the Building Administration Bureau of Xindu County, the buildings of the property with a total gross floor area of approximately 7,298.45 sq.m. are owned by Chengdu Ko Yo Chemical Industry Co., Ltd.

3. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal advisers, which contains, inter alia, the following:

   i) The land use rights of the property are legally owned by Chengdu Ko Yo Chemical Industry Co., Ltd. and can be transferred, leased, mortgaged and utilized during its term of use;

   ii) Chengdu Ko Yo Chemical Industry Co., Ltd. is the legal owner of the buildings of the property and is entitled to possess, utilize, seek profits from and dispose of the buildings in accordance with law; and

   iii) The land and buildings of the property are currently subject to various mortgages and the mortgage contracts are valid in accordance with law.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2007 *HK$*
5.	A parcel of land No.108 Xinxin Road Xindu Town Xindu District Chengdu City Sichuan Province The PRC	The property comprises a parcel of land with a site area of approximately 4,532.53 sq.m. The land use rights of the property were granted for a term of 50 years expiring on 7 August 2050.	The property is currently vacant.	1,150,000

Notes:

1. According to a State-owned Land Use Rights Certificate - Xindu Guo Yong (2000) Zi No. 282 issued by the Land Administration Bureau of Xindu County, the land use rights of the property with a site area of approximately 4,532.53 sq.m. were granted to Chengdu Ko Yo Chemical Industry Co., Ltd., a wholly-owned subsidiary of the Company, for a term of 50 years expiring on 7 August 2050 for industrial purpose.

2. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal advisers, which contains, inter alia, the following:

   (i) The land use rights of the property are legally owned by Chengdu Ko Yo Chemical Industry Co., Ltd. and can be transferred, leased, mortgaged and utilized during its term of use; and

   (ii) The property is currently subject to a mortgage and the mortgage contract is valid in accordance with law.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2007 *HK$*
6.	A parcel of land, various buildings and structures No.108 Xinxin Road Xindu Town Xindu District Chengdu City Sichuan Province The PRC	The property comprises a parcel of land with a site area of approximately 4,862.24 sq.m. and 2 buildings and various structures constructed thereon which were completed in 1986. The total gross floor area of the buildings is approximately 2,983.6 sq.m. The buildings mainly include marketing office buildings with car parking provision. The structures mainly include a fence wall and a gate. The land use rights of the property were granted for a term of 50 years expiring on 7 August 2050.	The property is currently occupied by the Group for ancillary office purpose.	2,871,000

Notes:

1. According to a State-owned Land Use Rights Certificate - Xindu Guo Yong (2000) Zi No. 388 issued by the Land Administration Bureau of Xindu County, the land use rights of the property with a site area of approximately 4,862.24 sq.m. were granted to Chengdu Ko Yo Chemical Industry Co., Ltd., a wholly-owned subsidiary of the Company, for a term of 50 years expiring on 7 August 2050 for industrial purpose.

2. Pursuant to a Building Ownership Certificate - Xindu Fang Zheng Xindu Zi No. 26221 issued by the Building Administration Bureau of Xindu County, the 2 buildings of the property with a total gross floor area of approximately 2,983.6 sq.m. are owned by Chengdu Ko Yo Chemical Industry Co., Ltd.

3. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal advisers, which contains, inter alia, the following:

   (i) The land use rights of the property are legally owned by Chengdu Ko Yo Chemical Industry Co., Ltd. and can be transferred, leased, mortgaged and utilized during its term of use;

   (ii) Chengdu Ko Yo Chemical Industry Co., Ltd. is the legal owner of the buildings of the property and is entitled to possess, utilize, seek profits from and dispose of the buildings in accordance with law; and

   (iii) The land of the property is currently subject to a mortgage and the mortgage contract is valid in accordance with law.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2007 *HK$*
7.	A parcel of land No.108 Xinxin Road Xindu Town Xindu Distrct Chengdu City Sichuan Province The PRC	The property comprises a parcel of land with a site area of approximately 5,504.46 sq.m. The land use rights of the property were granted for a term of 50 years expiring on 7 August 2050.	The property is currently vacant.	1,395,000

Notes:

1. According to a State-owned Land Use Rights Certificate - Xindu Guo Yong (2000) Zi No. 280 issued by the Land Administration Bureau of Xindu County, the land use rights of the property with a site area of approximately 5,504.46 sq.m. were granted to Chengdu Ko Yo Chemical Industry Co., Ltd., a wholly-owned subsidiary of the Company, for a term of 50 years expiring on 7 August 2050 for industrial purpose.

2. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal advisers, which contains, inter alia, the following:

   (i) The land use rights of the property are legally owned by Chengdu Ko Yo Chemical Industry Co., Ltd. and can be transferred, leased, mortgaged and utilized during its term of use; and

   (ii) The property is currently subject to a mortgage and the mortgage contract is valid in accordance with law.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2007 *HK$*
8.	5 parcels of land, various buildings and structures located at Bolin Town Dazhu County Dazhou City Sichuan Province The PRC	The property comprises 5 parcels of land with a total site area of approximately 110,112.72 sq.m. and 82 buildings and various structures constructed thereon which were completed in various stages between 1949 and 1979. The total gross floor area of the buildings is approximately 51,980.68 sq.m. The buildings mainly include dormitory building, workshops, office buildings and pump room, etc. The structures mainly include chimney, cooling tower, pools, boundary walls and roads, etc. The land use rights of the property were granted for terms of 50 years expiring on 8 April 2054, 12 April 2054, 27 April 2054 and 12 August 2054.	The property is currently occupied by the Group for production and staff accommodation purposes.	45,078,000

Notes:

1. According to 5 State-owned Land Use Rights Certificates - Zhu Guo Yong (2005) Zi Nos. 00446, 00447, 00449, 00450 and 00452 issued by the Land Administration Bureau of Dazhu County, the land use rights of the property with a total site area of approximately 110,112.72 sq.m. were granted to Dazhou Dazhu Ko Yo Chemical Industry Co., Ltd., a wholly-owned subsidiary of the Company, for terms of 50 years expiring on 8 April 2054, 12 April 2054, 27 April 2054, and 12 August 2054, respectively, for industrial purpose.

2. Pursuant to 73 Building Ownership Certificates - Dazhu County Fang Quan Zheng Zhu Yang Zhen Zi Nos. 00015414, 00015415, 00015417 to 00015424, 00015426 to 00015466, 00015469 to 00015481, 00015483 to 00015486, 00015488, 00015489, 00015491 to 00015493 issued by the Building Administration Bureau of Dazhu County, 73 buildings of the property with a total gross floor area of approximately 45,676.46 sq.m. are owned by Dazhou Dazhu Ko Yo Chemical Industry Co., Ltd.

3. In the valuation of this property, we have not attributed any commercial value to 9 buildings with a total gross floor area of approximately 6,304.22 sq.m. which have not obtained any proper title certificates. However, for reference purposes, we are of the opinion that the capital value of these buildings (excluding the land) as at the date of valuation would be HK$3,366,000 assuming all relevant title ownership certificates have been obtained and they could be freely transferred.

4. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal advisers, which contains, inter alia, the following:

    (i) The land use rights of the property are legally owned by Dazhou Dazhu Ko Yo Chemical Industry Co., Ltd. and can be transferred, leased, mortgaged and utilized during its term of use;

(ii) Dazhou Dazhu Ko Yo Chemical Industry Co., Ltd. is the legal owner of the buildings of the property (except for the buildings mentioned in note 3) and is entitled to possess, utilize, seek profits from and dispose of the buildings in accordance with law; and

(iii) The 5 parcels of land and the buildings stated in Building Ownership Certificates - Dazhu County Fang Quan Zheng Zhu Yang Zhen Zi Nos. 00015414, 00015417 to 00015424, 00015426 to 00015429, 00015432, 00015434 to 00015436, 00015439, 00015440, 00015442, 00015443, 00015445 to 00015447, 00015449 to 00015456, 00015458 to 00015461, 00015465, 00015466, 00015469 to 00015475, 00015477, 00015479, 00015480, 00015483 to 00015486, 00015488 and 00015493 of the property is currently subject to various mortgages and the mortgage contracts are valid in accordance with law.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2007 *HK$*
9.	A unit on Level 1 of a composite building located at Lianyin Road Zhuyang Town Dazhu County Dazhou City Sichuan Province The PRC	The property comprises a unit on level 1 of a 7-storey composite building completed in 1999. The property has a gross floor area of approximately 79.44 sq.m. The land use rights of the property were granted for a term of 40 years expiring on 30 April 2047.	The property is currently occupied by the Group for commercial purpose.	312,000

Notes:

1. Pursuant to a State-owned Land Use Rights Certificate - Da Zhu County Guo Yong (2007) Zi No. 01793 issued by the Land Administration Bureau of Dazhu County, the land use rights of the property with an apportioned site area of approximately 11.35 sq.m. were granted to Dazhou Dazhu Ko Yo Chemical Industry Co., Ltd., a wholly-owned subsidiary of the Company, for a term of 40 years expiring on 30 April 2047.

2 Pursuant to a Building Ownership Certificate - Dazhu County Fang Quan Zheng Zhu Yang Zhen Zi No. 00022089 issued by the Building Administration Bureau of Dazhu County, the property with a gross floor area of approximately 79.44 sq.m. is owned by Dazhou Dazhu Ko Yo Chemical Industry Co., Ltd.

3. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal advisers, which contains, inter alia, the following:

   i) The land use rights of the property are legally owned by Dazhou Dazhu Ko Yo Chemical Industry Co., Ltd. and can be transferred, leased, mortgaged and utilized during its term of use; and

   ii) Dazhou Dazhu Ko Yo Chemical Industry Co., Ltd. is the legal owner of the property and is entitled to possess, utilize, seek profits from and dispose of the unit in accordance with law.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2007 *HK$*
10.	A parcel of land, various buildings and structures located at Wangcheng Street Office Laixi Qingdao City Shandong Province The PRC	The property comprises a parcel of land with a site area of approximately 36,249 sq.m. and 20 buildings and various structures constructed thereon which were completed in various stages between 1976 and 2006. The total gross floor area of the buildings is approximately 17,197.72 sq.m. The buildings mainly include an office building, warehouses, workshops, reception rooms, a distribution room and dormitory buildings, etc. The structures mainly include roads and boundary walls, etc. The land use rights of the property were granted for a term expiring on 23 July 2051.	The property is currently occupied by the Group for office and production purposes.	14,373,000

Notes:

1. According to a State-owned Land Use Rights Certificate - Xi Guo Yong (2005) No. G1964 issued by the Land Administration Bureau of Laixi, the land use rights of the property with a total site area of approximately 36,249 sq.m. were granted to Qingdao Ko Yo Chemical Industry Co., Ltd, a wholly-owned subsidiary of the Company, for a term expiring on 23 July 2051 for industrial purpose.

2 Pursuant to a Building Ownership Certificate - Xi Fang Zi No. 0103 issued by the Building Administration Bureau of Laixi, the 20 buildings of the property with a total gross floor area of approximately 17,197.72 sq.m. are owned by Qingdao Ko Yo Chemical Industry Co., Ltd.

3 We have been provided with a legal opinion regarding the property interests by the Company's PRC legal advisers, which contains, inter alia, the following:

   i) The land use rights of the property are legally owned by Qingdao Ko Yo Chemical Industry Co., Ltd. and can be transferred, leased, mortgaged and utilized during its term of use;

   ii) Qingdao Ko Yo Chemical Industry Co., Ltd. is the legal owner of the buildings of the property and is entitled to possess, utilize, seek profits from and dispose of the buildings in accordance with law; and

   iii) The land and buildings of the property are currently subject to various mortgages and the mortgage contracts are valid in accordance with law.

VALUATION CERTIFICATE

Group II — Property interests held for investment by the Group in the PRC

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2007 *HK$*
11.	2 units on Level 2 of a composite building located at Xinhua Street Zhuyang Town Dazhu County Dazhou City Sichuan Province The PRC	The property comprises 2 units on level 2 of a 9-storey composite building completed in 1997. The property has a total gross floor area of approximately 555.33 sq.m. The land use rights of the property were granted for a term of 50 years expiring on 8 April 2054.	A unit with a gross floor area of approximately 306.26 sq.m. is currently rented to an independent third party for a term commencing from 1 January 2004 and expiring on 30 October 2009 at an annual rent of RMB12,450 in the first 4 years, RMB12,862.92 in the fifth year exclusive of management fees, water and electricity charges. Another unit with a gross floor area of approximately 249.07 sq.m. is currently rented to an independent third party for a term of 5 years commencing from 1 May 2004 and expiring on 30 April 2009 at an annual rent of RMB12,450 in the first 3 years, RMB13,072.5 in the forth year and RMB13,726.37 in the fifth year exclusive of management fees, water and electricity charges.	1,802,000

Notes:

1. Pursuant to a State-owned Land Use Rights Certificate - Zhu Guo Yong (2005) Zi No. 00448 issued by the Land Administration Bureau of Dazhu County, the land use rights of the property with an apportioned area of approximately 70.71 sq.m. were granted to Dazhou Dazhu Ko Yo Chemical Industry Co., Ltd., a wholly-owned subsidiary of the Company, for a term of 50 years expiring on 8 April 2054.

2. Pursuant to 2 Building Ownership Certificates - Dazhu County Fang Quan Zheng Zhu Yang Zhen Zi Nos. 00015495 and 00015496 issued by the Building Administration Bureau of Dazhu County, the property with a total gross floor area of approximately 555.33 sq.m. is owned by Dazhou Dazhu Ko Yo Chemical Industry Co., Ltd.

3. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal advisers, which contains, inter alia, the following:

   i) The land use rights of the property are legally owned by Dazhou Dazhu Ko Yo Chemical Industry Co., Ltd. and can be transferred, leased, mortgaged and utilized during its term of use;

   ii) Dazhou Dazhu Ko Yo Chemical Industry Co., Ltd. is the legal owner of the buildings of the property and is entitled to possess, utilize, seek profits from and dispose of the buildings in accordance with law; and

   iii) The property is currently subject to a mortgage and the mortgage contract is valid in accordance with law.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2007 *HK$*
12.	A commercial unit on Level 1 of a composite building located at Ziyou Street Zhuyang Town Dazhu County Dazhou City Sichuan Province The PRC	The property comprises a commercial unit on level 1 of a 7-storey composite building completed in 1989. The property has a gross floor area of approximately 82.82 sq.m.	The property is currently rented to an independent third party for a term commencing from 1 May 2005 and expiring on 31 December 2008 at an annual rent of RMB7,500 exclusive of management fees, water and electricity charges.	500,000

Notes:

1. Pursuant to a Building Ownership Certificate - Dazhu County Fang Quan Zheng Zhu Yang Zhen Zi No. 00015494 issued by the Building Administration Bureau of Dazhu County, the property with a gross floor area of approximately 82.82 sq.m. is owned by Dazhou Dazhu Ko Yo Chemical Industry Co., Ltd., a wholly-owned subsidiary of the Company.

2. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal advisers, which contains, inter alia, the following:

   i) Dazhou Dazhu Ko Yo Chemical Industry Co., Ltd. is the legal owner of the property and is entitled to possess, utilize, seek profits from and dispose of the property in accordance with law; and

   ii) The property is currently subject to a mortgage and the mortgage contract is valid in accordance with law.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2007 *$*
13.	A parcel of land located at Tiansheng Village Lianyin Town Dazhu County Dazhou City Sichuan Province The PRC	The property comprises a parcel of land with a site area of approximately 2,530 sq.m. The land use rights of the property were granted for a term of 50 years expiring on 12 April 2054.	The property is currently rented to an independent third party for a term commencing from 26 November 2006 and expiring on 26 November 2011 at an annual rent of RMB16,000. The Lessee is responsible to pay for the outgoing of the property.	376,000

Notes:

1. According to a State-owned Land Use Rights Certificate - Da Zhu County Guo Yong (2005) Zi No. 00451 issued by the Land Administration Bureau of Dazhu County, the land use rights of the property with a site area of approximately 2,530 sq.m. were granted to Dazhou Dazhu Ko Yo Chemical Industry Co., Ltd., a wholly-owned subsidiary of the Company, for a term of 50 years expiring on 12 April 2054.

2. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal advisers, which contains, inter alia, the following:

   i) The land use rights of the property are legally owned by Dazhou Dazhu Ko Yo Chemical Industry Co., Ltd. and can be transferred, leased, mortgaged and utilized during its term of use;

   ii) The land use rights of the property are currently subject to a mortgage and the mortgage contract is valid in accordance with law.

VALUATION CERTIFICATE

Group III — Property interest held for development by the Group in the PRC

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2007 *HK$*
14.	A parcel of land located at Natural Gas Energy Sources and Chemical Industry Zone Dazhou City Sichuan Province The PRC	The property comprises a parcel of land with a site area of approximately 307,661.54 sq.m. which is planned to be developed as industrial complex. The development is scheduled to commence in October 2007 and completed in December 2008. The total gross floor area of the buildings is planned to be approximately 31,400 sq.m. The total investment is estimated to be approximately RMB620,000,000 of which RMB40,480,000 has been paid up to the date of valuation.	The property is currently vacant.	No commercial value

Notes:

1. The total granted land premium which has been paid for the land is RMB26,000,000.

2. Pursuant to a Construction Land Planning Permit - 2006-41 issued by the Planning and Construction Bureau of Dazhou City in favour of Dazhou Dazhu Ko Yo Chemical Industry Co., Ltd., a wholly-owned subsidiary of the Company, permission towards planning of the subject land with a site area of approximately 307,661.54 sq.m. were granted to Dazhou Dazhu Ko Yo Chemical Industry Co., Ltd. for industrial use. The total land premium is RMB26,000,000.

3. In the valuation of this property, we have not attributed any commercial value to the property which has not yet obtained any proper title certificates. However, for reference purposes, we are of the opinion that the capital value of the property as at the date of valuation would be HK$32,835,000 assuming all relevant title certificate have been obtained and the property could be freely transferred.

4. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal advisers, which contains, inter alia, the following:

   i) The Land Use Rights Certificate is under application; and

   ii) Dazhu Ko Yo Chemical Industry Co., Ltd. can legally use the land use rights after paying the full land premium and obtaining the granted Land Use Rights Certificate.

VALUATION CERTIFICATE

Group IV — Property interest leased and occupied by the Group in Hong Kong

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2007 *HK$*
15.	Suite No.02 31st Floor Sino Plaza Nos.255-257 Gloucester Road Causeway Bay Hong Kong	The property comprises an office unit on 31st floor of a commercial building completed in 1992. The gross floor area of the property is approximately 1,570 sq.ft. The property is leased to the Group from an independent third party for a term of 2 years commencing from 10 April 2006 and expiring on 9 April 2008 at a monthly rent of HK$43,960 exclusive of Government Rent, rates, management fees, air-conditioning charges and all tenant's expenses and outgoings.	The property is currently occupied by the Group for office purpose.	No commercial value

Note:

1. The tenant of the property is Ko Yo Development Co., Ltd. which is a wholly-owned subsidiary of the Company.

VALUATION CERTIFICATE

Group V — Property interests leased and occupied by the Group in the PRC

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2007 *HK$*
16.	A unit on Level 17 of Gaosu Plaza No.30 Ximianqiaojie Chengdu City Sichuan Province The PRC	The property comprises a unit on the 17 floor of a 23-storey office building completed in about 1999. The property has a gross floor area of approximately 1,029.96 sq.m. The property is leased to Chengdu Ko Yo Chemical Industry Co., Ltd. from an independent third party for a term commencing from 22 June 2007 and expiring on 31 December 2007 at an annual rent of RMB270,000 exclusive of management fees, water and electricity charges.	The property is currently occupied by the Group for office purpose.	No commercial value

Notes:

1. Pursuant to a Tenancy Agreement entered into between Chengdu Ko Yo Chemical Industry Co., Ltd. (the "Lessee"), a wholly-owned subsidiary of the Company, and Chengdu Airport Highway Co., Ltd. (the "Lessor"), an independent third party, dated 22 June 2007, the property on the 17 floor with a gross floor area of approximately 1,029.96 sq.m is leased to Chengdu Ko Yo Chemical Industry Co., Ltd. at an annual rent of RMB270,000 commencing from 22 June 2007 and expiring on 31 December 2007 exclusive of management fees, water and electricity charges for office use.

2. We have been provided with a legal opinion on the legality of the tenancy agreement to the property issued by the Company's PRC legal advisers, which contains, inter alia, the following:

   (i) The Lessor has legal rights to lease the property.

