玖源生態農業科技（集團）有限公司

Ko Yo Ecological Agrotech (Group) Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8042)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2007

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

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

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

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

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

HIGHLIGHTS

— For the year ended 31st December 2007, the profit attributable to shareholders increased to approximately RMB41 million, which represents an increase of 45% as compared to year 2006.

— Basic earnings per share was approximately RMB1.6 cents for the year ended 31st December 2007.

— For the year ended 31st December 2007, sale turnover was approximately RMB775 million, which represents an increased of 26.9% as compared to year 2006.

— The sale amount and quantities of BB Fertilizers and compound fertilizers of the Group increased to approximately RMB300 million and 182,173 tonnes respectively, which represents a growth of 20.2% and 16.4% respectively as compared with year 2006.

— The Directors have proposed to pay a final dividend of HKD0.08 cents per share for the year ended 31st December 2007.

The board of directors (the "Board") is pleased to present the audited annual results of Ko Yo Ecological Agrotech (Group) Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31st December 2007.

Consolidated Income Statement

		As at 31 December	
	Note	**2007**	2006
		RMB'000	RMB'000
Turnover	4	**774,919**	610,587
Cost of sales		**(652,342)**	(513,212)
Gross profit		**122,577**	97,375
Distribution costs		**(28,156)**	(22,182)
Administrative expenses		**(41,772)**	(41,282)
Other income	5	**4,898**	6,322
Operating profit		**57,547**	40,233
Finance costs - net	6	**(12,624)**	(6,909)
Profit before income tax		**44,923**	33,324
Income tax expense	7	**(3,534)**	(4,728)
Profit attributable to equity holders of the Company		**41,389**	28,596
Earnings per share for profit attributable to the equity holders of the Company during the year			
(expressed in RMB per share)	8		(Restated)
– Basic		**0.016**	0.012
– Diluted		**0.016**	0.012
Dividends	9	**5,439**	6,172

Consolidated Balance Sheet

	Note	As at 31 December 2007 RMB'000	2006 RMB'000
ASSETS			
Non-current assets			
Land use rights		**43,315**	44,346
Property, plant and equipment		**450,701**	304,351
Exploration and evaluation assets		**331,099**	—
Goodwill		**8,900**	—
Deferred income tax assets		**2,409**	771
		836,424	349,468
Current assets			
Inventories		**64,130**	76,804
Trade and other receivables	10	**66,874**	64,378
Pledged bank deposits		**46,215**	20,801
Cash and cash equivalents		**19,201**	12,839
		196,420	174,822
Total assets		**1,032,844**	524,290
EQUITY			
Capital and reserves attributable to the equity holders of the Company			
Share capital		**97,746**	53,449
Reserves			
– Proposed final dividend	9	**3,922**	3,541
– Others		**485,771**	235,872
Total equity		**587,439**	292,862

	Note	As at 31 December 2007 RMB'000	2006 RMB'000
LIABILITIES			
Non-current liabilities			
Long-term bank loans, secured		**117,568**	—
Provision for staff compensation		**—**	4,573
Deferred subsidy income		**6,008**	767
Deferred income tax liabilities		**80,867**	—
		204,443	5,340
Current liabilities			
Trade and other payables	11	**81,397**	90,152
Current income tax liabilities		**65**	1,660
Current portion of long-term bank loans, secured		**—**	8,800
Short-term bank loans, secured		**159,500**	125,476
		240,962	226,088
Total liabilities		**445,405**	231,428
Total equity and liabilities		**1,032,844**	524,290
Net current liabilities		**(44,542)**	(51,266)
Total assets less current liabilities		**791,882**	298,202

Notes to the Consolidated Income Statement and Consolidated Balance Sheet

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 address of the registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Caymen KY1-1111, Cayman Islands and the principal place of business of the Company is Suite No. 02, 31st Floor, Sina Plaza, 255-257 Gloucester Road, Causeway Bay, Hong Kong.

The Company is an investment holding company. The Company and its subsidiaries (the "Group") are principally engaged in the manufacture and sale of chemical products and chemical fertilisers in Mainland China. During the year, the Group acquired 100% equity interest in Hong Kong Cuyo Investment Limited ("Hong Kong Cuyo"). Hong Kong Cuyo and its subsidiary ("Cuyo Group") is principally engaged in the exploration and evaluation of a phosphorous mine located in the PRC.

The consolidated income statement and consolidated balance sheet are presented in Renminbi ("RMB"), unless otherwise stated.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the 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 RMB44,542,000 as at 31 December 2007 (2006: RMB51,266,000). 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 2007 on the basis that the Group has profitable operations and that it will succeed in obtaining financing through the issue of new shares and roll-over of the outstanding bank loans. As described in Note 13, subsequent to the balance sheet date, net proceeds from the issue of new shares of approximately RMB64 million have been received by the Company, bank loans of RMB39 million have been rolled over for a further year and new additional bank loans of RMB8 million have been granted with a term of one year. On this basis the directors are of the opinion that the Group will have sufficient working capital to finance its operation. Accordingly, the directors are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

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

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

(a) Standards, amendment and interpretations effective in 2007

- HKFRS 7, "Financial instruments: Disclosures", and the complementary amendment to HKAS 1, "Presentation of financial statements – Capital disclosures", introduces new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the Group's financial instruments, or the disclosures relating to taxation and trade and other payables.

- HK(IFRIC) – Int 8, "Scope of HKFRS 2", 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 in order to establish whether or not they fall within the scope of HKFRS 2. This standard does not have any impact on the Group's financial statements.

- HK(IFRIC) – Int 10, "Interim financial reporting and impairment", prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. This standard does not have any impact on the Group's financial statements.

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

The following standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 March 2007 or later periods, but the Group has not early adopted them:

- HK(IFRIC) – Int 11, "HKFRS 2 – Group and treasury share transactions" (effective for annual period beginning on or after 1 March 2007). HK(IFRIC) – Int 11 provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies. This interpretation does not have any impact on the Group's consolidated financial statements.

- HK(IFRIC) – Int 14, "HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction" (effective from 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. The Group will apply HK(IFRIC) - Int 14 from 1 January 2008, but it is not expected to have material impact on the Group's consolidated financial statements

- HKAS 1 (Revised), "Presentation of Financial Statements" (effective from 1 January 2009). HKAS 1 (Revised) requires all owner changes in equity to be presented in a statement of changes in equity. All comprehensive income is presented in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). It requires presenting a statement of financial position as at the beginning of the earliest comparative period in a complete set of financial statements when there are retrospective adjustments or reclassification adjustments. However, it does not change the recognition, measurement or disclosure of specific transactions and other events required by other HKFRSs. The Group will apply HKAS 1 (Revised) from 1 January 2009.

- HKAS 23 (Amendment), "Borrowing costs" (effective from 1 January 2009). The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Group will apply HKAS 23 (Amended) from 1 January 2009, but it is not expected to have material impact on the Group's consolidated financial statements.

- HKFRS 8, "Operating segments" (effective from 1 January 2009). HKFRS 8 replaces HKAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, "Disclosures about segments of an enterprise and related information". The new standard requires a "management approach", under which segment information is presented on the same basis as that used for internal reporting purposes. The Group will apply HKFRS 8 from 1 January 2009, but it is not expected to have material impact on the Group's consolidated financial statements.

(c) Standards, amendments and interpretations effective in 2007 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 