   (ii) The Lessor and Lessee have legal rights and relevant responsibility during the leased term.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2007 *HK$*
17.	A unit on Level 19 of Gaosu Plaza No.30 Ximianqiaojie Chengdu City Sichuan Province The PRC	The property comprises a unit on the 19 floor of a 23-storey office building completed in about 1999. The property has a gross floor area of approximately 325.21 sq.m. The property is leased to Chengdu Ko Yo Compound Fertilizer Co., Ltd. from an independent third party for a term of 1 year commencing from 26 October 2006 and expiring on 25 October 2007 at an annual rent of RMB156,100.8 exclusive of management fees, water and electricity charges. The lease term has been renewed for a further term of 1 year expiring on 25 October 2008 at the same rent.	The property is currently occupied by the Group for office purpose.	No commercial value

Notes:

1. Pursuant to a Tenancy Agreement entered into between Chengdu Ko Yo Compound Fertilizer Co., Ltd. (the "Lessee"), a wholly-owned subsidiary of the Company, and Chengdu Communication Investment Group Co., Ltd. (the "Lessor"), an independent third party which was authorized as the lessor of the property by Chengdu Airport Highway Real Estate Co., Ltd, the owner of the property, dated 18 October 2007, the property on the 19 floor with a gross floor area of approximately 325.21 sq.m. is leased to Chengdu Ko Yo Compound Fertilizer Co., Ltd. at an annual rent of RMB156,100.8 commencing from 26 October 2006 and expiring on 25 October 2007 exclusive of management fees, water and electricity charges for office use. The lease term has been renewed for a further term of 1 year expiring on 25 October 2008 at the same rent.

2. We have been provided with a legal opinion on the legality of the tenancy agreement to the property issued by the Company's PRC legal advisers, which contains, inter alia, the following:

   (i) The Lessor has legal rights to lease the property.

   (ii) The Lessor and Lessee have legal rights and relevant responsibility during the leased term.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2007 *HK$*
18.	A parcel of land, various buildings and structures located at No.103 Dongfengdonglu Decheng District Dezhou City Shandong Province The PRC	The property comprises a parcel of land, various buildings and structures completed in about 1990s. The buildings have a gross floor area of approximately 7,633 sq.m. The buildings mainly include workshops, warehouse, a office room, etc. The structures mainly include roads, etc. The property is leased to Chengdu Ko Yo Compound Fertilizer Co., Ltd. from an independent third party for a term of 20 years commencing from 1 January 2004 and expiring on 31 December 2023 at an annual rent of RMB250,000 exclusive of management fees, water and electricity charges.	The property is currently occupied by the Group for office and production purposes.	No commercial value

Notes:

1. Pursuant to a Tenancy Agreement entered into between Dezhou Ko Yo Compound Fertilizer Co., Ltd. (the "Lessee"), a wholly-owned subsidiary of the Company, and Dezhou Ruixing Agriculture Production Material Co., Ltd. (the "Lessor"), an independent third party dated 1 January 2004, the property is leased to Chengdu Ko Yo Compound Fertilizer Co., Ltd. at an annual rent of RMB250,000 commencing from 1 January 2004 and expiring on 31 December 2023 exclusive of management fees, water and electricity charges for office and production use.

2. We have been provided with a legal opinion on the legality of the tenancy agreement to the property issued by the Company's PRC legal advisers, which contains, inter alia, the following:

   (i) The Lessor has legal rights to lease property.

   (ii) The Lessor and Lessee have legal rights and relevant responsibility during the leased term.

GREATER CHINA APPRAISAL LIMITED
漢 華 評 值 有 限 公 司

7 December 2007

The Directors
Ko Yo Ecological Agrotech (Group) Limited
Suite No. 02, 31/F, Sino Plaza
No. 255 — 257 Gloucester Road
Causeway Bay
Hong Kong

Dear Sirs,

INSTRUCTIONS

We refer to the instructions from Ko Yo Ecological Agrotech (Group) Limited (referred to as "the Company") for us to provide our opinion on the market value of the mining right (referred to as the "Asset") of the Sichuan Phosphate Mine owned by Sichuan Cuyo Chemical Industry Company Limited (referred to as "Sichuan Cuyo") as at 31 October 2007 (the "date of valuation").

This report includes the background of the Asset, a brief industry overview, the basis of valuation and assumptions. It also explains the valuation methodology applied and presents our conclusion of value.

PURPOSE OF VALUATION

We understand that the purpose of our valuation is to express an independent opinion on the market value of the Asset as at 31 October 2007 for your acquisition reference purposes only.

BASIS OF VALUATION

Our valuation was carried out on the basis of market value. Market value is defined as "*the estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion*".

BACKGROUND OF THE ASSET

Sichuan Phosphate Mine owned by Sichuan Cuyo is located adjacent to Qingping village, Mianzhu municipality of Sichuan province, the People's Republic of China (referred to as the "PRC"). Mianzhu municipality is approximately 90 km northwest from Chengdu.

According to the Independent Technical Review Report issued by Minarco-MineConsult ("MMC"), a total mineral resource (Classification: 122b+2M22+333) of 71.4 million tons (referred to as "Mt") of phosphate ore (P_2O_5) was identified. The detailed phosphate resource of the Sichuan Phosphate Mine is as follows:

Mineral Resource Classification	Resource Estimate *('000t)*
122b	8,581
333	62,792
2M22	36
122b+333+2M22	**71,409**

In addition, a total of 68.9 Mt of potential resources (Classification: 334) have been identified. The additional resources have potential for upgrade to 333 classification following further exploration.

The average grade of P_2O_5 is 14.57%, which by Chinese and International Standards is low. The current plans are for a mine life of 30 years.

BRIEF INDUSTRY OVERVIEW

Today, the global annual production of phosphate is estimated at 40 million tons, derived from roughly 140 million tons of rock concentrate. Around 80% of phosphate output is used in the production of mineral fertilizers. Phosphate is also used in chemical products; detergents, pesticides, safety-match heads, aluminum polish, timber, photographic films, cosmetics, textile dyes, and oil additives. Furthermore, phosphate is used in livestock feed supplements and soft drinks.

Over 30 countries currently produce phosphate, with the world's top 12 producers accounting for nearly 95% of total output. The three largest producers: the US, Morocco, and China alone produce two thirds of the total. Arab countries account for 25% of the world's total production, and hold 57% of global phosphate reserves. It is worth noting that Morocco sits on 50% of total reserves, while the US and China have between them around 20% of global reserves.

Although supply currently meets demand in general, phosphate remains in short supply in many countries due to economic and political constraints. With the surging demand for food to provide for an ever-growing global population, demand for fertilizers is forecast to dramatically increase in the future, which will drive up phosphate consumption. The Paris-based International Fertilizer Industry Association forecasts that the global consumption of phosphate and potash — also used in the production of fertilizers — will increase by 3.9% in 2007.

SOURCE OF INFORMATION

For the purpose of our valuation, we were furnished with the financial and operational data related to the Asset, which was provided by the senior management of the Company.

The valuation of the Asset required consideration of all pertinent factors affecting the economic benefits of the Asset and its abilities to generate future investment returns. The factors considered in the valuation included, but were not limited to, the following:

- The business nature of the Asset;
- The financial and operational information related to the Asset;
- The specific economic environment and competition for the market in which the Asset is exposed to;
- Market-derived investment returns of similar assets; and
- The financial and business risks related to the Asset, including the continuity of income and the projected future results.

SCOPE OF WORKS

In the course of our valuation work for the Asset, we have conducted the following steps to evaluate the reasonableness of the adopted bases and assumptions provided by the senior management of the Company:

- Obtained all relevant financial and operational information related to the Asset;
- Performed market research and obtained statistical figures from public sources;
- Examined all relevant bases and assumptions of both the financial and operational information of the Asset, which were provided by the senior management of the Company;
- Prepared a business financial model to derive the indicated value of the Asset; and
- Presented all relevant information on the background the Asset, valuation methodology, source of information, scope of works, major assumptions, comments and our conclusion of value in this report.

VALUATION ASSUMPTIONS

Given the changing environment in which the Asset is exposed to, a number of assumptions had to be established in order to sufficiently support our concluded opinion of value of the Asset. The major assumptions adopted in our valuation were:

- As advised by the Company, the Asset will be granted before March in year 2009.
- As advised by the Company, the Asset will have an expected valid period of 30 years.
- There will be no major changes in the existing political, legal, and economic conditions in the jurisdiction where the Asset is currently or will be exposed to, which will materially affect the revenues attributable to the Asset;
- There will be no major changes in the current taxation law in the jurisdiction related to the Company, that the rates of tax payable remain unchanged and that all applicable laws and regulations will be complied with;
- Exchange rates and interest rates will not differ materially from those presently prevailing;
- The projection on the year that the Sichuan Phosphate Mine will achieve maximum production capacity was prepared on a reasonable basis, reflecting estimates that have been arrived at after due and careful consideration by the Directors; and
- Economic conditions will not deviate significantly.

VALUATION METHODOLOGY

Three generally accepted valuation methodologies have been considered in valuing the Asset. They were the market approach, the cost approach and the income approach.

The market approach provides indications of value by comparing the subject to similar assets that have been sold in the market.

The cost approach provides indications of value by studying the amounts required to recreate the asset for which a value conclusion is desired. This approach seeks to measure the economic benefits of ownership by quantifying the amount of fund that would be required to replace the future service capability of the asset.

The income approach is the conversion of expected periodic benefits of ownership into an indication of value. It is based on the principle that an informed buyer would pay no more for the asset than an amount equal to the present worth of anticipated future benefits from the same or a substantially similar asset with a similar risk profile.

We considered that the *cost approach* was not appropriate to value the Asset, as this approach does not take future growth potential of the Asset into consideration. Thus, we considered the *income approach* and the *market approach* for this valuation. However, as the income approach involves adoption of much more assumptions, not all of which can be easily quantified or ascertained. Therefore, we have determined to rely primarily on the market approach to derive at our valuation conclusion.

During the valuation, we have selected four companies that were listed in China and had similar business operation and determined their price multiples including "enterprise value to sales", "price to earnings" and "price to book value". Then we have applied those price multiples to the related financial data of Sichuan Cuyo and determined our concluded value of the Asset.

For selecting the comparable companies, the business operation natures, locations of the phosphate mines, reserves and grades of the phosphate stones have been taken into consideration. The selected companies have their own phosphate mines for the production of phosphoric products, which are located in the PRC. After the acquisition and obtaining the mining right, the business operation of the Company will be similar to that of the comparable companies. Although there is no public available information regarding the value of mining right of the four selected companies, the Directors noted that all of the selected companies are principally engaged in phosphate mining and phosphate related business as disclosed in respective annual report of the four selected companies. In addition to business operation nature of the four selected companies, the Directors also take into account of the reserves and the quality of phosphate mines when selecting the comparable companies. The Directors noted that the four comparable companies together with the Asset which are all located in regions with low-grade phosphate stones in the PRC. Based on such, the Directors are of the view that the four companies are fairly selected.

Name of Comparable Company	**Enterprise Value to Sales**
Jiangsu Chengxing Phosph-Chemicals Company Limited	4.935
Hubei Xingfa Chemicals Group Company Limited	3.172
Anhui Liuguo Chemical Company Limited	1.890
Yunnan Malong Industry Group Company Limited	2.403
Median:	**2.787**

Because of the rather non-comparability of the earnings and book value multiples of the comparable companies, we have determined that "enterprise value to sales" is the most appropriate price multiple to estimate our concluded value based on the projected sales of RMB252.70 million for 3.17 years from now, which was provided by the Company. According to the technical assessment report prepared by Minarco Asia Pacific Pty Limited, the annual production capacity of phosphate stone will achieve 1.9 million tons in the year 2010. The prevailing market price of phosphate stone is RMB133 per ton. Therefore, the sales were determined by multiplying the production capacity to the prevailing market price. The annual production capacity and the estimated market price of phosphate stone are prepared on a reasonable basis, reflecting estimates arrived after due and careful consideration by the Directors.

The "enterprise value to sales" multiple that we have adopted is 2.787, being the median "enterprise value to sales" multiple of the four listed companies listed above. The enterprise value and the sales value of the four selected companies are as at the date of valuation and the financial year end (i.e. 31 December 2006) respectively as extracted from Bloomberg. The calculated enterprise value based on the "enterprise value to sales" multiple was then discounted back to the date of valuation with a calculated discount rate.

The discount rate is the sum of the risk-free rate and a related beta times the market risk premium. We have adopted the yield rate of the 10-year Chinese government bond as at the date of valuation as the risk-free rate, which was 4.500%. The beta has been determined as the weighted-average of betas of the four selected listed companies. In working out the weighted-average beta, we have taken into consideration the differences in market capitalization of each selected company. The estimated beta for Sichuan Cuyo was 0.921. Besides, the market risk premium adopted was 8.310%.

In respect of non-systematic risks, we have considered the size difference (a company-specific risk) between Sichuan Cuyo and the selected comparable companies (with reference to "Risk Premia over Time Report: 2006", published by Ibbotson Associates). The size premium adopted was 3.600%. In addition, 1.2% of country premium was adopted. As a result, the discount rate was calculated as 16.96%.

The concept of marketability deals with the liquidity of an ownership interest, that is, how quickly and easily it can be converted into cash if the owner chooses to sell. The lack of marketability discount reflects the fact that there is no ready market for shares in a closely held company. Ownership interests in closely held companies are typically not readily marketable compared to similar interests in publicly listed companies. Therefore, a share of stock in a privately held company is usually worth less than an otherwise comparable share in a publicly listed company. In the valuation, 46% (with reference to "Fair Value", published by Banister Financials, Inc.) have been used as the discount for lack of marketability.

As our valuation was carried out based on the market prices of the publicly traded stock of similar public companies, producing a minority level value, a control premium of 40% was adopted.

The calculated enterprise value was then adjusted by subtracting the short-term debt, long-term debt, and preferred stock and adding back cash and cash equivalents. The calculated value was then further adjusted by the marketability discount and the control premium to get the market value of the Asset. According to the audited financial statement of Hong Kong Cuyo Investment Limited and its subsidiary (together referred to as "Cuyo Group") as at 30 June 2007, the short-term borrowing of Cuyo Group was RMB6,017,000 and the cash and cash equivalents was RMB110,000. Considering the valuation date is 31 October 2007, the Directors are of the view that it is fair and reasonable to use the cash and liability position of Cuyo Group as at 30 June 2007 to estimate the market value of the Asset. The Directors also considered that Cuyo Group had no other intangible assets except the mining right as at the date of valuation.

REMARKS

For the purpose of this valuation and in arriving at our opinion of value, we referred to the information provided by the senior management of the Company to estimate the value of the Asset. We have also sought and received confirmation from the Company that no material facts have been omitted from the information supplied.

To the best of our knowledge, all data set forth in this report are true and accurate. Although gathered from reliable sources, no guarantee is made nor liability assumed for the accuracy of any data, opinions, or estimates identified as being furnished by others, which have been used in formulating this analysis.

Unless otherwise stated, all money amounts stated are in Hong Kong Dollars (HK$).

CONCLUSION OF VALUE

Our conclusion of value is based on accepted valuation procedures and practices that rely substantially on the use of numerous assumptions and the consideration of a lot of uncertainties, not all of which can be easily ascertained or quantified.

Further, whilst the assumptions and consideration of such matters are considered by us to be reasonable, they are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of the Company, or us.

Based on our investigation and analysis outlined in this report, it is our opinion that the market value of the Asset as at 31 October 2007 was **HK$332,000,000 (HONG KONG DOLLARS THREE HUNDRED AND THIRTY TWO MILLION ONLY).**

We hereby certify that we have neither present nor prospective interest in the Company, the Asset or the value reported.

This valuation report is issued subject to our general service conditions.

Yours faithfully,
For and on behalf of
GREATER CHINA APPRAISAL LIMITED
K.K. Ip
Registered Business Valuer of HKBVF
MRICS MHKIS and RPS(GP)
Managing Director

Notes: Mr. K. K. Ip, a member of The Royal Institution of Chartered Surveyors (RICS), a member of The Hong Kong Institute of Surveyors (HKIS), a Registered Professional Surveyor in General Practice and Registered Business Valuer of The Hong Kong Business Valuation Forum (HKBVF), has substantial experience in property, plant and machinery, business enterprise and intellectual property valuations for various purposes in Greater China Region since 1992.

The Directors
Ko Yo Ecological Agrotech (Group) Limited

December 7, 2007

RE: INDEPENDENT TECHNICAL REVIEW REPORT

Dear Sirs,

Minarco-MineConsult ("MMC") has been engaged by Ko Yo Ecological Agrotech (Group) Limited ("KYEAGL" or "the Company") to carry out an Independent Technical Review ("ITR") of the assets of Hong Kong Cuyo Investment Limited ("HKCIL") that are to be purchased by Bright Bridge Investment Limited, a wholly owned subsidiary of the Company (the "Transaction").

The conclusions of this ITR will be finalised in a Hong Kong Stock Exchange ("HKEX") compliant report titled the Independent Technical Review Report ("ITRR").

The assets reviewed ("Relevant Assets") include the Sichuan Phosphate Deposit (the "Project") and the associated planned processing plant both located in Sichuan Province in the Peoples Republic of China ("China").

The following report (the ITRR) has been prepared by MMC in connection with the ITR conducted by MMC on the Relevant Assets. The report sets out the process and conclusions of MMC's review and MMC consents to its inclusion in the circular of the Company for its submission to the Stock Exchange of Hong Kong Limited (the "Stock Exchange") as required in KYEAGL's offer document in relation to the proposed Transaction.

MMC has conducted its review and preparation of the report in accordance with the requirements of Chapter 18 of the Listing Rules of the Stock Exchange. The report is also in compliance with:

- The "Australasian Code for Reporting Mineral Resources and Ore Reserves" 2004 edition published by the Joint Ore Reserves Committee ("JORC") of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and the Minerals Council of Australia (the "JORC Code"); for determining resources and reserves; and

- The Code and Guidelines for technical assessment and/or valuation of mineral and petroleum assets and mineral and petroleum securities for Independent Expert Reports (the "Valmin Code").

MMC carried out a detailed review of Mineral Resources as reported under the Chinese Mineral Reporting Standards and has compared this in broad terms with the reporting requirements of the JORC Code.

MMC operates as an independent technical consultant providing resource evaluation, mining engineering and mine valuation services to the resources and financial services industries. This report was prepared on behalf of MMC by technical specialists, details of whose qualifications and experience are set out in ***Annexure A***.

MMC has been paid, and has agreed to be paid, professional fees for its preparation of this report. However, none of MMC or its directors, staff or sub-consultants who contributed to this report have any interest in:

- the Company and/or its subsidiaries;
- Hong Kong Cuyo Investment Limited and/or its subsidiaries;
- the Relevant Assets; or
- the outcome of the Transaction.

Drafts of this report were provided to the Company, but only for the purpose of confirming the accuracy of factual material and the reasonableness of assumptions relied upon in the report. The review was based mainly on information provided by KYEAGL, either directly from the data room or from project sites and other offices. The report is based on information made available to MMC before September 15, 2007.

The work undertaken is a technical review of the information provided as well as that obtained during such inspections made by MMC prior to preparation of the report. It specifically excludes all aspects of legal issues, commercial and financing matters, land titles and agreements, excepting such aspects as may directly influence technical, operational or cost issues.

MMC does not warrant the completeness or the accuracy of information provided by the Company which has been used in the preparation of this report. In MMC's opinion however, the information provided by KYEAGL appeared reasonable and nothing discovered during the preparation of the report suggested that there was any significant error or misrepresentation in respect of such information.

MMC has independently assessed the Relevant Assets by reviewing pertinent data, including Mineral Resources, Ore Reserves, future exploration plans, development potential, and potential mining and processing issues. All opinions, findings and conclusions expressed in this report are those of MMC and its specialist advisors.

MMC concludes from this review that:

- The phosphate project represents a medium scale, low grade greenfields phosphate deposit with potential for exploitation using traditional opencut mining techniques.

- HKCIL completed the first stage of exploration, resource and reserve reporting, mine and process plant pre-feasibility and engineering design work in 2003 and 2004. These reports considered the development of an opencut mine producing 1.9 Mtpa of phosphate ore using traditional opencut mining techniques. This ore will be fed to a processing plant which will produce an 85% industrial grade phosphoric acid suitable for use as a feedstock in chemical manufacturing.

- HKCIL management advised that they still intend to develop the project on the basis of the pre-feasibility and design reports prepared in 2004. The key difference however will be that the construction will not commence until sometime in 2008 as opposed to 2007.

- HKCIL advised that it applied for a Mining Right in 2006 over the graticular blocks 104°05’00 to 104°07’00 East and 31°31’30 to 30°33’00 North and this licence is expected to be granted within 2008.

- An exploration report was prepared for the project in 2003 which identified a total Mineral Resource (122b+2M22+333) of 71.4 Mt of phosphate ore (P_2O_5). An additional target resource (334 classification) of 45.9 Mt has also been identified giving a total resource inventory of 117 million tonnes.

- The average grade of the P_2O_5 is 14.57%, which by both Chinese and international standards is low.

- The current plans are for a mine life of 30 years, at an average annual mining rate of 1.9 Mtpa of phosphate ore.

MMC consents to the inclusion of this report in the Company’s circular to the Stock Exchange.

Yours faithfully
David Meldrum
General Manager
Minarco-MineConsult

1 OVERVIEW/EXECUTIVE SUMMARY

1.1 INTRODUCTION

1.1.1 Scope of Work

The Scope requires a review of any critical and relevant technical issues in relation to the project as well as the identification of key issues and risks for potential Investors. It includes a review of the following:

- resources and reserves, including quantity and quality of drilling, reliability of historic data, adequacy of resource estimation methods, and calculation of cut off grades;
- appropriateness of mining methods and mine design in the Feasibility Studies;
- comment on operating and capital expenditure in the Feasibilities Studies;
- environmental and safety issues;
- comment on regional and local infrastructure;
- geotechnical work and support programmes (where appropriate);
- proposed processing technologies and techniques; and
- risk management plans and measures to reduce the risks.

1.1.2 Site Visits and Inspections

MMC's technical team ("the Team"), consisting of a mining engineer, process engineer and a geologist supported by translation staff, travelled to the proposed mine site on the 29th and 30th of August 2007. The site inspection included both a physical inspection of the existing exploration area as well as a general inspection of the surrounding countryside and the planned site for the processing facility. Details of the qualifications and experience of the key personnel involved in the site visits and preparation of this report are given in ***Annexure A***. During the site visit, the Team had open and frank discussions with the Company's personnel on technical aspects relating to the above scope of work. MMC found the Company's personnel to be co-operative and open in facilitating MMCs work.

1.1.3 Limitations and Exclusions

The review was based on various reports, plans and tabulations, translated to English. The data reviewed did not include detailed exploration samples and assay data as this information was unavailable to MMC.

The majority of the information was prepared in 2003, 2004 and 2005. In this regard, the feasibility work was prepared at a time when the price environment for the major raw materials including steel and timber products, electricity, fuel and labour was different from today. Given the inflation that has occurred over the past 3 to 4 years, MMC considers that the cost information relied upon is out of date and will need to be revised when the company prepares its detailed design studies planned for early 2008. In addition, the details of the proposed processing technology were limited due to the proprietary nature of the technology. MMC has therefore been unable to review the proposed processing techniques in any detail.

The report is based mainly on information provided by the Company either directly from the project site and other offices, or from reports by other organisations whose work is the property of the Company. The Company has not advised MMC of any material change, or event likely to cause material change, to the operations or forecasts since the date of asset inspections.

The work undertaken for this report is that required for a technical review of the information coupled with such inspections as the Team considered appropriate to prepare this report. It specifically excludes all aspects of legal issues, commercial and financing matters, land titles, agreements, excepting such aspects as may directly influence technical, operational or cost issues.

MMC has specifically excluded making any comments on the competitive position of the Assets compared with other similar and competing phosphate producers around the world. MMC strongly advises that any potential investors make their own comprehensive assessment of both the competitive position of the Assets in the market, and the fundamentals of the phosphate products market at large.

1.1.4 **Information Reviewed**

The key information reviewed by MMC and relied upon in the preparation of this report includes the following:

- Investment Value Evaluation Report, July 2005, Sichuan Chengyuan Chemical Industry Co., Ltd, (“SCCIC”). Project of Development and Construction of Phosphorus Chemical Industry and Mine.

- Company Presentation, Sichuan Mine Overview, August 2007.

- City Capital Corporation Limited, “Sichuan Phosphate feeding China”, May 2004

- February 2004, Sichuan Chengyuan Chemical Industry Co., Ltd, Sichuan Chengyuan ammonium phosphate project, Feasibility Study Report prepared by the Ministry of Chemical Industry Lienyungang Design Research institute

1.1.5 Study Methodology

The study was completed in several stages as follows:

- *Preparatory Work and Translation* — Only limited technical information was made available to the Team prior to the site visits.
- *Site Visits* — The Team inspected the Project site on the 29th and 30th August 2007.
- *Document and Reports* — Copies of the Feasibility Report and associated supporting documents were made available to the Team during the site visit to allow translation and more detailed review.
- *Analysis* — Following the site inspection the Team returned to Beijing and Australia to analyse the collected data, continue with translation and prepare this report.
- *Preparation of the report* — MMC prepared this report and provided drafts to the Company and its specialist advisers.

The basis for the comments and forecasts in this report is information compiled by enquiry and verbal comment from the Company, cross checked where possible with hard data or by comment from more than one source. Where there was conflicting information on issues the technical review team used its professional judgment to resolve the issues where possible.

Generally, the data available was sufficient for MMC to complete the scope of work. The quality and quantity of data available, and the co-operative assistance, in MMC's view, showed a willingness by the Company to assist the ITR process.

1.2 DESCRIPTION OF ASSETS

HKCIL owns a large low grade phosphate deposit which it is considering for development. The current development plans include building a mine with a capacity of 1.9 Mtpa of phosphate ore. The ore will be trucked to a purpose built beneficiation plant which will convert the low grade ore into 85% industrial grade phosphoric acid. This acid will be sold to a related company which will use it as feedstock to make di-ammonium phosphate ("DAP").

HKCIL has completed the first stage exploration of the mine and deposits evaluation, and is in the process of obtaining a mining license and approvals from the relevant government agencies. Resource evaluation, mine planning and process economics have been completed in conjunction with Huabei Institute of Planning & Design, which is a division of the China Huanqiu Contracting & Engineering Corp of the China United Association of the Mining Industry, based in Beijing.

1.3 ASSET LOCATION

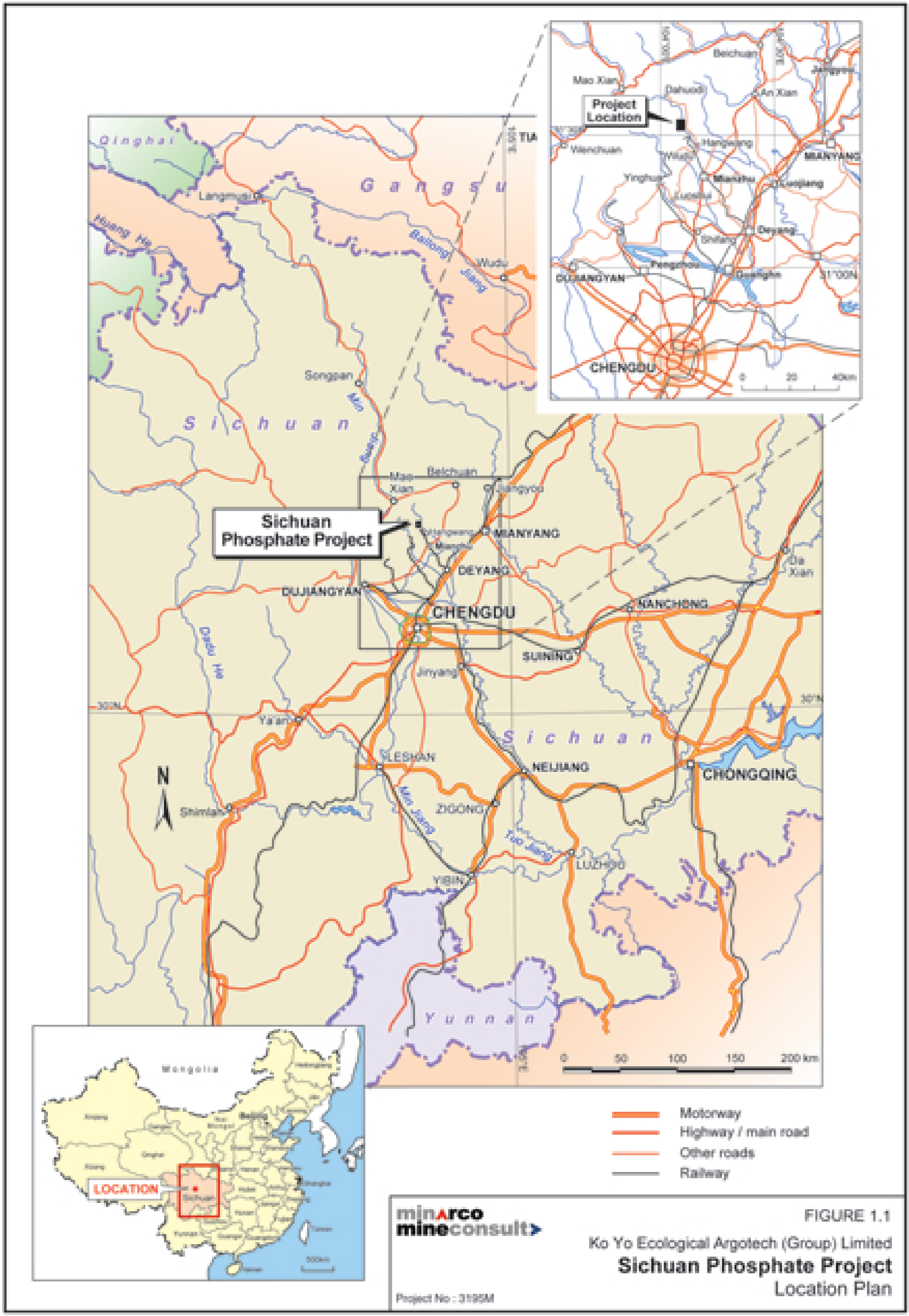
The project is located adjacent to the Qingping village, Mianzhu municipality of Sichuan province. Mianzhu municipality is approximately 90 kms northwest from Chengdu. The location of the assets is shown in ***Figure 1.1***.

The economy of the region is mainly based on agriculture and forestry with the major crop being corn. There are also traditional garden and medicinal crops together with significant water resources. Hanwang Town in the southeast has a well developed industry based on coal, phosphate, limestone and other mines as well as natural gas.

1.4 PLANNED PRODUCTION

The current conceptual production forecast schedule is to achieve a production of 1.9 Mtpa of phosphate ore as quickly as is reasonable. Mining and processing may build up to 1.9 Mtpa in stages as is normal for new mines and process plants. Details of scheduling will be developed with more detailed planning.

Figure 1.1 - Asset Location Plan



1.5 SUMMARY OF MINERAL RESOURCES

The mineral resources discussed in this report are defined as category 122b, 2M22 and 333 and are compliant with the Chinese Resource Reporting Guidelines (1999). After a technical site visit, and discussion with geological personnel, a clear understanding of the methodology used in calculating the 2003 Mineral Resource estimate was achieved. MMC considers that the estimate prepared and summarised in ***Table 1.2*** is reasonable reflection of the current Mineral Resources based on the current Chinese Code.

Table 1.2 - Mineral Resource Statement (May 2003)

Mineral Resource Classification	Resource Estimate *('000t)*
122b	8,581
333	62,792
2M22	36
122b+2M22+333	**71,409**

Note: All resources are as reported under the Chinese Resource Reporting Guidelines

In addition, a total of 45.9 Mt of potential resources (334) have been identified. These additional resources have potential for upgrade to 333 classification following further exploration. This results in a total inventory of ore material (122b+2M22 +333 +334) of 117 Mt.

1.6 SUMMARY OF ORE RESERVES

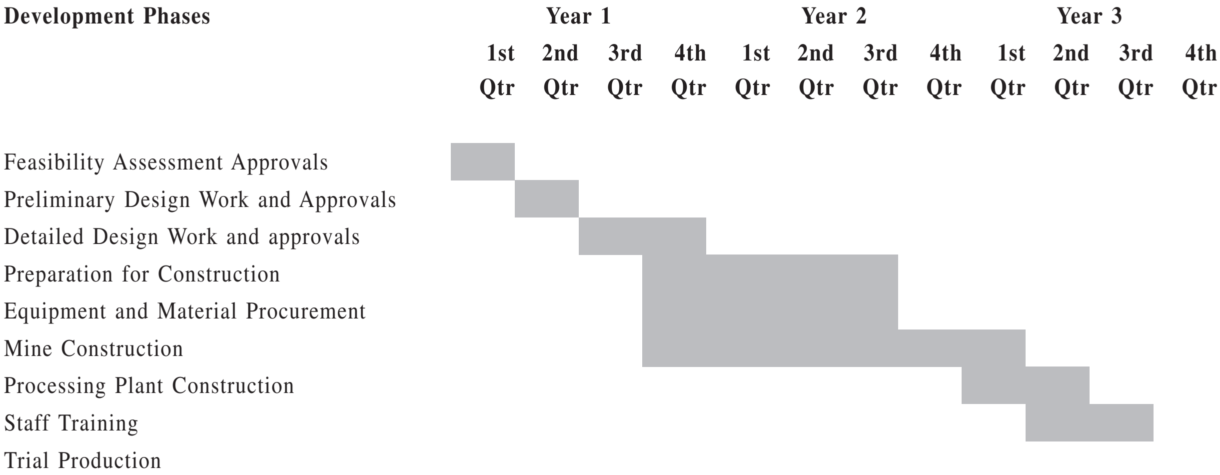
Ore Reserves have been defined in the resource report using a resource recovery factor of 0.9. This recovery factor has been applied to the 122b Mineral Resources (the only Mineral Resources eligible for upgrade to Ore Reserves) and results in a total Ore Reserves estimate of 7.72 Mt.

MMC notes that if the market conditions for phosphate products remain strong, additional exploration and mine planning may result in a portion of the 333 and 2M22 Mineral Resources being upgraded, and potentially converted to Ore Reserves. This represents upside potential for the proposed operation.

1.7 OVERALL DEVELOPMENT SCHEDULE

The original Feasibility Study contemplated a total construction period of 24 months (once the preliminary feasibility and preliminary design work has been completed), divided into the key phases as shown in ***Table 1.3***.

Table 1.3 - Design and Construction Schedule



Note: For simplicity, the start and finish dates of each task correspond to the start and finish of quarters. This is simplistic and in reality the start and finish dates of the individual tasks will be slightly different.

MMC considers the above simplified construction schedule to be reasonable and achievable.

1.8 CAPITAL AND OPERATING COSTS

The estimated capital and operating costs are based on design and feasibility work that was completed in 2004 and 2005. Given the substantial escalation in raw material costs (including steel, mining consumables, fuel, power etc) that has occurred between 2004 and the current time, MMC considers that the forecasts are out of date.

1.9 ENVIRONMENT AND SAFETY

No outstanding environmental and safety issues have been identified that separate this project from other similar mining projects planned for development. The current design work has been completed in accordance with the relevant safety and environmental standards.

1.10 STATUS OF APPROVALS

The Company advised that it applied for a Mining Right in 2006 over the graticular blocks 104°05’00 to 104°07’00 East and 31°31’30 to 30°33’00 North and this licence is expected to be granted within 2008.

2 PHOSPHATE PROJECT

2.1 GENERAL DESCRIPTION AND OVERVIEW

Phosphate is an important material for the chemical industry and for fertilizer production. More than 80% of currently mined phosphate ore is used to produce phosphoric fertilizer with the balance being used to make phosphorus and chemical materials. Phosphate is widely used in the agriculture, chemical, metallurgy, medical, military and advanced science industries with its potential uses continuously expanding.

The main users and producers of phosphate are America, Russia and China, with around 90% used for fertilisers, 4% for detergents and the balance for chemical feeds.

China has substantial reserves of phosphate ore (estimated in 1987 to be approximately 5.5 billion tonnes), but only a small amount of high grade ore (estimated in 1982 to be 463 million tonnes).

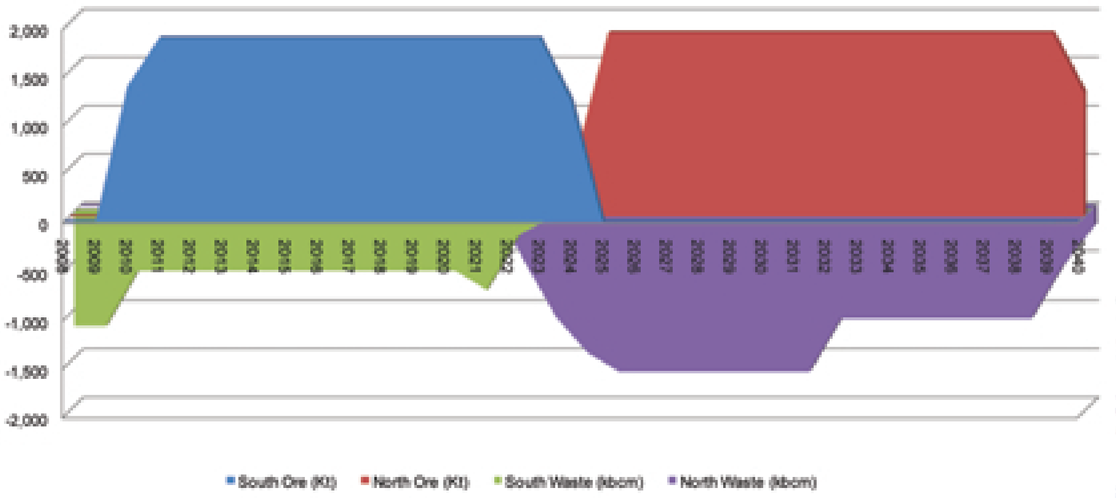
Compared with other major known exploitable deposits around the world, the quality of the majority of China’s Phosphate ore is low, with problems relating to grade, complex ore composition, difficulty in beneficiation, and less than favourable strength properties. The ore quality at the Qingping deposit is low, and is typical of the majority of China’s deposits.

The large high quality, high grade mineral deposits are quickly being exhausted (through mining) and it is becoming more difficult to find and mine these sort of high grade deposits. On the other hand, there are numerous medium to low grade mineral deposits available that can be exploited if the right processing technologies are available and the economics are favourable.

The provisional indicative mining schedule based upon the results of the Feasibility is summarised in ***Figure 2.1.***

Figure 2.1 - Conceptual Production Schedule

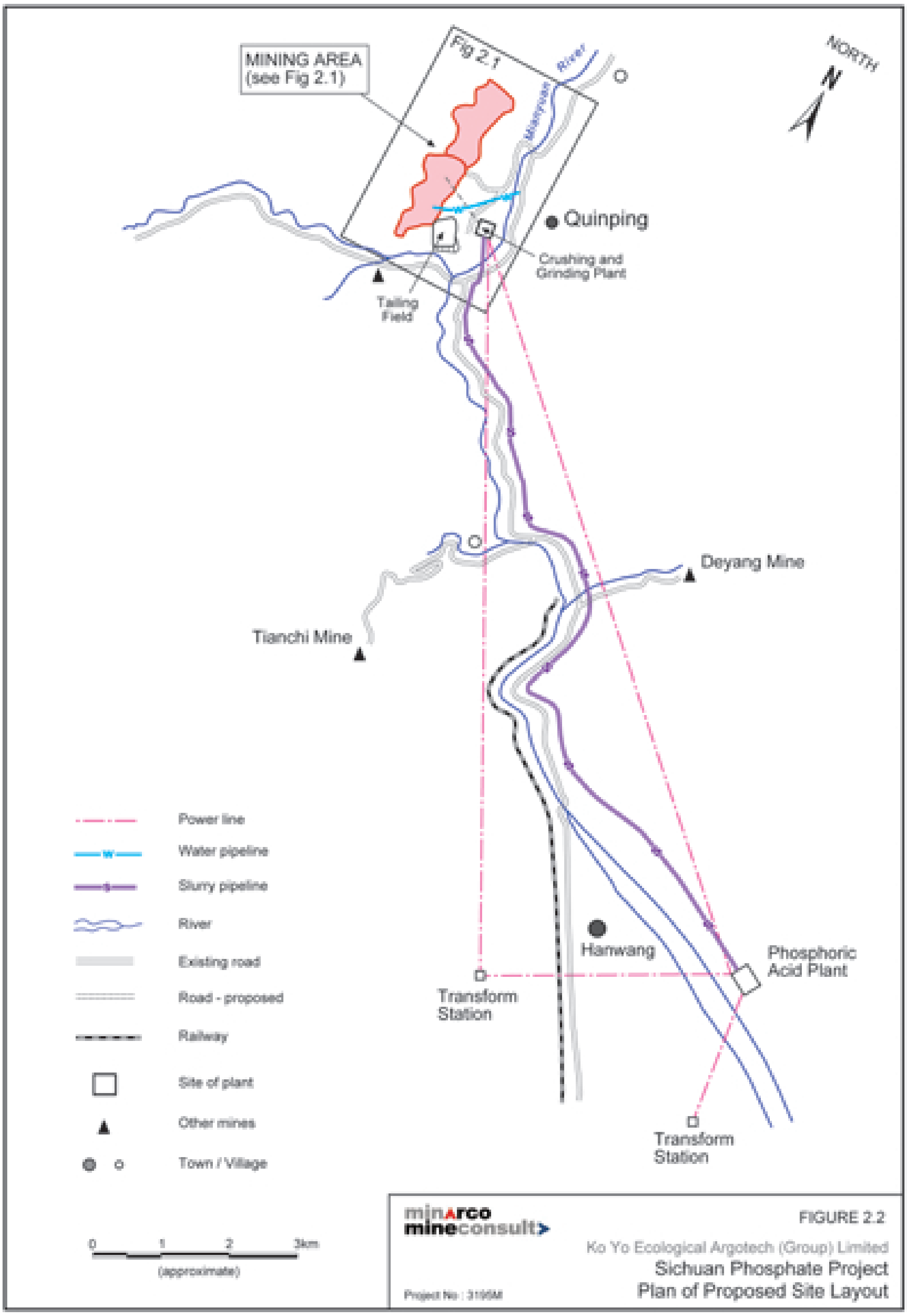
Conceptual Production Schedule - Ore and Waste



Note: Negative values in figure 2.1 refer to waste material and are actually positive in nature. Negative values are used for presentation purposes only

A site layout plan is shown in ***Figure 2.2***.

Figure 2.2 - Site Layout Plan



2.2 EXPLORATION HISTORY

Phosphate deposits were first officially explored in Sichuan Province in 1958 with a general survey of phosphate mining areas being performed by the Mianyang Geological Bureau of Sichuan Province. The outcome of this study was a report titled "*General survey and detailed report of phosphorite rocks in An and Mianyang*".

Following this, in 1966 and 1967, the Sichuan Geological Bureau performed a 1:5,000 topographic and geological survey in the general area and explored the shallower sections of the major identified orebody with trenches, drill holes and the horizontal adits. The Sichuan Mineral Reserve Commission then reviewed the results and came up with an overall regional Mineral Resource Estimate of:

- 5.7 million tons of D Classified Resources (Inferred)
- 5.8 million tons of E Classified Resources (Potential for Upgrade to Inferred following more exploration)

The overall conclusion by the Sichuan Mineral Reserve Commission however was that unless a processing technology was developed that could allow economic processing of the low grade ore, the resource could not be exploited and was therefore of no value.

In 1968, a Geological Team belonging to the Sichuan Geological Bureau performed a 1:50,000 geological survey in the mine area, and obtained the information on the distribution of the exposed phosphorite-containing layers and their thickness.

This was followed in 1970 with a second regional geological survey team also from the Sichuan Geological Bureau performing a 1:200,000 regional geological survey in the area, and published it in a report titled "*Regional Geological Survey Report of the People's Republic of China: Mianyang*".

In 1977, Chemical Geological Team of Sichuan Province performed phosphorite geological work on the west edge of the mining area and submitted *Summary Report of Geological Survey of Luozi Liangzi Mining Block in Wangjiaping Phosphorite Mining Area, Mianzhu County, Sichuan Province*.

Finally in 1991, the Chemical Geological Prospecting Team of Sichuan Geological Bureau performed a 1:50,000 regional geological survey in this area and submitted *Instructions for Geological Maps of the People's Republic of China: Qingping*.

Starting from May 2001, the Chemical and Geological Prospecting Institution of Sichuan Province performed general geological survey in the Longwangmiao Phosphorite mining area and carried out detailed geological survey in the blocks where the phosphorite layers were thick, close to the surface or outcropping and the conditions for mining were better and potentially suitable for open pit mining. By September 2002, the detailed survey was completed. The total geological survey work that forms the basis for the current mine planning and feasibility assessment is given in ***Table 2.1***.

Table 2.1 - Exploration Work Completed To Date

Exploration Study/Work Completed	Unit	Total
1:5,000 geological survey	Km^2	6.5
1:5,000 hydrogeological and engineering geological survey	Km^2	6.5
1:2,000 prospecting line profile survey	m/lines	10,846/12
Mechanical rock core drilling	m/holes	4,920/22
Collection of materials from Geological Team No. 101	m/holes	183/2
Prospecting trench	m^3	4,000
Static water level observation of layers in drilling hole	Layer/hole	35/22
Water pumping test	Layer/hole	1/01/2007
First level primary control lead	Point/line	1/01/2007
Mapping control survey	Points	45
Engineering survey	Points	32
River bed cross section profile	m	347

In addition, substantial analysis has been done on rock samples including both chemical and structural analysis (including rock strength). Management also advised that a number of samples have also been sent to external laboratories for independent analysis and verification.

Additional information on hydrogeological and engineering parameters was also obtained. The survey work that was completed met the Government requirements such that it could be classified as a being a detailed survey.

MMC considers that the exploration work that has been completed to date is based on a reasonable exploration program and the spacing of survey points are both appropriate and reasonable for the current geological classification given.

A plan of the existing exploration area is shown in ***Figure 2.3***.

2.3 GEOLOGY

2.3.1 Regional Geology

The Mine is located in the east and north region of the Yangtze Platform Sediments that cover the middle of China. These sediments have been complexly faulted and thrusted causing complex folds and faults that give repeated overturned sequences (see ***Figure 2.4***).

There are two strata systems that contain the phosphates in the area and these are termed the Shifang Phosphotite in the Devonian Shawozi Formation (higher Grade) and the lower and older Cambrian Qiongzhusi Formation hosted Qingping Phosphorite Unit (lower Grade).

The units are repeated Bouma Sequences of sediments that follow a pattern from shales and coal to sandstones and siltstones capped by dolostones. These are common units over the whole Tien Shan belt from China to Russia. These Bouma sequences are host to most of the mineral deposits in the region especially when intruded by Yianshanian Granites. These granites are responsible for folding, faulting and fluid emplacement in many varied deposits. The various Bouma sequences have chemistry that can absorb the mineralisation that varies from precious metal to base metal to non metal deposits.

2.3.2 Local Geology

The main minerals in the ore are apatite and collophanite, the guangue minerals are limestone, dolomite, quartz, chlorite, etc. The chemical constituents of ore are mainly P_2O_5, SiO_2, CaO, MgO, Fe_2O_3, Al_2O_3, CO_2, F, etc., and the harmful constituent content is: 3.67% of MgO, 0.62% of Fe_2O_3, 1.07% of Al_2O_3, 16.39% of CO_2. The ores are mainly fine and medium grained siltstone and sandstones, and the ore texture is in compact block structure. The types of ores are mainly silicon phosphate rock and silicon-calcium phosphate rocks, while small parts of them are dolomite phosphate rocks and coal like black shales

"Qingping-style" phosphorite is located at the bottom of Qiongzhusi Formation of lower Cambrian period, stretching 32 kilometers with pinch and swell style stratbound occurrence. The thickness is up to 58 meters and P_2O_5 content is 8% to 29%, generally 13% to 15%. It is a mineral deposit of medium to low grade calcareous phosphorite. The long term reserve is more than 6 Mt.

A cross sectional plan for exploration line No.27 is shown in ***Figure 2.5***.

Figure 2.3 - Plan of Existing Exploration Area

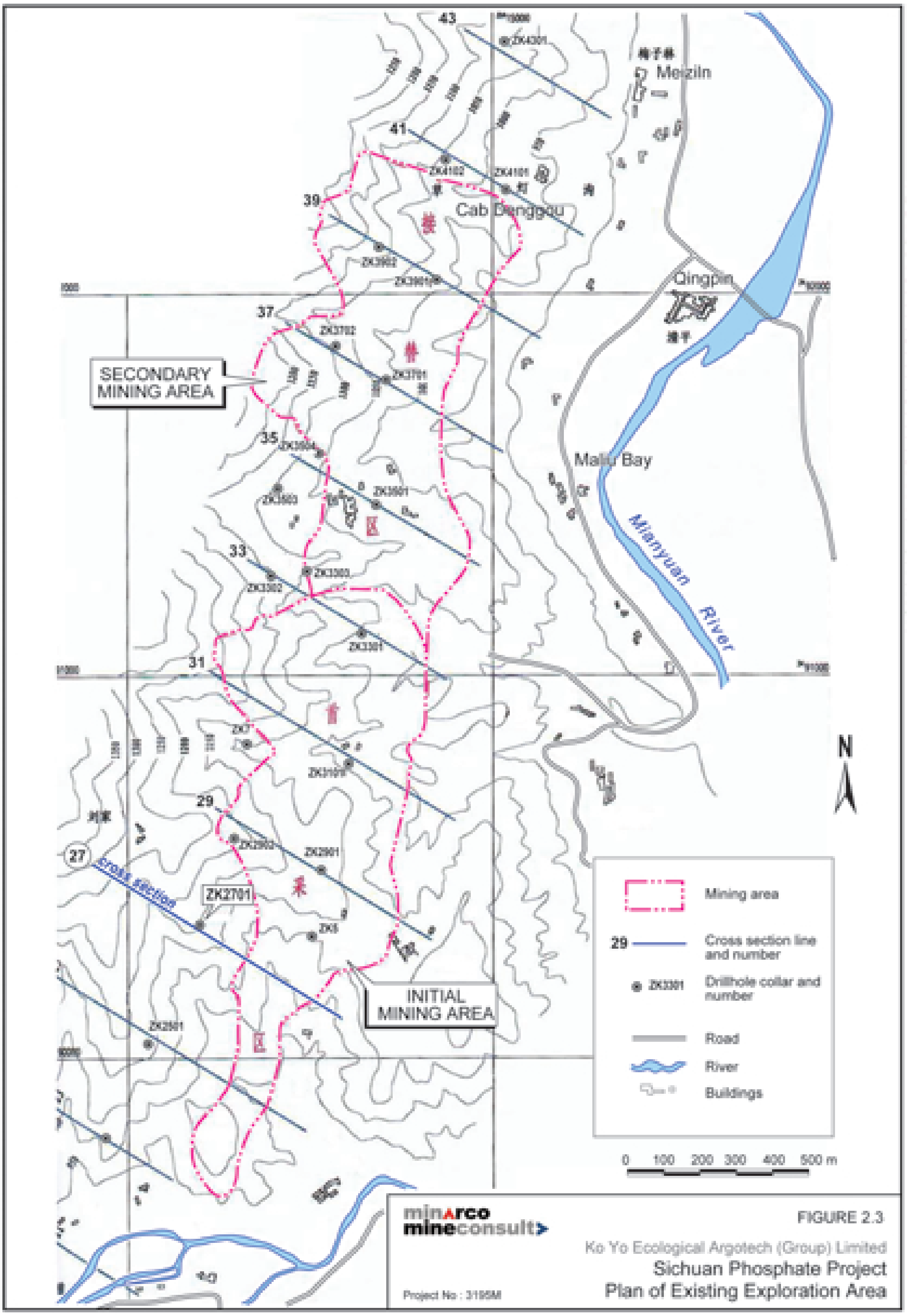


Figure 2.4 - Local Geology of the Mine Area

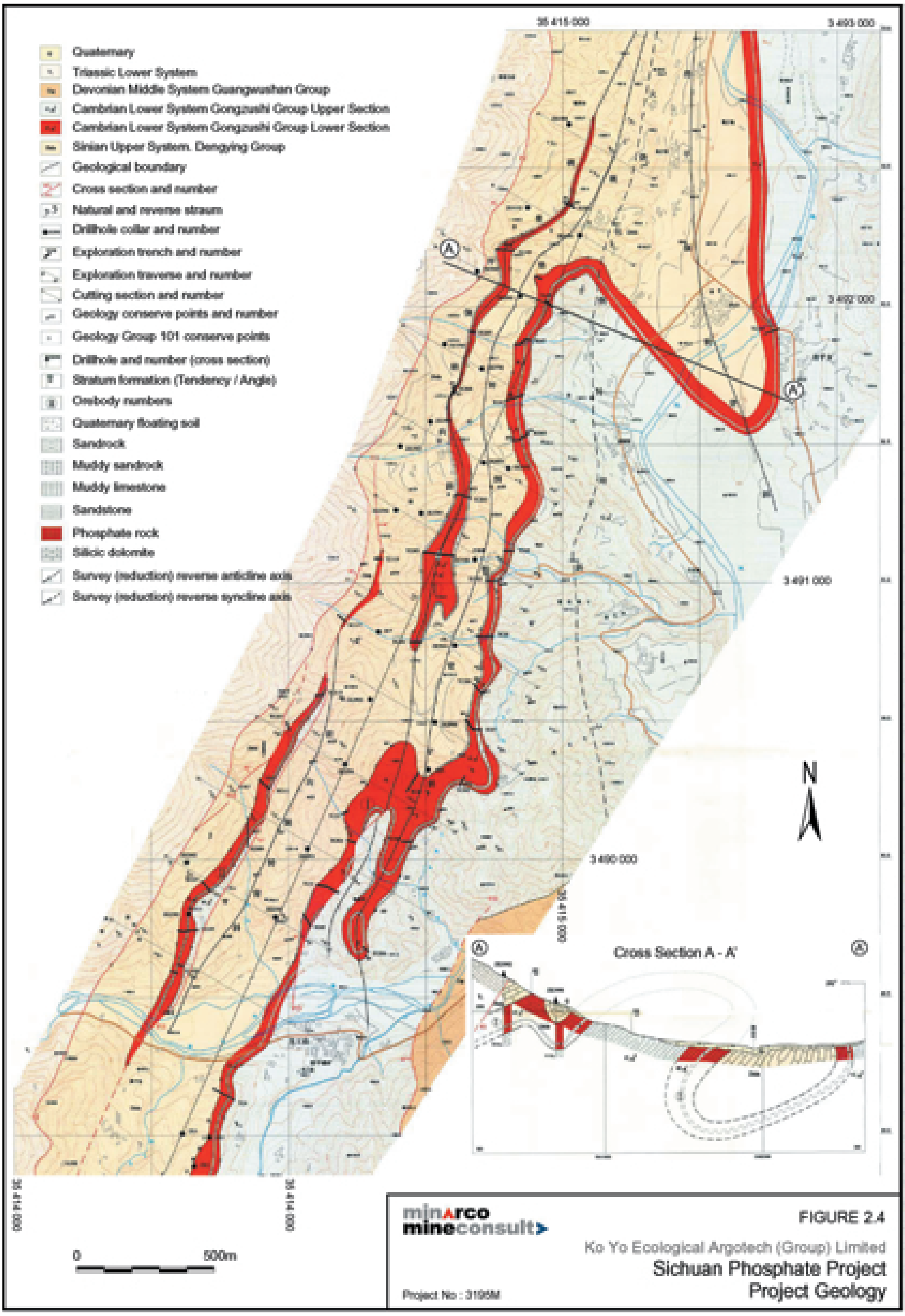
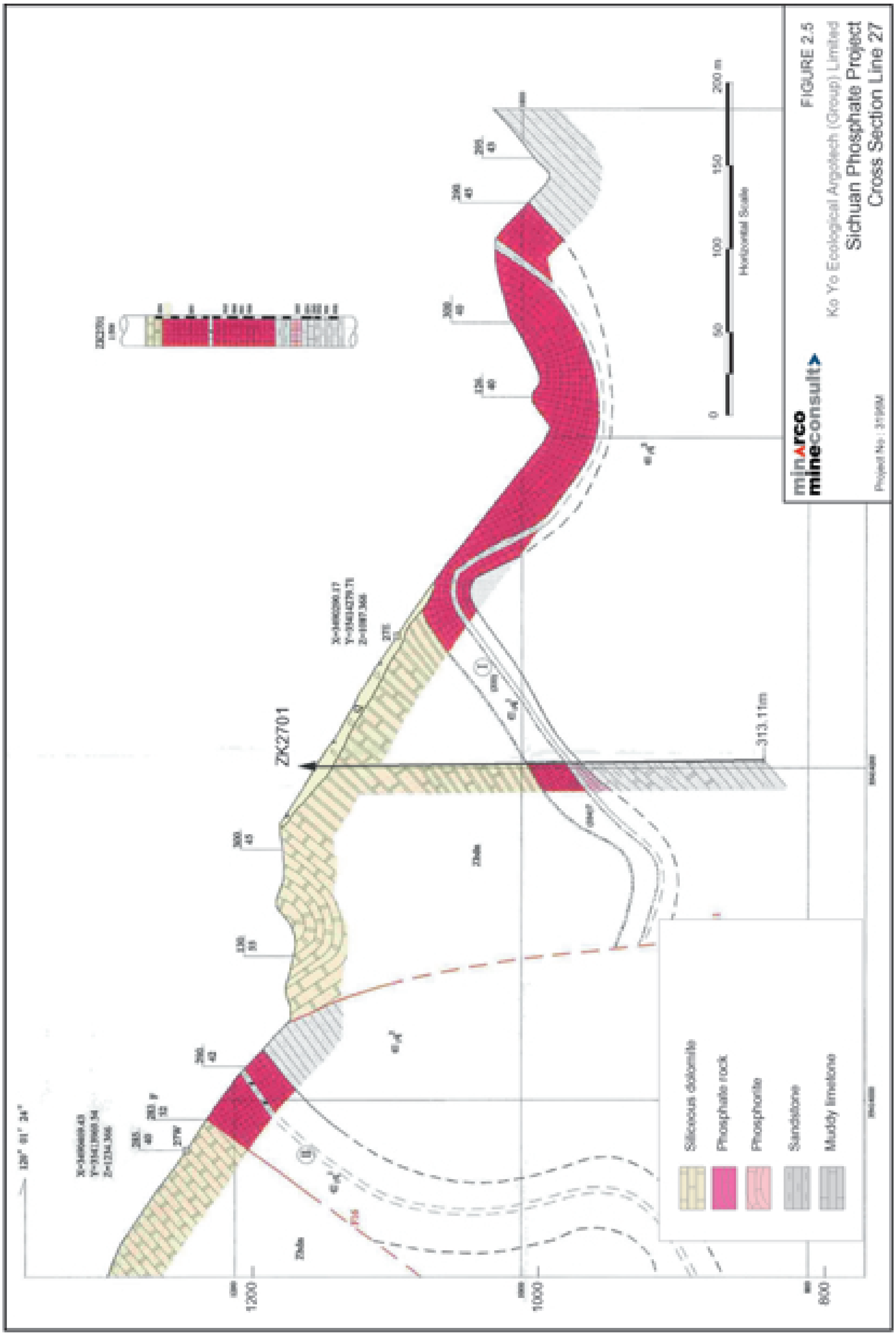


Figure 2.5 - Cross Section of Exploration Line 27



2.4 MINERAL RESOURCES

2.4.1 Exploration and Geological Data Review

An outline of the exploration and sampling work undertaken is outlined in ***Table 2.2***.

Table 2.2 - Summary of Various Sample and Assay Techniques Used

Sampling techniques	The quoted resource in this report is derived from surface diamond drilling, trenches and chip or rock sampling. The core recovery is reportedly low. No adit samples were seen. **LOW RISK TO MODERATE RISK**
Drilling techniques	24 Surface diamond drill holes drilled in the 1960's by the Chinese authorities. Cores were PQ size (97mm). **LOW RISK TO MODERATE RISK**
Drill sample recovery	None of the original holes on which the resource in this report is based were inspected. The mineralised intersections have been sampled completely. The core had low recovery and was bolstered not cut and is reportedly in poor condition. The summary drill logs do indicate core recovery and recoveries ranged from 8% to 100% with an average of approximately 65%. **LOW RISK TO MODERATE RISK**
Logging	Log sheets were inspected during the visit. Summary drill logs of intersections were reviewed and appeared to be in good order. Details such as core recovery over sampled intersections are included on the summary sheets. **LOW RISK**
Sub-sampling techniques and sample preparation	Sampling techniques used at the time of processing were bolstering and possibly sorting before submission for test work. Bolstering is using a chisel not a saw to "cut" core. **LOW RISK TO MODERATE RISK**
Verification of sampling and assaying	Historical quality assurance and quality control data relating to the data used to compile the resources is either no longer available or is not consistently reported. **MODERATE RISK**

Location of data points	Initially, exploration drilling in the 1960's was undertaken by the Chinese government and all holes surveyed. Subsequently, exploration drilling and underground sampling was conducted including trenching and small test open cuts. MMC did not attempt to verify collar positions of the surface exploration holes due to time constraints and the fact that many of the original drillhole collar points are no longer accessible due to overgrowth. **LOW TO MODERATE RISK**
Data density and distribution	Sampling information is not detailed. **LOW TO MODERATE RISK**
Orientation of data in relation to geological structure	The exploration drill holes were drilled vertically. The intersections result in varying intersection angles. Underground sampling and trenching not seen. **LOW RISK**
Audits or reviews	MMC has not conducted a thorough review or audit of the sampling and assay techniques for any of the data available as at July, 2007. **MODERATE RISK**

2.4.2 Mineral Resource Statement

The mineral resources discussed in this report are defined as category 122b, 2M22 and 333 and are compliant with the Chinese Resource Reporting Guidelines (1999). After a technical site visit and discussion with geological personnel, a clear understanding of the methodology used in calculating the 2003 Mineral Resource estimate was achieved. MMC considers that the estimate prepared and summarised in ***Table 2.3*** is reasonable reflection of the current Mineral Resources.

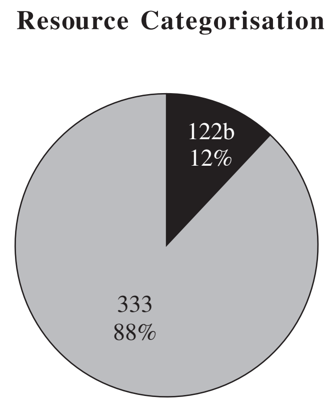
Table 2.3 - Mineral Resource Statement (May 2003)

Mineral Resource Classification	**Resource Estimate** *('000t)*
122b	8,581
333	62,792
2M22	36
122b+2M22+333	**71,409**

Note: All resources are as reported under the Chinese Resource Reporting Guidelines

In addition, a total of 45.9Mt of potential resources (334) have been identified. These additional resources have potential for upgrade to 333 classification following further exploration. This results in a total inventory of ore material (122b+2M22 +333 +334) of 117 Mt. The resource categorisation is shown in ***Figure 2.6***.

Figure 2.6 - Resource Categorisation



2.5 ORE RESERVES

At this stage, the company has not yet prepared any detailed Ore Reserves estimates.

2.6 PROPOSED MINING OPERATIONS

The main reference document used for reviewing the proposed mining operations plan was Sichuan Chengyuan Chemical Industry Limited Company, Feasibility Study Report, Ministry of Chemical Industry Lienyungang Design Research Institute. A summary of the plans presented in that document is given in this Section.

2.6.1 General Description and Overview

The project feasibility study investigated the Tianjing Gou ore block of the Long Wang Temple mine area. The block extends approximately 3.5km in a generally north trending direction and up to 900m in the east trending direction (see Figure 2.4). The ore body of economic interest has a synclinal structure, outcropping in the east.

Figure 2.5 shows a cross-section plotted along section line 27, the location of which is shown in Figure 2.3. There were 23 sections lines created (21 — 43) at 150m spacing. Exploration drilling was undertaken generally along the section lines, with drill holes at approximately 300m spacing.

The identified phosphate ore zone is thick; 25m to 30m. The floor dips are as high as 60˚, averaging around 46˚. Soil and rock cover over the ore is relatively thin with resulting mining strip ratios low; approximately 0.6 bcm rock per tonne of ore or 1.7 tonnes of rock per tonne of ore.

The prospective mining area was divided into north and south; the South Mining Area extending from section 21 to section 33 and the North Mining Area from section 33 to 43. It would appear the division was made primarily to allow comparison of areas for determination of a preferred mine development strategy; there are differences in ore quantity, ore grade, stripping ratios and transportation distances between North and South.

2.6.2 Mine Development Strategy

A comparison was made of the two mining areas, north and south, to determine which is preferred for initial mine development. ***Table 2.4*** is a reproduction from the reference material.

Table 2.4 - Comparison of Mining Areas

Item	units	South Mining Area	North Mining Area
Geometry:			
north-south boundary		line 21 to line 33	line 33 to line 43
open pit strike length	m	2,010	1,400
highest elevation pit top	m	1,200	1,240
lowest elevation pit floor	m	910	870
max mine depth	m	290	380
Quantities:			
phosphate ore	Mt	27.4	28.5
phosphate ore	Mbcm	10	10.4
ore grade	%	14.2	13.9
waste rock	Mt	32.3	61.0
waste rock	Mbcm	12.1	22.8
strip ratio	bcm:t	0.44:1	0.80:1
strip ratio	t:t	1.18:1	2.14:1

The comparison table shows the following main differences between the South Mining Area and the North Mining Area:

- the North Mine will be considerably deeper; 380 m compared to 290 m,
- phosphate ore quantities are similar for each mining area; approximately 28 Mt each,
- phosphate ore grade is higher for the South Mine; 14.2% compared to 13.9%, and
- mining strip ratios are considerably less for the South Mine; 0.44 bcm/t compared to 0.80 bcm/t.

Not shown in the table, but mentioned in the reference material, were the following additional factors:

- the South Mine, with less depth and lesser strip ratio, results in more rapid waste backfilling of the mining pit and therefore less surface waste dumping, and

- The South Mine would have shorter ore transportation distance.

For all of these reasons the South Mining Area was chosen as the preferred site for initial development of the mining pit. Over time the mine will advance through the south and into the North Mining Area. This strategy should ensure the greatest economic benefit and the least land disturbance for waste dumping.

The reference material does not go into any greater detail regarding pit development strategy. There is one comment about exploitation being top-down until the mining section is finished. This would suggest areal mining which develops the shallow resources first over a large area and then gradually mines down to eventual full depth of the mining section. This leaves open many possibilities and MMC cannot summarise any further the strategy chosen.

At a conceptual level the production quantities were scheduled to review and confirm the choice of mining strategy. Conceptual production schedules are presented in the reference material. This is summarised in ***Table 2.5***.

Table 2.5 - Conceptual Mine Production

Mining Area	**years**	**Ore (kt/yr)**	**Waste** *(kbcm/yr)*	**Rock Strip Ratio (bcm:t)**
south	1 to 6	1,900	800	0.42:1
	7 to 15	1,900	800	0.42:1
north	16 to 31	1,900	1,700	0.90:1
totals	1 to 31	58,900	39,200	0.67:1

2.6.3 **Mining Pit Limits**

In order to prepare mining pit plans the following rules and guidelines were used:

- the western boundary incremental strip ratio of the mining highwall should not be greater than the overall economic stripping ratio; adopt 6 bcm/bcm as the economic stripping ratio,
- the eastern boundary should include all of the eastern syncline including subcrop and outcrop ore,
- bench stage height for mine design was 10 m,
- slope angles of repose used were 65°,
- the angle of ultimate overall pit slope, including slopes and berms, was selected by analogy; meaning comparison to other similar open cut mining situations,
- the ultimate slope adopted for roofs was 45 − 48°,
- the ultimate slope adopted for floors was 46°, and
- the ultimate slope adopted for endwalls was 45 − 48°.

Applying these design parameters it is assumed that pit plans were developed and ore and waste rock quantities and qualities were determined. MMC has not seen the pit plans.

2.6.4 **Mine Production Capacity**

The ultimate capacity for the mine is determined primarily by the geometry of the mining pit. Given any particular geometry, the potential advance of mine working faces can be estimated. In addition, potential vehicle traffic problems can be examined.

The reference material presents an investigation of production capacity considering the following:

- determination of working space required for excavation equipment,
- calculation of time taken to develop the mine vertically to each new bench level,
- calculation of horizontal advance speed of working faces, and
- examination of material transport capacity and potential traffic issues.

All of these investigations confirmed that the planned mine production capacity of 1.9 Mt per year of phosphate ore is achievable.

2.6.5 **Mine Operating Conditions**

The reference material also gave the following planned operational features of the mine:

- mine life is 30 years,
- mine working time is 330 days per year, 3 shifts per day, 8 hours per shift,
- equipment working time is 310 days per year, 3 shifts per day, 8 hours per shift, and
- blasting frequency is one blast every 5 to 8 days.

2.6.6 **Ore Transport**

There were 6 alternative systems investigated for transportation of the phosphate ore. MMC did not have any drawings or plans to help in understanding the systems. Notwithstanding, the alternative systems are as follows:

- *Haulage truck and surface conveyor belt* — Ore would be transported from the mining pit to a surface ore crushing station by haulage trucks. After being crushed, ore would be transported to the beneficiation plant by conveyor belt.
- *Adit pass and haulage truck* — Phosphate ore will be transported to a "glory hole" style of ore pass in the mining pit. After flowing by gravity down the ore pass, normally a near vertical shaft, material will be loaded into haul trucks for transport through an underground adit to the surface and on to the beneficiation plant.
- *Adit pass, underground crushing station and underground conveyor belt* — In this system ore will once again be transported in the mine to an ore pass and flow by gravity down the ore pass. It will then be crushed in an underground crushing station and fed onto a conveyor belt for transport through an underground adit to the beneficiation plant.
- *Adit pass, surface crushing station and underground conveyor belt* — Phosphate ore will be transported in the mine to a surface crushing station. After crushing it will be fed into an ore pass and flow to an underground conveyor feeder. From there it will travel by conveyor belt through an underground adit to the beneficiation plant.
- *Adit pass and haulage truck* — Phosphate ore will be transported to a "glory hole" style of ore pass in the mining pit. After flowing by gravity down the ore pass, normally a near vertical shaft, material will be loaded into haul trucks for transport through an underground adit to the surface and on to the beneficiation plant. MMC was unable to distinguish any difference between this system and system number 2 described above. It is possible that the only difference is in the size of haulage vehicles; larger vehicles require a larger adit.

- *Haul trucks only* — In this system phosphate ore will be loaded into haulage trucks and carted directly to the beneficiation plant. There will be no ore pass, no adit and no conveyor belt. This is in many ways the simplest system, but not necessarily the most economical.

The first three systems were judged to be the preferred options, and were examined on a comparative basis. Results of the comparison were:

- The second system features simpler construction and operations management, smaller investment cost, lower present value, and the use of mature and reliable technologies.

- The first system features more complex construction and technology, higher investment costs, higher present value, and higher risk of block-up in the gravity ore pass.

- No comments were found relating to the third system.

As a result of this investigation, the first system was adopted as the preferred ore transport system for the feasibility study. The system includes the transport of ore from the pit to the surface with haulage trucks, crushing and then surface conveying to the beneficiation plant. Blasted ore is mined at the face by $4m^3$ hydraulic excavators and loaded into 24t haulage trucks.

Waste rock will also be mined by $4m^3$ excavators, loaded into 24t trucks and transported to waste disposal dumps, either in the mine or on the surface as required. The average transportation distance for ore will be 1.2km in the early stages and 1.6km later in the mine life. Waste rock transportation will average 2.2km early when most waste is dumped on the surface and 1.3km later when most waste is dumped in the mining void.

2.6.7 **Mining Method**

The attitude of the mining ore blocks is variable due to the synclinal nature of the deposit. Ore zones dip at angles sometimes almost horizontal and sometimes up to 50˚. With horizontal bench type mining triangular wedges will result which will be difficult to mine without major loss or dilution. Therefore, different blasting and digging modes will be applied for different dip angles. For dips less than 10˚ and greater than 40˚ standard techniques will be used with standard mining equipment. Where seam slopes are between 10˚ and 40˚ small drills will be used. After blasting, dozers will push the material into small piles for digging with hydraulic excavators.

Design parameters for mining are as follows:

- typical bench height = 10m

- working bench slope angle = 70˚

- bench angle of repose = 65˚

- minimum width of working berm = 40m, and

- length of working space for each excavator = 150m to 300m.

Virtually all of the mined material requires blasting. Two sizes of drills are required; a 200mm hole diameter machine for normal conditions and a 38mm hole diameter drill in areas of very steep dips. Granulated ANFLO will be the preferred explosive. Estimated powder factor is 0.48kg/cm.

All materials will be excavated using small hydraulic excavator (4cm bucket size). Excavator productivity has been estimated to be 580,000 bcm/year. During South Mining three excavators are required, increasing to five excavators for North Mining.

These excavators will load into 24t haul trucks for transportation to crushing plant and/or waste disposal dumps. Design calculations suggest that 27 trucks are required for South Mining and 43 trucks for North Mining. Dozers (220Hp) will be used to trim triangular wedges, which will be considerable in this steeply dipping deposit.

Losses and dilutions should be kept low due to a thick ore zone, relatively small equipment and skilled operators. Mining losses estimated in the feasibility study are 4% and dilution 2%.

An estimated equipment list is given in ***Table 2.6***.

Table 2.6 - Major Equipment List

Equipment Type	**specification**	**South Mining Area**	**North Mining Area**
diesel drill	200mm diameter	3	4
hydraulic excavator	$4m^3$ bucket	3	5
haul truck	24t	27	43
track dozer	220Hp	5	8
explosives vehicle	8t	1	1
water cart	20t	1	1
grader	21t	1	1
hammer drill	38mm	4	4

2.6.8 Mine Production Schedule

Mine schedule planning was based on the following principles:

- plan a reasonable balance between ore grade and strip ratio,
- plan for reasonable working space allowing for minimum widths and lengths of working benches,
- plan for consistent strip ratio over time,

- plan for relatively consistent equipment fleet numbers, and
- try and maximise in pit waste rock dumping.

The resulting mine production schedule gave the following mining quantities:

- South Ore = 27,550,000 t
- South Waste = 12,069,000 bcm
- North Ore = 28,530,000 t
- North Waste = 22,777,000 bcm
- Total Ore = 55,880,000 t
- Total Waste = 34,846,000 bcm
- Total Strip Ratio = 0.62:1 bcm/t

2.6.9 Mine Water Drainage

The mining area is located in a lower and middle mountainous area. The climate is warm and moist. Annual rainfall is approximately 1,000mm. The rainy season is from July to September with snow and frost from November to March. The surface terrain is steep with high ground in the west and lower ground in the east. The Mainyuan River runs north to south along the eastern boundary and the Jiangou River runs west to east along the southern boundary. The two rivers converge and flow east to Hanwang.

The hydrogeological conditions are such that the phosphate ores are mostly above groundwater and so groundwater is not expected to have any significant impact on the open cut mine.

Surface water to the east of the mine runs east away from the mine and will not flow back towards or into the mining pit. Conversely, surface water from west of the pit can flow into the mine and so preventive measures are required. It is planned to construct cut-off ditches to prevent surface waters from entering the mine. Additional drainage structures are required within the pit to manage rainfall which falls directly on the mine.

The details of water management planning are difficult to understand from the reference material. It is clear however that stormwater drainage planning has been done, at least at a conceptual level.

Waste disposal sites on the surface have been selected with consideration given to water management. MMC has not seen any plans or drawings showing where waste dumps will be placed.

2.7 MINE INFRASTRUCTURE AND SERVICES

MMC has not seen any comprehensive listing of infrastructure required for the mine or the project. From the project descriptions available and from MMC experience with similar projects, the likely infrastructure requirements are as follows:

- roads; mine haul roads and site access roads,
- mine buildings; offices, workshops, warehouse, explosives stores, etc,
- power supply; transmission lines, sub-stations, etc,
- water supply; pumps pipes, tanks, etc,
- workforce accommodation and construction camp,
- water management structures; cut off drains, sediment ponds, water treatment facilities, etc,
- ore crushing plant, and
- ore conveyor and related stockpiling.

2.8 MINING COSTS

Preliminary mine planning conducted by the Huabei Institute of Planning & Design, defines an open pit mine over exploration lines 23 to 41 covering a strike length of 2,250 m. The mining area has been divided into two stages: The first part covers exploration lines 23 to 33 and the second covers exploration lines 33 to 41.

A summary of mining costs follows, including crushing and coal transport to the beneficiation plant:

Table 2.8 - Typical Mining Costs (Year 14)

Activity	**Total Cost** *(mill RMB)*	**Unit Cost** *(RMB/t ore)*
mining operations	36.7	19.29
primary crush & ore transport	3.4	1.76
Total	**40.1**	**21.05**

2.9 MINARCO-MINECONSULT REVIEW

Section 2.6 summarised the proposed mining operations plans for the Sichuan Phosphate mine. The descriptions were taken from reference material received by Minarco-MineConsult. There was intentionally no comment made regarding the reasonableness or adequacy of the proposed plans.

Section 2.9 presents the findings and professional opinions of Minarco-MineConsult.

2.9.1 Mine Development Strategy

The work presented to develop a mine development strategy for the Sichuan Phosphate mine is appropriate and consistent with conceptual level mine planning. More detailed planning will need to be done, but only after additional site investigations; particularly exploration work and geotechnical studies. The decision to commence mining in the South Mining Area is well considered and based on sound mining and economic principles.

MMC was not given much detail regarding mine development strategy. The sequencing of mine development will be important, particularly how it affects the amount of waste rock dumping required on the surface. It is assumed that surface dumping of waste material will be both expensive and environmentally sensitive. The details of sequencing can be developed as part of a more detailed mine plan, but they shouldn't impact on the overall decision to mine the South Mining Area first and then the North Mining Area.

2.9.2 Mining Pit Limits

The mining slopes used to develop a pit plan were based mainly on "analogy". In other words, experience gained from other mining operations provided the main criteria for design. There is no evidence that any geotechnical investigations were undertaken in relation to the proposed Sichuan Phosphate Mine.

The surface topography of the mining area is generally very steep, rising to the west to nearly 1700 m; well above the maximum mining surface elevation of 1240 m. As a result, the pit highwall slope angles will be critical. The slopes must be stable with comfortable factors of safety because the potential consequences of geotechnical slope failure are catastrophic. In addition, a small change in design slope angle could result in a significant change in mining strip ratio.

MMC believes that the "analogy" method of slope design may in fact be accurate, or may even be conservative, but the consequences of incorrect geotechnical assumptions are too important not to need a detailed geotechnical study. Therefore, a geotechnical investigation is recommended as a matter of very high priority.

2.9.3 **Mine Production Capacity**

The examination of production capacity presented in the reference material is both adequate and appropriate. The total production required, 1.9 Mt of mined ore and between 0.8 Mbcm and 1.8 Mbcm of waste rock, is not large relative to many other mining operations. MMC endorses the conclusions that the geometry of the Sichuan mine will allow the required production capacity.

2.9.4 **Mine Operating Conditions**

The mine operating conditions presented, primarily the working time allowed, are normal for the mining industry.

2.9.5 **Ore Transport**

The reference material describes a thorough process of examining a number of ore transportation alternatives. The preferred option of haul trucks, surface crushing and surface conveyor belt is a proven system with high efficiency and reasonable operating costs. The system is less risky than some of the others investigated and is therefore a good choice for this stage of project planning.

MMC recommends that some of the alternatives be reviewed again at the next more detailed stage of project planning. MMC also recommends that the all truck system, with no conveying, be examined in more detail. This system was not costed but should be costed at least for comparison. The all truck system is very reliable and relatively easy to put in place. It can also ramp up in capacity as the mine expands, thereby stretching capital costs over a longer period of time.

For the current stage of project planning MMC endorses the choice of the haul truck, surface crushing and surface conveying system.

2.9.6 Mining Method

The mining method chosen can be briefly described as follows:

- 200 mm diameter drills for the majority of materials,
- 35 mm diameter drills for triangular wedges and tight areas,
- blasting of virtually all ore and waste rock using ANFO as the primary explosive,
- dozer assistance to clean wedges, ramps, etc,
- excavation by $4m^3$ hydraulic excavators,
- haulage by 24 t haul trucks,
- primary crushing on the surface outside of the mining pit,
- ore conveying to the beneficiation plant, and
- waste rock placement in waste dumps, either on the surface or in the pit.

The mining methods chosen are considered suitable for the operations. The use of small excavators and haul trucks will allow considerable flexibility in the day to day mining operations and help to minimise losses of ore and dilution with wastes.

2.9.7 Mine Production Schedule

The mine production schedule has been presented properly and achieves most of the stated objectives of scheduling. The schedule presents no material issues.

2.9.8 Mine Water Drainage

The Sichuan mine site is located in an area of steep surface topography and high rainfalls. Management of surface drainage will be critical to the continued and reliable production of ore on a day to day and week to week basis. In addition, successful environmental performance will rely heavily on sound water management practices and strong discipline in adhering to the water management plans.

The water management plans presented in the reference material, though mostly conceptual with little detail, appear well thought out and adequate for this stage of project planning. Plans will need to be developed to a much greater level of detail before mining commences, and plans will need to be always modified and kept up to date as mining proceeds.

2.9.9 Mine Infrastructure

MMC did not review any mine infrastructure planning or design.

2.9.10 Mining Costs

Minarco-MineConsult did not review any detailed mine plans or cost estimates and cannot comment in any detail on the mining costs which were received as part of total project cost estimates.

A rule-of-thumb cost guideline for truck and shovel mining operations in Australia is approximately $3 Australian per cubic metre (20 RMB/bcm) of material mined; no matter if the material is ore or waste rock. This amount would include delivery of run of mine ore to a surface facility of some sort, but does not include ore processing or delivery to markets. This cost applies very well for soft rock mining, but should be increased for hard rock mining. The costs estimated for the Sichuan Phosphate Mine are summarised as follows:

- Table 2.8 shows a mining, crushing and transport cost (operating cost only) for project year 10 of approximately 40 million RMB, which is about $A 6M (at 6.7 RMB/$A).
- Year 10 ore mined is 1.9 Mt, which is approximately 0.7Mbcm.
- Year 10 waste rock mined is 1.2 Mbcm.
- Year 10 total material mined is 1.9 Mbcm (0.7 + 1.2).
- Year 10 unit mining cost is therefore approximately 21.2 RMB/bcm (A$3.16/bcm).

There are many factors which could either increase or decrease mining costs between typical Australian conditions and Sichuan conditions. Some of the significant factors are:

- Sichuan Mine is harder rock; higher density; more effort required to mine and transport,
- Sichuan Mine uses relatively small mining equipment, with higher unit costs,
- Sichuan Mine would have cheaper labour costs than Australia.

Notwithstanding all of these differences, the Sichuan Mine estimated year 10 cost of 21 RMB/bcm compares favourably with the rule-of-thumb guideline of 20 RMB/bcm. MMC therefore considers the Sichuan cost estimates for mining to be in the right order of magnitude given that they are only conceptual estimates.

2.9.11 **Environment and Safety**

All the existing design work has been done based on compliance with the following Chinese Environmental Quality and Pollutant Emissions Standards.

Environmental Quality Standards:

- Ambient air Quality Specification" GB3095-1996
- Surface water Environment Quality Standard" GB3838-2002
- City Region Ambient Noise Standard" GB3096-93

Pollutant Emissions Standards:

- Air pollutant Synthesis Emissions Standard" GB16297-96
- Sewage Synthesis Emissions Standard" GB8978-96
- Industrial enterprise Factory Noise Standard" GB12384-90
- Construction Executes Workshop Noise Limiting Value GB12523-90

3 PLANNED ORE PROCESSING

3.1 GENERAL DESCRIPTION

After the phosphate ore has been mined, the ore will be trucked to a beneficiation facility where it will be converted to phosphoric acid (H_3PO_4). This phosphoric acid will then be used (by other parties) as feedstock to produce products such as diammonium phosphate ("DAP").

Phosphoric acid also is used in the manufacture of superphosphate fertilisers, livestock feeds, phosphate salts, polyphosphates, soaps, waxes, polishes and detergents.

To convert phosphate ore into phosphoric acid, there are generally two commercially viable treatment options available. These are the wet method. The wet method is the most commonly used method however the mineralogy of the ore body being discussed in this report is not suited for upgrading using this method.

Wet Method

- In the wet process, mined phosphate ore is treated with sulfuric acid and then the resulting phosphoric acid is separated from the calcium sulfate crystals produced. The chemical reaction is as follows:

- This process produces a lower quality acid with higher levels of impurities and a lower consistency in quality making it suitable as a fertiliser feed source. The phosphoric acid produced by this method can however be further purified using secondary processes which can make it suitable as technical and food-grade quality phosphoric acid. This process also produces a lot of gypsum (calcium sulphate) as a waste by-product.

In the thermal process phosphate ore is deoxidised in an electric furnace using coke to produce yellow phosphorous. This 'yellow' or elemental phosphorous is then burned in air to produce phosphoric anhydride, which is subjected to a process of hydration and absorption to produce phosphoric acid.

The thermal process is considerably more expensive than the wet process, however it contains fewer impurities and has higher consistency in quality. This makes it suitable for use in manufacturing all kinds of industrial and food phosphates and detergents.

The problem is, however, that both the wet and thermal ore beneficiation methods require phosphate ore with a high grade (typically greater than 20% phosphate) in order for the beneficiation processes to work successfully and be economically viable.

In particular the presence of acid consuming minerals such as carbonates lowers the economic viability.

In cases where the raw mined grade is too low for direct beneficiation (such as is the case for the orebody discussed in this report), an intermediary step can be introduced to improve the ore quality, and produce a concentrated ore which is suitable as a feed source to either the wet or thermal beneficiation processes. This additional step adds expense to the overall beneficiation process, and results in lower beneficiation yields being achieved compared with using higher quality ores as direct feed to the primary beneficiation process. In many cases, the addition of this intermediary step makes the whole process financially unviable.

This project plans to use staged reverse flotation followed by the thermal method, with the detailed process described as follows:

- Crushing and Grinding of feed rock.
- The "yellow" or elemental phosphorus is produced by reverse flotation (floating off the impurities leaving the phosphorus in an aqueous form in the flotation tailings).
- The liquid elemental phosphorus is converted in a three step process- combustion, hydration and demisting.
- In the combustion step the liquid phosphorus is "burned" or oxidised in air at high temperatures (minimum 1,650 C) to form phosphorus pentoxide.
- The phosphorus pentoxide is then diluted to form phosphoric acid.
- Demisting then removes the phosphoric acid mist from the air before venting it to atmosphere this is achieved by drop demisters. Concentration of H_3PO_4 should be greater than 75% by this method which is higher than the concentration formed by wet methods (dissolving phosphorus rock in sulphuric acid).
- The potential source of emissions from the thermal process is the discharge of H_3PO_4 mist being discharged from the hydrator.

The particle size of the acid mist formed in the hydrator is approximately 1.4 to 2.6 microns and the demister operation is thus crucial to the operation both to recover the acid and to minimise emissions. With the thermal route, removal of oxidising elements is critical as these elements retard the oxidation reaction consuming more energy to produce the acid.

The planned process has been designed so that it can handle both ore types from the upper and lower part of the orebody. A 2 tonne per hour pilot study has been completed which confirmed the laboratory results achieved by the Design and Research Institute.

The technique uses a staged reverse flotation process to remove the carbonate minerals as well as the major acid consuming refractory minerals.

This technology is commonly used in minerals processing and a variation of it has been used in phosphate rock processing since the 1980's (Jacob's Engineering), to upgrade ore for wet processing.

In order to use this type of technology to improve the economics, extensive test work needs to be undertaken often involving a pilot plant.

As the exact chemical combinations comprise proprietary information, MMC has not seen the pilot plant results. However MMC suggest that the required results are technically achievable by this type of process.

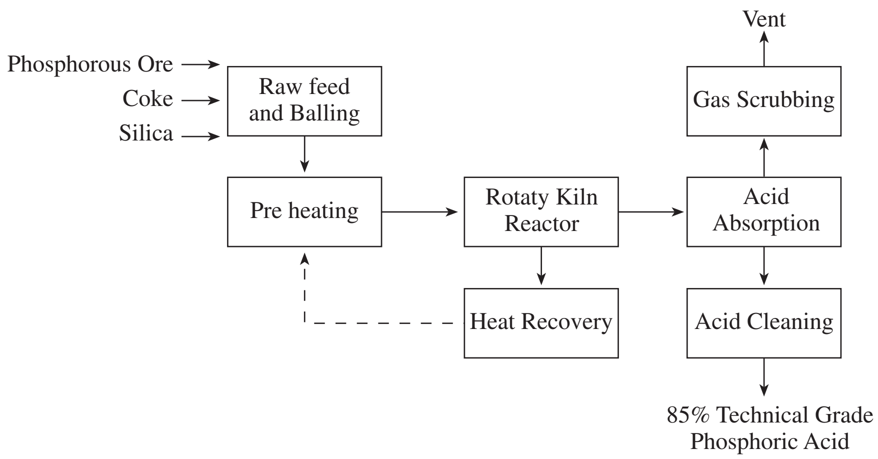
3.1.1 **Rotary Kiln Processing CDK**

SCCIC has adapted and improved an existing beneficiation technology (staged reverse flotation), in order to provide suitable, attractively priced, feedstock from the phosphate deposit for the DAP plant. The details of these changes are patent protected, and for this reason, MMC could not review them.

The use of rotary kiln processing makes it possible to produce phosphoric acid directly from the ore. In this regard, there are significant savings in power consumption, pollution and costs compared with using other available technologies.

A simplified schematic of the process flow is given in ***Figure 3.1***.

Figure 3.1 - Simplified Process Schematic



The American ORC Company brought forward a rotary kiln technology (KPA technology) to manufacture phosphoric acid in AIME in 1983. According to the literature, this technology makes use of phosphoric ore, silica, and carbonaceous reducer to directly manufacture phosphoric acid without using sulfur but using less electricity.

The processing will produce the following three principle products:

- industrial grade phosphorous (principal product)
- cinder
- sodium silicofluoride

The history of the development of the technology is summarised as follows:

- 1989: completed laboratory test;
- 1993: completed pilot plant test in a rotary kiln with a size of 0.6m X 3m;
- 1996: completed semi-industrial test with capacity of 200 tons/year scale;
- 1998: completed feasibility study and designs for a capacity of 15,000 tpa;
- 2005: building pilot plant with a capacity of 10,000 tpa

3.1.2 Ore Quality

The main waste materials are the carbonate minerals including limestone and dolomite.The carbonate minerals are acid consumers as well as having higher processing costs. The magnesium salt also caused the phosphoric acid solution to have increased viscosity reducing filtration efficiency and causing excess loss of gypsum.

The chemical properties of the main ore types are given in ***Table 3.1***.

Table 3.1 - Raw Feed Ore Chemical Properties

Project	P_20_5	MgO	Fe_2O_3	CaO	F	CO_2	SiO_2	Al_2O_3	Loss on ignition	A.I
Content (%)	14.31	4.01	1	36.13	3.46	17.78	23.61	0.83	18.87	24.15

The ore quality following treatment of the ore in the pilot plant will have the following characteristics ***(Table 3.2)***.

Table 3.2 - Final Concentrate Chemical Properties

Project	P_2O_5	MgO	Fe_2O_3	CaO	F	CO_2	SiO_2	Al_2O_3	Loss on ignition	A.I
Ore Concentrate (%)	17.22	2.28	1.1	36.09	4.43	12.79	26.68	1.13	14.14	27.31
Waste (%)	5.7	13.36	0.82	33.7	1.65	33.75	11.17	0.41	35.16	11.44

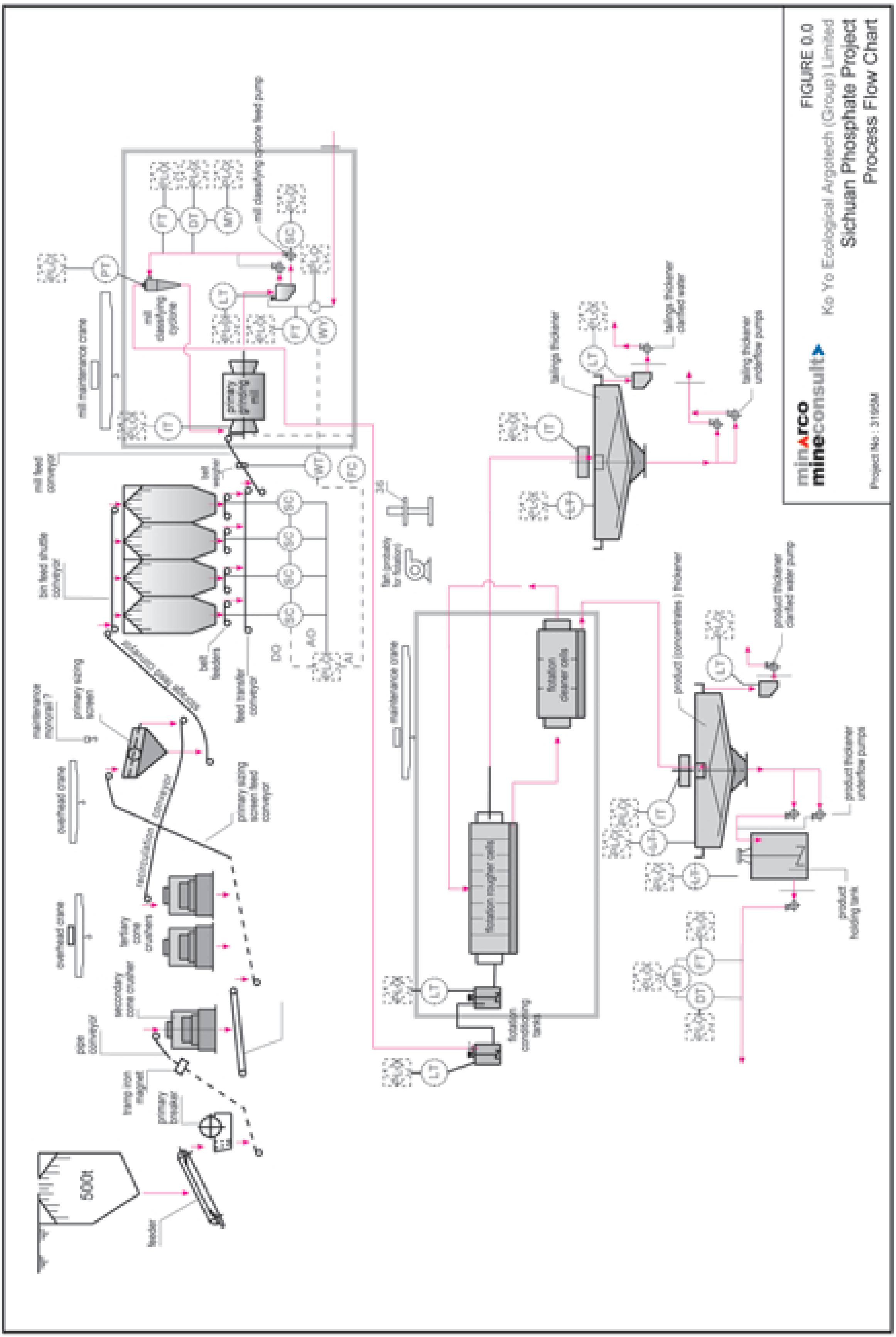


FIGURE 0.0
Ko Yo Ecological Argotech (Group) Limited
Sichuan Phosphate Project
Process Flow Chart
mineconsult
primary grinding mill
flotation rougher cells
flotation cleaner cells
500t

3.2 CAPITAL AND OPERATING COSTS

The forecast operating costs for the processing facility are given in ***Table 3.3***. This cost estimate assumes that the processing facility purchases the ore from the mine at a price of 79 RMB per ore tonne (this is an internal price determined by the Company, and MMC understands that it is for accounting purposes). The results of this cost analysis show that the total cost to produce a tonne of 85% industrial grade phosphoric acid (P_20_5) is 1,587 RMB (excluding depreciation and amortisation), and 1,687 RMB, including the cost of depreciation and amortisation.

Table 3.3 - Operating Cost Estimates

Cost Category	Unit	Unit Price *(RMB)*	Unit Consumption *(per tonne of 85% P_20_5)*	Unit Cost *(RMB per tonne of 85% P_20_5)*
Raw material				
Phosphate ore	tonne	79	4.15	328
Quartzite	tonne	70	3.01	211
Anthracite Coal	tonne	600	1.33	798
Binder A	tonne	350	0.25	88
Binder B	tonne	1,000	0.02	20
Salt	tonne	800	0.09	72
Total				1,517
Accessory Material	tonne	50		50
Total				50
Fuel and power consumption				
Electricity	KWh	0.32	601	192
Natural Gas	m^3	0.73	25	18
Water Charge	m^3	0.03	25	1
Total				211
Wages and Welfare	RMB/person/year	16,078	170 (Person)	27
Total				27
Construction cost				
Depreciation Cost				87
Repair Cost				26
Amortization				13
Management Cost	RMB/person/year	16,078	30 (Person)	3
Finance Cost				20
Selling Expense				87
Total				236

Cost Category	Unit	Unit Price *(RMB)*	Unit Consumption *(per tonne of 85% $P_2 0_5$)*	Unit Cost *(RMB per tonne of 85% $P_2 0_5$)*
By-product Recovery - Representing Revenue				
Cinder	tonne	30	6.79	204
Sodium Silicofluoride	tonne	2,000	0.08	150
Total				354
Total Beneficiation Cost				1,687
Total Operating Cost (excluding depreciation and amortisation)				1,587

Note: this information is based on the original feasibility study and has been reproduced in it is original form. MMC does not know what the chemical composition of Binder A and Binder B, as this information is proprietary.

MMC notes that since these original forecasts were prepared in 2005, the prices for a number of the key inputs (including power, fuel, materials, labour) have probably changed due to inflation. After discussions with the Company however, MMC understands that the next stage of work will be to complete a design during which the costs will be revised to reflect the current price environment. MMC also notes that since the original study was produced, the prices for Phosphoric Acid similarly risen, potentially offsetting some or all of the increases in production costs. MMC has not reviewed this in any detail.

MMC also notes that the highest cost input, Anthracite Coal, which makes up approximately 50% of the total cost, has undergone significant price increase since 2005. MMC suggest that high quality Anthracite coal typically sells for in excess of 800 RMB per tonne in the current market.

3.3 SALES, TRANSPORT AND MARKETING

The current plans are for the phosphate concentrate produced at Qingping to be transferred via an 11 km slurry pipeline to new chemical processing plant at Hanwang, where the Company plans to build, with the support of the local government, a DAP and Sulphuric Acid plant.

ANNEXURE A — QUALIFICATIONS AND EXPERIENCE

Technical Experts Involved in Preparation of the ITRR

David Meldrum — Managing Director of Minarco-MineConsult — Bachelor of Engineering (Mining Hons) — Graduate Diploma in Applied Finance — First Class Mine Managers Certificate of Competency — Member of Australasian Institute of Mining and Metallurgy (Chartered Professional) — Fellow of Financial Services Institute of Australasia

David has a First Class Mine Managers Certificate of Competency with over 25 years experience associated with the mining industry within Australia and overseas. During this period he has undertaken all levels of technical studies and audits of current and prospective operations in Australia, China, New Zealand, South Africa and Indonesia. Apart from providing advice to numerous financiers, David has finance industry experience having been an Investment Banker and having carried out studies for both lenders and investors.

David concentrates on providing technical and commercial advice to both the mining and finance industries. This work includes advising clients on the sale and/or purchase of mining projects and has involved development of business strategies to maximise the value of the opportunities. David also has extensive experience in reserve estimation.

Andrew Ryan — Minarco-MineConsult China Manager — Consulting — Bachelor of Engineering, Mining — University of New South Wales — Member of Australasian Institute of Mining and Metallurgy — Associate of Financial Services Institute of Australasia

Andrew has worked with MMC over the past six years and has been actively involved in all areas of mining consulting. Most recently, in 2005 Andrew moved to Beijing as Minarco's Chinese Business Manager (Technical) responsible for the establishment and growth of Minarco's China business. During this time Andrew has been involved with and/or project managed numerous mining related assignments in China. This work has included the project management of due diligence studies, valuation reports, opportunity assessments, conceptual development studies, and feasibility assessments for both domestic and international clients. The projects that these studies have focused on have covered a variety of minerals including coal, iron ore, gold and molybdenum.

Ron Siwinski — BSc. Minarco — MineConsult Senior Mining Engineer, Engineering (Massachusetts), Water Resources (MIT)

Ron was born and educated in the USA and came to Australia in 1974. After a 6 year career as a civil engineer, he worked as Senior Mining Engineer, Operations at Cliffs Robe River Iron Ore in Western Australia in the 1970's. From 1980 to 2000 he was Mining Engineer, Project Management Engineer and General Manager, Engineering for Southern Pacific Petroleum NL and was heavily involved in their Queensland shale oil projects. Ron has considerable experience in mine planning, feasibility studies, economic analysis and mine development. His main area of expertise is project management. Ron has been a mining consultant since 2000.

Peter Schwann BSc (Geology), F AusIMM, CP (Geo).

Peter's areas of expertise include conceptual project generation, genetic studies and modelling, mine geology courses, grade control, resource and reserve assessment and operational management. He has held site positions from Mine Geologist to Registered Manager in Victoria and Western Australia. Peters's mine geology systems and ore codes reflecting ore genesis have been put into many mines throughout Australia, in WA, NT, Tasmania, Qld and Victoria. He has also been involved in the technical aspects of three recent base metal floats on the ASX, one in the Northern Territory (Redbank), another in the NT and WA (Yellow Rock) and one in Western Australia (Warwick). Technical expertise includes mineral sands, gold and base metal exploration and mining opportunities in Australia, Indonesia, Kyrgyzia, Myanmar, China and Kenya. Peter has designed and run exploration programs for minerals as diverse as Ni Co Laterites, Iron Ore, Manganese, Chrome, Gold, Copper, Ni Sulphides, Mineral Sands and Uranium. Peter has been involved in the discovery of orebodies in Fe, Mn, Ni, Au, and mineral sands. Under the Australasian Code for Reporting of Identified Mineral Resources and Reserves, he is considered a competent person to prepare geological models and validate statements for gold, iron ore, industrial minerals, mineral sands and base metal deposits. A fellow of the AusIMM he is also a chartered professional (CP) in Geology.

Peter Goodman — Minarco-Mineconsult Associate — Bachelor of Applied Science (Process Engineering) — Graduate Diploma in Mineral Processing — Quarry Managers Certificate of Competency — Metallurgy Certificate — Member Australian Coal Preparation Society.

Peter has managed, designed and constructed mineral processing plants in both Australia and South East Asia with over 30 years experience associated with the mining industry. During this period he has undertaken all levels of technical studies and audits of current and prospective operations in Queensland, NSW, China, New Zealand, India, South Africa and Indonesia. Peter has been involved with numerous mineral processing plants that have been built or are currently under construction in China as well as other countries.

Company's Relevant Experience

Minarco-MineConsult, part of the Runge Group, is a premier international consulting and engineering firm providing a full range of services from pure technical consulting through to strategic corporate advice. MMC undertakes assignments on mining projects covering a range of commodities and countries, and serve clients in most of the countries around the West Pacific Rim region.

Minarco-MineConsult maintains a full-time staff of qualified specialists in the fields of mining engineering, geology, process and metallurgical engineering, environmental and geotechnical engineering, and environmental economics.

Minarco-MineConsult typically completes over 200 assignments per year and has over 300 professionals (through the Runge Group) available in disciplines including:

- Mining Engineering;
- Minerals Processing;
- Coal Handling and Preparation;
- Power Generation;
- Environmental Management;
- Geology;
- Contracts Management;
- Project Management;
- Finance;
- Commercial Negotiations.

The roots of Minarco-MineConsult were established in the Australian mining industry. Minarco-MineConsult is committed to compliance with the codes which regulate Australian corporations and consultants and has established an International business which has continued to give its clients and those that rely on its work the confidence that the relevant Australian codes support.

These codes include:

- The Australian Corporation Law;
- The Australian Institute of Company Directors Code of Conduct;
- The Securities Institute of Australia Code of Ethics;
- The Australasian Institute of Mining and Metallurgy Code of Ethics;
- The Australasian Code for Reporting of Exploration Results, Mined Resources and Ore Reserves (The JORC Code).

Minarco-MineConsult has conducted numerous mining technical due diligence programs and reporting for IPO's and capital raisings over the past 6 years, with involvement in projects raising a total of over $US 10 billion of capital. This and other work is summarised in ***Table A1***.

Table A1 - Mining Related IPO and Capital Raising Due Diligence Experience

2007 China Primary Resources Holding Limited — Prepration of Independent Technical Review for inclusion in a Hong Kong Stock Exchange Circular to be distributed to existing shareholders in connection with a mining project acquisition

2007 (Current) Confidential Large Chinese State Owned Corporation — Capital raising for mining assets (confidential) on the Hong Kong Stock Exchange. Preparation of CPR for planned IPO on the HKSE.

2007 Gloucester Coal Limited — Independent Technical Review for Australian Stock Exchange Scheme of Arrangement.

2007 Confidential Hong Kong Private Equity Partners — Independent Technical Review to support private equity capital raising to purchase lead/zinc mining assets in Tibet.

2007 Confidential International Investor — Independent Technical Review to support private equity capital raising to purchase Iron Ore assets in Hubei. Preparation of ITR.

2007 Whitehaven Coal Limited — Independent Technical Review for Australian Stock Exchange IPO.

2007 Confidential Privately Owned Coke Producer — Capital raising for purchase of Coal Mines and downstream coal washing, coke production and chemical production facilities. Preparation of CPR for planned IPO on the HKSE.

2007 China Molybdenum Group — Capital raising for large scale Molybdenum mine on the Hong Kong Stock Exchange. Preparation of CPR for IPO on the HKSE.

2007 Confidential International Investor — Independent Technical Review to support purchase of Gold Mine In Hubei Province.

2006 Excel Mining — Independent Technical Review for Australian Stock Exchange Scheme of Arrangement.

2006 Celadon Mining Investment Group (UK) — Capital raising for coal mine purchase in China and planned subsequent listing on AIM

2005 Yanzhou Coal Mining Company Limited — Independent Technical Review of coal projects to satisfy ongoing listing requirements of the HKSE and NYSE following IPO.

2004 Excel Mining — Independent Technical Review for Australian Stock Exchange IPO (current market capitalisation over $US1billion)

2004 Excel Mining — Independent Market Review for Australian Stock Exchange IPO

2003 New Hope — Independent Market Review for Australian Stock Exchange IPO

2003 Confidential — Independent Market Review on 50Mtpa operation in Kazakhstan for LSE listing (has not proceeded)

2003 Xstrata plc — Competent Person's Report for London Stock Exchange Chapter 19 Report for Acquisition of MIM Assets including mines, rail and port review ($US 2.5 billion)

2002 Xstrata plc — Competent Person's Report for London Stock Exchange IPO ($US2.3 billion)

2002 Kaltim Prima, Indonesia — Independent Technical Review for advising project financiers to acquisition ($US445 million)

2001 Enex Resources — Independent Technical Review for Australian Stock Exchange IPO

2001 Macarthur Coal Limited — Independent Technical Report and Market Review for Australian Stock Exchange IPO

ANNEXURE B — GLOSSARY OF TERMS

The key terms used in this report include:

- **assets** means the phosphate resource and associated developed plans
- **Company** refers to KYEAGL
- **concentrates** are the products of ore processing plants which contain higher concentrations of the target minerals suitable for smelting, e.g. tungsten concentrates and molybdenum concentrates
- **CP** stands for Chartered Professional
- **crush** means to break, pound, or grind (stone or ore, for example) into small fragments or powder
- **current** means as at September 2007
- **DAP** stands for Di Ammonium Phosphate
- **flotation** is a selection method for to the recovery of minerals using reagents to create a froth that collects target minerals
- **grade** is the percentage of useful elements or their components, in ores
- **grind** means to crush, pulverize, or reduce to powder by friction, especially by rubbing between two hard surfaces
- **HKCIL** stands for Hong Kong Cuyo Investment Limited
- **HKEX** stands for Hong Kong Stock Exchange
- **ITRR** stands for Independent Technical Review Report
- **ITR** stands for Independent Technical Review
- **JORC** stands for Joint Ore Reserves Committee
- **JORC Code** refers to the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves 2004 edition, which is used to determine resources and reserves, and is published by JORC of the Australasian Institute of Mining and Metallurgy, the Australian Institute of Geoscientists and the Minerals Council of Australia
- **km** stands for kilometre

- **kt** stands for thousand tonnes
- **KYEAGL** stands for Ko Yo Ecological Agrotech (Group) Limited
- **lb** stands for pound, a unit of weight equal to 453.592 grams
- **m** stands for metres
- **MMC** refers to Minarco-MineConsult
- **mine production** is the total raw production from any particular mine
- **Mt** stands for million tonnes
- **Mtpa** means million tonnes per annum
- **open pit is** a method of surface mining in which massive, usually metallic mineral deposits are removed by cutting benches in the walls of a broad, deep funnel-shaped excavation
- **ore** is a naturally occurring solid material from which a metal or valuable mineral can be extracted profitably
- **ore processing** is the process through which physical or chemical properties, such as density, surface reactivity, magnetism and colour, are utilized to separate the useful components of ores from useless stones, which are then concentrated or purified by means of flotation, magnetic selection, electric selection, physical selection, chemical selection, reselection, and combined methods
- **Project** refers to the Sichuan Phosphate Deposit
- **RC** stands for Reverse Circulation drilling which is a method of exploratory drilling used to evaluate and test drill targets
- **Relevant Assets** refers to the Sichuan Phosphate Deposit and the associated planned processing plant.
- **RMB** stands for Chinese Renminbi Currency Unit; 10^3 RMB means 1,000 RMB
- **SCCIC** stands for Sichuan Chengyuan Chemical Industry Co., Ltd
- **tonne** refers to metric tonne
- **tpa** stands for tonnes per annum
- **tpd** stands for tonnes per day

- **Transaction** refers to HKCIL's planned purchase of the Relevant Assets belonging to KYEAGL.

- **VALMIN Code** refers to the code and guidelines for technical assessment and or valuation of mineral and petroleum assets and mineral and petroleum securities for independent expert reports

- **¥** is the symbol for the Chinese Renminbi Currency Unit

Note: Where the terms Competent Person, Inferred Resources and Measured and Indicated Resources are used in this report, they have the same meaning as in the JORC Code.

ANNEXURE C — CHINESE RESOURCE REPORTING STANDARDS

CHINESE RESOURCE REPORTING STANDARDS

In 1999, with a view to creating a standard that was comparable with international resource reporting standards, The Chinese National Land and Resource Department introduced its own national standard for the Classification of Resources/Reserves for Solid Fuels and Mineral Commodities (GB/T 17766-1999).

This code was to replace the previous code (China GB 13908-1992 - General rules for Geological Exploration of Solid Ore Resources) and was based upon the United Nations international code (UN Economic and Society Committee, UN document ENERGY/WP.1/R.70). Some elements of the American resource reporting standards were included and modifications made to suit Chinese conditions. All new resource estimates are reported under this new code and old estimates either re-estimated or converted to the new system.

The previous Chinese standard (GB 13908-1992) divided resources into four categories (A, B, C and D) which were loosely comparable to the JORC — (December 2004) classifications of Measured Resource (A-B), Indicated Resource (B-C) and Inferred Resource (D). The standard was more prescriptive than JORC in that it specified minimum borehole spacings (see ***Table C1***) for each category, along with implied levels of geological understanding.

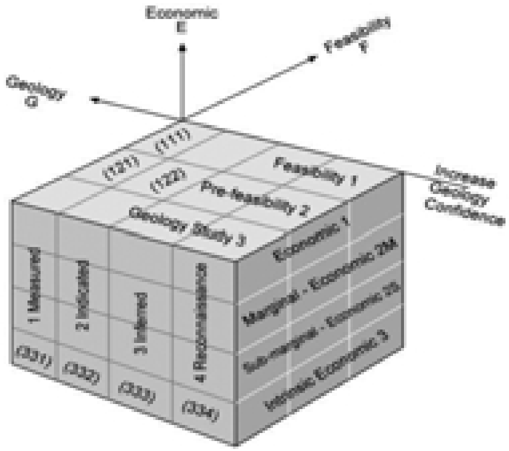
Table C1 - Borehole Spacing Comparison (Chinese, UN and JORC Codes)

(Chinese Reserve Code)	Classification (Chinese Reserve Class)	UN Code	JORC (Dec 2004)	Minimum Borehole/ Drill Line Spacing
A	111-121		Measured	<100 metres
B	121-122	331	Measured	<=100 metres x 100 metres
C	122-2M22	332	Indicated	<=200 metres x 100 metres
D	122	333	Inferred	>200 metres

This old code was essentially a geological classification, taking little account of the deposits economics or the level of mining studies that had been carried out on it. The new code (see ***Figure C1***) attempts to address this by using a three component system (EFG) that considers the deposit economics (E), the level of mining feasibility studies that have been carried out (F) and the level of geological confidence (G) using a numerical ranking.

This system produces a three digit code for a deposit that reflects these three variables. For example a deposit classified as a 121 is economically viable (1), has had pre-feasibility studies carried out (2) and is well understood geologically (1). Various suffixes are used to distinguish Basic Reserves — essentially similar to JORC Resources - (121b) from Extractable Reserves (121) and to identify the assumed economic viability (S or M). Certain categories are not allowed, for example pre-feasibility or feasibility level studies cannot be conducted on Inferred Resources, and so 123 and 113 are invalid classifications. Also Extractable Reserves are not estimated for marginally economic (or lesser) deposits so the (b) suffix is considered redundant. The term Intrinsically Economic indicates that while the deposit may be economic, insufficient studies have been carried out to clearly determine its status.

Figure C1 - New Chinese Resource/Reserve Classification Matrix (1999)



A tabulation of this concept is shown in ***Table C2***.

Table C2 — New Chinese Resource/Reserve Categories (1999)

	Geological Confidence			
	Identified Mineral Resource			Undiscovered Resource
Economic Viability	**Measured (1)**	**Indicated (2)**	**Inferred (3)**	**Reconnaissance (4)**
Economic (1)	Basic Reserve *Resource* - 111b			
	Proved Extractable Reserve - 111			
	Basic Reserve *Resource* 121b	Basic Reserve *Resource* -122b		
	Probable Extractable Reserve - 121	Probable Extractable Reserve -122		
Marginally Economic (2M)	Resource 2M11			
	Resource 2M21	Resource 2M22		
Sub-marginally Economic (2S)	Resource 2S11			
	Resource 2S21	Resource 2S22		
Intrinsically Economic (3)	Resource 331	Resource 332	Resource 333	Resource 334

Note: First digit reflects Economic viability; 1 = Economic; 2M=Marginally Economic; 2S = Sub-marginally Economic; 3 = Intrinsically Economic; 4 = Economic interest undefined.
Second digit reflects Feasibility assessment stage, 1 = Feasibility; 2 = Pre-feasibility; 3 = Geological study. Third digit reflects Geological assurance, 1 = Measured, 2 = Indicated, 3 = Inferred, 4 = Reconnaissance. b = Basic Reserve (prior to recovery factors, mining losses and dilution) — *JORC Resource*.

Unlike the old code, the new code does not specify required borehole spacings for each category. In the case of Copper Cobalt and Gold (and other metals), there is an accompanying Chinese Professional Standard (DZ/T 0214-2002) that lays out rules for determining the level of geological confidence.

International Standards and the JORC Code for Resources

Two main styles of resource reporting codes exist internationally. These are the American style (USA and much of South America) and the JORC style (Australia, South Africa, Canada, and UK). This is further complicated by the listing and reporting requirements of different stock exchanges. It is generally true that a resource estimation that complies with the JORC code (or one of its sister codes) will meet the standards of most international investors.

The new Chinese code is a blend of the old Chinese Code and the codes in current use today, including JORC and the current United Nations (UN) standard, with some additional local components added.

JORC is a non-prescriptive code, in that it does not lay out specific limits for resource classification in terms of such things as borehole spacing. Instead it emphasises the principles of Transparency, Materiality and the role of the Competent Person. Whilst some guidelines do exist (e.g. the Australian Guidelines for the Estimation of Coal Resources and Reserves) they are not mandatory and classification is left in the hands of the Competent Person. When combined with its Professional Standards (which are effectively mandatory), the Chinese code is much more prescriptive but does not include the role of the Competent Person.

An examination of the details of the Chinese code suggests that in terms of broad categorisation, the levels of geological confidence ascribed to Measured and Indicated resources can be quite similar in both the codes. The ranges of borehole spacings, thickness cut-offs and quality limitations that are enforced by the Chinese system could result in the same resource classification under the JORC Code.

The JORC Code uses the following definitions for Mineral Resources and Ore Reserves:

Measured Mineral Resource is that part of Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a **high** level of confidence. It is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are spaced closely enough to confirm geological and grade continuity.

Indicated Mineral Resource is that part of Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a **reasonable** level of confidence. It is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are too widely or inappropriately spaced to confirm geological and/or grade continuity but are spaced closely enough for continuity to be assumed.

Inferred Mineral Resource is that part of Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a **low** level of confidence. It is inferred from geological evidence and assumed but not verified geological and/or grade continuity. It is based on information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes which may be limited or of uncertain quality and reliability.

A '**Proved Ore Reserve'** is the economically mineable part of a Measured Mineral Resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments and studies have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified

A Proved Ore Reserve represents the highest confidence category of Ore Reserve estimates. This requires detailed exploration and quality data "points of observation" to provide high geological confidence.

A '**Probable Ore Reserve**' is the economically mineable part of an Indicated, and in some circumstances, a Measured Mineral Resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments and studies have been carried out, and include consideration of and modification by realistic ally assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors These assessments demonstrate at the time of reporting that extraction could reasonably be justified.

A Probable Ore Reserve has a lower level of confidence than a Proved Ore Reserve but has adequate reliability as the basis of mining studies.

ANNEXURE D — SUMMARY RISK ASSESSMENT

Risk Analysis Outline

The report addresses risks throughout each of the relevant, geology, processing, exploitation, environment and safety sections. This additional Summary Risk Assessment has been provided to give a more general assessment of risks on a broader level as they relate to the assets as a whole. This section is expected to supplement the discussion of risk conducted in previous sections of the report and is not a replacement.

This section looks at material risks to the achievement of the forecast production and resulting cash flows. The risk analysis does not endeavour to identify and quantify all risks as the list would be extensive. However, the analysis focuses on key, or material, risks and their mitigants.

Any assessment of risk should consider that mining is carried out in an environment where not all events are predictable. Whilst an effective management team may, firstly, identify the known risks, and secondly, take measures to manage and mitigate these risks, there is still the possibility for unexpected and unpredictable events to occur. It is therefore not possible to totally remove all risks or state with certainty that an event that may have a material impact on the operation of a mine, will not occur.

The risks have been ranked in accordance with the guidelines outlined in AS 4360:1999 Risk Management with the classifications outlined in ***Table D1***.

Table D1 - Qualitative Risk Analysis Matrix

	Consequences				
Likelihood	**Insignificant**	**Minor**	**Moderate**	**Major**	**Catastrophic**
A (almost certain)	S	S	H	H	H
B (likely)	M	S	S	H	H
C (moderate)	L	M	S	H	H
D (unlikely)	L	L	M	S	H
E (rare)	L	L	M	S	S

Risks can be classified from low through to high based on general definitions such as are listed below.

H - High Risk: This implies that there is an immediate danger of failure of a critical project parameter, which if uncorrected, will have a material effect (for example >15%) on the project cash flow and performance and could potentially in the worse case lead to loss of life, property, and all production up to and including total project loss or failure.

S - Significant Risk: This implies that there is a danger of failure of a critical project parameter, which if uncorrected, may have a material effect (for example 10 to 15%) on the project cash flow and performance unless mitigated by some corrective action.

M - Moderate Risk: Implies a summation of factors, which if uncorrected, could have a significant effect (>10%) on the project cash flow and performance unless mitigated by some corrective action.

L - Low Risk: Implies that if some factors are uncorrected, they will have little or no effect on project production rates or project economic performance.

General Mining Risks

Historically mining has always been seen as a relatively high risk activity. Whilst there have been many technological advances that help reduce the risks associated with mining, there are still some instances where failure to anticipate the dynamics of quite often complex mining systems have resulted in the loss of production and sometimes in the worst cases, resulting in the loss of life or property.

In reviewing the projects, MMC has endeavoured to analyse areas where there is perceived technical risk to the operation, particularly where the risk component could materially impact the projected production, operating costs and revenues. This assessment is in many areas subjective due to data constraints associated with this type of high level review, however qualitative review and consideration of any other non-measurable operational risks of the operations is still important.

Resources and Reserves

From an economic and production viewpoint, the occurrence of commodities such as industrial minerals and industrial or precious metals and the associated concentrations of these materials cannot always be reliably predicted. Estimations of the tonnes, grade and overall mineral content of a deposit are generally unlikely to be precise, as the calculations used to derive resource and reserve quantities are based on interpolation of what should ideally be representative samples from drilling or channel sampling which, even at close sample spacing, may in total only describe the mineral distribution characteristics of a small part the whole orebody.

There is always a potential error inherent in the extrapolation of sample data when estimating the tonnages and concentrations of mineral or metal commodities within any given rock mass. Significant errors in calculation may occur if the mineral cementations are highly variable or unpredictable due to factors such as complex geology and where for example faulting or folding of rock strata disrupt linear continuity.

Careful review of past production and reserves can confirm the reasonableness of past resource and reserve estimates, but generally, only close attention is paid to factors such as mining recovery and ore loss during the mining process. As a result, such reconciliation reviews may not always confirm the accuracy of resources and reserves with respect to future predictions.

Event	Likelihood	Consequence	Level of Risk	Mitigant
Actual resource and/or reserve tonnage varies significantly from the tonnage estimated by the resource model	Unlikely	Moderate	Moderate	Comprehensive exploration program

It should be also noted that when considering the mining project reserves base, the operating revenues used to help determine this are greatly affected by factors such as variations in operating costs, costs of consumables, variations in metal prices and fluctuating exchange rates. Some of the uncertainties relating to these factors can be mitigated or removed though hedging contracts, forward sales, and long term supply contracts.

Given that the extraction behaviour of materials and mineral commodities during the actual mining and processing stages can never be wholly predicted, it is generally understood that estimations with respect to project operating costs and project capital will similarly be affected.

Ideally the resources and reserves of mining projects at the planning stage should be estimated to within a level of accuracy of 10 to 15%.

MINING

Event	Likelihood	Consequence	Level of Risk	Mitigant
Mining difficulties experienced lead to substantially lower production levels being achieved	Likely	Major	Moderate	Experienced mining operations staff

The mining industry worldwide has experienced significant increases in mining costs over the past two to three years. This increase has been observed across the board and has resulted in fundamental increases to the profitability and economic viability of many mining operations. MMC considers that the risk is commensurate with that of other similar mining operations.

Event	Likelihood	Consequence	Level of Risk	Mitigant
Substantial increases in operating costs	Unlikely	Moderate	Moderate	Good mining practice

Ore Beneficiation

The ore beneficiation techniques proposed for use at the site are proprietary in nature, and due to confidentiality reasons, MMC has not been provided with detailed information for review. For this reason, MMC cannot comment in detail on the risks associated with this technology.

Production Targets

The mine production targets do not appear to be aggressive. MMC considers the risk of them not being achieved to be only moderate.

Event	Likelihood	Consequence	Level of Risk	Mitigant
Production targets not being met	Likely	Major	Moderate	Production targets are not aggressive

Environment and Safety

The two key environmental risk areas relate to major failures of either one of the tailings dams or waste dumps.

Event	Likelihood	Consequence	Level of Risk	Mitigant
Major tailings dam failure resulting in significant environmental damage	Rare	Major	Significant	All dams need to be constructed in accordance with national safety and environment guidelines.

Tailings dam failure presents a risk to operations via loss of production and risks to the environment and safety due to mass movement down-valley and into water courses. The risk is managed by ensuring appropriate design, construction and maintenance of tailings dams and regular review and inspection of these structures.

Event	Likelihood	Consequence	Level of Risk	Mitigant
Failure of major waste dumps resulting in significant environmental damage	Rare	Moderate	Moderate	All dumps need to be constructed in accordance with national safety and environment guidelines.

Waste dump failure represents a risk to operations via temporary loss of production and risks to the environment and safety due to mass movement down-valley and into water courses. The risk is similarly managed by ensuring appropriate design, construction and management of slag dumps, regular inspection of these emplacement structures and rehabilitation incorporating revegetation and drainage management.

Event	Likelihood	Consequence	Level of Risk	Mitigant
Safety Event occurs which results in multiple fatalities	Rare	Major	Moderate	Mine will need an approved safety program in place when in operation.

Numerous safety risks are associated with mining and processing operations and these are well understood in the international minerals industry. MMC considers that these risks are not excessive or significantly different to any other well managed operations in the minerals industry and are unlikely to present any material risks for ongoing operations. Safety systems and practices need to be in place which satisfy the necessary Government requirements and are continually being developed to manage risks.

TRANSPORT

Event	Likelihood	Consequence	Level of Risk	Mitigant
Difficulty in transporting concentrate to its final destination	Rare	Minor	Low	Simple haulage systems

Final products are sold in a concentrated form and as such there are minimal volumes of material that actually need to be transported. As such, MMC considers that transport risks associated are low.

Event	Likelihood	Consequence	Level of Risk	Mitigant
Difficulty in transporting final products to end markets	Rare	Minor	Low	Simple transport systems

Infrastructure and Utilities

MMC considers infrastructure and utilities risk to below.

Event	Likelihood	Consequence	Level of Risk	Mitigant
Extended production delays caused by long term power outage or water supply issues	Rare	Minor	Low	Management has no control over this

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.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular, and confirm, having made all reasonable equiries, that to the best of their knowledge, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts, not contained in this circular, the omission of which make any statement in this circular misleading.

DISCLOSURE OF INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

(i) Interest of Directors and chief executive of the Company

As at the Latest Practicable Date, the interests 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:

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

Directors	Personal long position in the Shares (beneficial owner)	Personal long position in the share options (beneficial owner)	Aggregate long position in the 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%

(b) *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: Ko Yo Hong Kong is a wholly-owned subsidiary of the Company.

(c) *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 the Company and the Stock Exchange.

(ii) **Interests 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 Enlarged Group.

(iii) **Interests of other persons in the Company**

Long position in Ko Yo Hong Kong

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 Hong Kong

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 Enlarged Group.

SHAREHOLDINGS AND DEALINGS

(a) **In relation to the Vendors**

(i) As at the Latest Practicable Date, the Company did not own or control any shares of the Vendors.

(ii) As at the Latest Practicable Date, the interests of the Directors in the shares, underlying shares of the Vendors which were required to be disclosed in this circular pursuant to the requirements of the Takeovers Code were as follows:

Director	Number of shares in the Vendor	Approximate %
Mr. Li	3,776,000	80%
Mr. Yuan	377,600	8%

As at the Latest Practicable Date, no Directors was interested in the issued share capital of Well Sunshine.

(iii) During the period starting 6 months prior to 21 September 2007 (being the date of the Announcement) and ending on the Latest Practicable Date (the "**Relevant Period**"):

(1) the Company had not dealt for value in the shares convertible securities warrants, options or derivatives which carry voting rights of the Vendors; and

(2) no Directors had dealt for value in the shares convertible securities warrants, options or derivatives which carry voting rights of the Vendors.

(b) **In relation to the Company**

(i) Save as disclosed in the section headed "Disclosure of Interests in shares, underlying shares and debentures" in this Appendix, none of the Vendors, their concert parties and any of their respective directors owned or controlled any shares, convertible securities, warrants, options or derivatives of the Company as at the Latest Practicable Date, and none of them had dealt for value in any such securities during the Relevant Period.

(ii) Save as disclosed in the section headed "Disclosure of Interests in shares, underlying shares and debentures" in this Appendix, none of the Directors was interested in any Shares, convertible securities, warrants, options or derivatives in respect of securities which carry voting rights of the Company as at the Latest Practicable Date and none of them had dealt for value in any such securities during the Relevant Period.

(iii) As at the Latest Practicable Date, no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company, the Vendors or parties acting in concert with them or with any person who is an associate of the Company or of the Vendors by virtue of classes (1), (2), (3) and (4) of the definition of associate under the Takeovers Code.

(iv) During the period starting 6 months prior to 21 September 2007 (being the date of the Announcement) and ending on the Latest Practicable Date:

(1) none of the subsidiaries of the Company, nor any pension funds of the Group had dealt for value in or owned or controlled any securities of the Company or any of its subsidiaries;

(2) no fund managers connected with the Company had owned or managed any securities of any member of the Group on a discretionary basis; and

(3) none of the advisers to the Company as specified in class (2) of the definition of "associate" under the Takeovers Code had dealt for value in or owned or controlled any securities of any member of the Group.

VOTING ON THE WHITEWASH WAIVER

(a) As at the Latest Practicable Date, no person had, prior to the posting of this circular, irrevocably committed themselves to vote for or against the Whitewash Waiver.

(b) As at the Latest Practicable Date, Mr. Li and Mr. Yuan were the only Directors who hold Shares, and they will abstain from voting on the resolution to be proposed at the EGM to approve the Whitewash Waiver.

(c) The Vendors and parties acting in concert with them, their respective associates and those involved or interested in the Acquisition and the Whitewash Waiver (including Mr. Li and Mr. Yuan) will abstain from voting at the EGM in respect of the resolution to approve the Whitewash Waiver in respect of such Shares.

MARKET PRICES OF SHARES

The closing prices of the Shares quoted on the Stock Exchange (i) at the end of each of the calendar months during the period commencing the six months immediately preceding 21 September 2007, being the date of the Announcement and ending on the Latest Practicable Date; (ii) on the last trading day immediately before the publication of the Announcement ("Last Trading Day"); and (iii) on the Latest Practicable Date were as follows:

Date	Closing price of the Shares *HK$*
31 March 2007	0.60
30 April 2007	0.57
31 May 2007	0.63
30 June 2007	0.56
31 July 2007	0.62
31 August 2007	0.57
13 September 2007 (being the Last Trading Day)	0.69
30 September 2007	0.63
31 October 2007	0.66
30 November 2007	0.56
Latest Practicable Date	0.57

The highest and lowest closing prices of the Shares as quoted on the Stock Exchange during the period commencing six months preceding 21 September 2007, being the date of the Announcement, and ending on the Latest Practicable Date were HK$0.72 on 1 March 2007 and 24 September 2007 and HK$0.51 on 15 May 2007 respectively.

INTERESTS IN CONTRACTS AND ASSETS OF THE ENLARGED 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 Enlarged Group or are proposed to be acquired or disposed of by, or leased to, the Enlarged Group since 31 December 2006, the date to which the latest published audited accounts of the Enlarged Group 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 Enlarged Group.

COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or the management shareholders or employees 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 Enlarged Group.

LITIGATION

As at the Latest Practicable Date, no member of the Enlarged Group was 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 Enlarged Group.

SERVICE CONTRACTS

Mr. Li, an executive Director, had entered into a service contract with the Company for an initial term of three year commencing on 10 June 2003. The service contract shall continue thereafter unless and until terminated by either party servicing to other not less than three months' notice in writing. Mr. Li is entitled to annual director's fee of RMB618,000. Mr. Li is also entitled to a discretionary bonus, which may not exceed 3% of the audited consolidated net profit of the Enlarged Group attributable to the Shareholders in respect of that financial year of the Company.

Mr. Yuan, an executive Director, had entered into a service contract with the Company for an initial term of three year commencing on 10 June 2003. The service contract shall continue thereafter unless and until terminated by either party servicing to other not less than three months' notice in writing. Mr. Yuan is entitled to annual director's fee of RMB124,000. Mr. Yuan is also entitled to a discretionary bonus, which may not exceed 3% of the audited consolidated net profit of the Enlarged Group attributable to the Shareholders in respect of that financial year of the Company.

Ms. Chi Chuan, an executive Director, had entered into a service contract with the Company for an initial term of three year commencing on 10 June 2003. The service contract shall continue thereafter unless and until terminated by either party servicing to other not less than three months' notice in writing. Ms. Chi is entitled to annual director's fee of RMB124,000. Ms. Chi is also entitled to a discretionary bonus, which may not exceed 3% of the audited consolidated net profit of the Enlarged Group attributable to the Shareholders in respect of that financial year of the Company.

Mr. Man Au Vivian, an executive Director, had entered into a service contract with the Company for an initial term of three year commencing on 10 June 2003. The service contract shall continue thereafter unless and until terminated by either party servicing to other not less than three months' notice in writing. Ms. Man is entitled to annual director's fee of RMB124,000. Mr. Man is also entitled to a discretionary bonus, which may not exceed 3% of the audited consolidated net profit of the Groattributable to the Shareholders in respect of that financial year of the Company.

Mr. Li Shengdi, an executive Director, had entered into a service contract with the Company for an initial term of three year, commencing on 29 April 2004. The service contract shall continue thereafter unless and until terminated by either party servicing to other not less than three months' notice in writing. Mr. Li is entitled to annual director's fee of RMB124,000. Mr. Li is also entitled to a discretionary bonus, which may not exceed 3% of the audited consolidated net profit of the Enlarged Group attributable to the Shareholders in respect of that financial year of the Company.

Mr. Hu Xiaoping, an independent non-executive Director had entered into a service contract with the Company for a term of two years commencing on 10 June 2007. Mr. Hu is entitled to annual director fee of RMB62,000. Mr. Hu is not entitled any other variable remuneration.

Mr. Woo Che-wor, Alex, an independent non-executive Director had entered into a service contract with the Company for a term of two years commencing on 10 June 2007. Mr. Woo is entitled to annual director fee of RMB62,000. Mr. Woo is not entitled any other variable remuneration.

Mr. Qian Laizhong, an independent non-executive Director had entered into a service contract with the Company for a term of two years commencing on 16 August 2006. Mr. Qian is entitled to annual director fee of RMB62,000. Mr. Qian is not entitled any other variable remuneration.

Save as disclosed herein, there is no other service contract or management agreement between any of the Directors and any member of the Enlarged Group nor is there any such contract or agreement proposed (excluding contracts expiring or terminable by the employer within one year without payment of compensation other than statutory compensation) or fixed term contracts with more than 12 months to run irrespective of notice period.

As at the Latest Practicable Date, none of the Directors or their respective associates had entered into any existing or proposed service contract with any member of the Enlarged Group in force which are continuous contracts with a notice period of 12 months.

None of the Directors or their respective associates had entered into or amended any service contracts (including both continuous and fixed term contracts) with any member of the Enlarged Group within six months before the date of the Announcement.

EXPERT

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

Name	Qualification
Optima Capital	a corporation licensed to carry on type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO
PricewaterhouseCoopers	Certified Public Accountants
Sallmanns (Far East) Limited	independent professional valuer
Greater China Appraisal Limited	independent professional valuer
Minarco Asia Pacific Pty Limited	independent technical adviser
King and Wood	PRC legal adviser

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the expert's statement included in the form and context in which it is included and the references to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, each of the above experts did not have any shareholding, direct or indirect, in any member of the Enlarged Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Enlarged Group, nor did they have any direct or indirect interest in any assets which had been, since 31 December 2006, being the date of the latest published audited accounts of the Company were made up, acquired or disposed of by or leased to any member of the Enlarged Group, or were proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

GENERAL

(a) The registered office of the Company is at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, 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 share registrar and transfer office of the Company is Union Registrars Limited at Rooms 1901-02, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong.

(d) The business address of Mr. Li and Mr. Yuan is situated at Suite No. 02, 31st Floor, Sino Plaza, 255-257 Gloucester Road, Causeway Bay, Hong Kong.

(e) The address of Piper Jaffray Asia Limited (formerly known as Goldbond Capital (Asia) Limited) is at 39th Floor, Tower 1 Lippo Centre, 89 Queensway, Hong Kong.

(f) The address of Optima Capital is at Unit 3618, 36th Floor, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong.

(g) The business address of Mr. Yan is situated at Suite No. 02, 31st Floor, Sino Plaza, 255-257 Gloucester Road, Causeway Bay, Hong Kong.

(h) The business address of Well Sunshine and Mr. Lo Wah Wai, being sole director and beneficial owner of Well Sunshine is situated at Suite No. 02, 31st Floor, Sino Plaza, 255-257 Gloucester Road, Causeway Bay, Hong Kong.

(i) 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.

(j) 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.

(k) 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 57, 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 56, 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 64, 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.

(l) As at Latest Practicable Date, there was no agreement, arrangement or understanding (including any compensation arrangement) between the Vendors or any of their concert parties and other persons in relation to the transfer, charge or pledge of the Consideration Shares that may be allotted and issued to the Vendors under the Sale and Purchase Agreement.

(m) As at the Latest Practicable Date, there was no agreement or arrangement existed between any Director and any other person which is conditional on or dependent upon the outcome of the Whitewash Waiver or otherwise connected therewith.

(n) No benefit will be given to any Director as compensation for loss of office or otherwise in connection with the Whitewash Waiver (other than statutory compensation).

(o) As at the Latest Practicable Date, there was no agreement, arrangement to which the Venders are the parties which relate to the circumstances in which they may or may not invoke or seek to invoke a condition to their offer and the consequences of its doing so, including details of any break fee payable as a result.

(p) As at the Latest Practicable Date, save as the Sale and Purchase Agreement, placing agreement dated 3 May 2006 and subscription agreement dated 3 May 2006 in which Mr. Li and Mr. Yuan have interest, there was no material contract entered into by the Vendors which any Director has a material personal interest.

(q) As at the Latest Practicable Date, there was no agreement, arrangement or understanding (including any compensation arrangement) between the Vendors or any parties acting in concert with them and any of the Directors or recent Directors, Shareholders or recent Shareholders having any connection with or dependence upon the Whitewash Waiver.

(r) 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 Enlarged Group within the period commencing the two years preceding 21 September 2007 (being the date of Announcement) and up to Latest Practicable Date and are, or may be, material:

1. 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;

2. 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.

3. the conditional sale and purchase contract dated 29 September 2006 between Sigma Investment Holdings L.L.C. as vendor, Sinosteel Equipment & Engineering Company ("Sinosteel") as purchase agent and Dazhou City Dazhu Ko Yo Chemical Industry Co. Ltd ("Dazhu Ko Yo"), a subsidiary of the Company, as ultimate purchaser in connection with the conditional acquisition of certain production equipment for a consideration of approximately RMB290.79 million (the "Sale and Purchase Contract").

4. the second handed equipment import agency contract dated 29 September 2006 between Dazhu Ko Yo and Sinosteel to appoint Sinosteel as the purchase agent of Dazhu Ko Yo 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. Total agency fee payable to Sinosteel is RMB3.60 million.

5. the Sale and Purchase Agreement.

6. the loan agreement dated 15 November 2007 between the Company and Industrial and Commercial Bank of China (Asia) Limited, pursuant to which the Company was granted a term loan facility of up to US$15,900,000.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection (i) between 9:00 a.m. and 6:00 p.m. at the office of Suite 3102, Sino Plaza, 255, Gloucester Road, Causeway Bay, Hong Kong; (ii) on the website of the Company at www.koyochem.com; and (iii) on the website of SFC at www.sfc.hk from the date of the circular up to and including 24 December 2007:

a. the memorandum and the articles of association of the Company;

b. the Sale and Purchase Agreement;

c. the letter of recommendation from the Independent Board Committee to the Independent Shareholders as set out in this circular;

d. the letter from Optima Capital, the text of which is set out in this circular;

e. the annual reports of the Group for the two years ended 31 December 2006;

f. the interim report of the Group for the six months ended 30 June 2007

g. the third quarter report of the Group for the nine months ended 30 September 2007;

h. the accountant's report of Hong Kong Cuyo, the text of which is set out in Appendix II to this circular;

i. the report in respect of the unaudited pro forma financial information of the enlarged group, the text of which is set out in Appendix III to this circular;

j. the property valuation report dated 7 December 2007 prepared and issued by Sallmanns (Far East) Limited, the text of which is set out in Appendix IV to this circular;

k. the asset valuation report dated 7 December 2007 prepared and issued by Greater China Appraisal Limited, the text of which is set out in Appendix V to this circular;

l. the technical assessment report dated 7 December 2007 prepared and issued by Minarco Asia Pacific Pty Limited, the text of which is set out in Appendix VI to this circular;

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

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

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

p. the legal opinion dated 7 December 2007 issued by King and Wood; and

q. a copy of this circular.

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)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that the extraordinary general meeting (the "**EGM**") of Ko Yo Ecological Agrotech (Group) Limited ("**Company**") will be held at Room 02, 31/F Sino Plaza, 255-257 Glousester Road, Causeway Bay, Hong Kong on Monday, 24 December 2007 at 10:00 a.m. or any adjournment to consider and, if thought fit, pass the following resolutions as ordinary resolutions (with or without modifications):

ORDINARY RESOLUTIONS

1. "**THAT**

(a) the sale and purchase agreement (a copy of which has been produced to the EGM marked "A" and initialled by the chairman of the EGM for the purpose of identification) entered in on 17 September 2007 between, among others, Mr. Li Weiruo, Well Sunshine Trading Limited, Mr. Yuan Bai and Mr. Yan Wei as vendors and Bright Bridge Investments Limited as purchaser (the "**Sale and Purchase Agreement**") and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and

(b) any director of the Company (the "**Director**") be and is hereby authorised in his or her absolute discretion to exercise the authorities, powers and discretion on behalf of the board of Directors to deal with all matters and sign any ancillary documentation (whether with seal or not) in relation to and in connection with the Sale and Purchase Agreement and the transactions contemplated thereunder."

2. "**THAT**

(a) subject to and conditional on the passing of ordinary resolution no. 1 and the Listing Committee of The Stock Exchange of Hong Kong Limited granting approval for the listing of, and permission to deal in, the Consideration Shares (as defined below), the allotment and issue of 473,060,000 shares of HK$0.1 each in the share capital of the Company (the "**Consideration Shares**") be and are hereby approved; and

(b) any Director be and is hereby authorised in his or her absolute discretion to exercise the authorities, powers and discretion on behalf of the board of Directors to deal with all matters and sign any ancillary documentation (whether with seal or not) in relation to and in connection with the allotment and issue of the Consideration Shares."

3. "**THAT**

(a) subject to and conditional on the passing of ordinary resolution no. 1, the waiver (the "**Whitewash Waiver**") granted or to be granted by the Executive Director of the Corporate Finance Division of the Securities and Futures Commission of Hong Kong and any delegate of such Executive Director pursuant to Note 1 on dispensations from Rule 26 of the Hong Kong Code on Takeovers and Mergers in respect of the obligation on the part of Mr. Li Weiruo and any parties acting in concert with him, to make a mandatory general offer to the shareholders of the Company for all issued shares of the Company not already owned or agreed to be acquired by them under Rule 26 of the Hong Kong Code on Takeovers and Mergers as a result of the allotment and issue of the Consideration Shares be and is hereby approved; and

(b) any Director be and is hereby authorised in his or her absolute discretion to exercise the authorities, powers and discretion on behalf of the board of Directors to deal with all matters and sign any ancillary documentation (whether with seal or not) in relation to and in connection with the Whitewash Waiver."

4. "**THAT**

(a) subject to and conditional on the passing of ordinary resolution no. 1 and 2, the authorised share capital of the Company be and is hereby increased from HK$100,000,000 divided into 1,000,000,000 shares of HK$0.1 each to HK$200,000,000 divided into 2,000,000,000 shares of HK$0.1 each by creation of an additional 1,000,000,000 new shares of HK$0.1 each; and

(b) any Director be and is hereby authorised in his or her absolute discretion to exercise the authorities, powers and discretion on behalf of the board of Directors to deal with all matters and sign any ancillary documentation (whether with seal or not) in relation to and in connection with the increase of the anthorised share capital."

5. "**THAT** subject to and conditional on the passing of ordinary resolution no. 1 and 2 and the Listing Committee of The Stock Exchange of Hong Kong Limited granting approval for the listing of, and permission to deal in, the Subdivided Shares (as defined below), each of the issued and unissued shares of HK$0.1 each in the share capital of the Company be and are hereby subdivided (the "**Share Subdivision**") into five shares of HK$0.02 each (the "**Subdivided Shares**") and the Directors be and are hereby authorised to issue new share certificates in respect of the Subdivided Shares to holders of the shares of the Company and to do all things and execute all documents as they shall in their absolute discretion deem necessary or expedient in connection with or incidental to the Share Subdivision."

By Order of the Board of
Ko Yo Ecological Agrotech (Group) Limited
Li Weiruo
Chairman

Hong Kong, 7 December 2007

Registered Office:
Cricket Square
Hutchins Drive
P.O. Box 2681 GT
Grand Cayman KY1-1111,
Cayman Islands

Principal place of business in Hong Kong:
Suite No. 02, 31st Floor
Sino Plaza
255-257 Gloucester Road
Causeway Bay
Hong Kong

Notes:

(1) Any member entitled to attend and vote at the above meeting is entitled to appoint one or, if he is the holder of two or more shares, more than one proxy to attend and vote on his behalf in accordance with the articles of association of the Company. A proxy need not to be a member of the Company.

(2) the instrument appointing a proxy shall be in writing under the hand of the appointer or of his attorney duly authorised in writing or, if the appointor is a corporation, either under its common seal or under the hand of an officer or attorney or other person duly authorised.

(3) To be valid, a form of proxy and the power of attorney or other authority, if any, under which it is signed or a certified copy of such power or authority must be deposited at the Company's share registrar, Union Registrars Limited, at Rooms 1901-02, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong not less than 48 hours before the time for holding the above meeting or any adjournment thereof.

(4) Delivery of an instrument appointing a proxy should not preclude a member from attending and voting in person at the above meeting or any adjournment thereof and in such event, the instrument appointing a proxy shall be deemed to be revoked.

(5) In the case of joint holders of a share, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he/she were solely entitled thereto to if more than one of such joint holders are present at the above meeting, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders. For this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.

As at the the date of this notice, the Board 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.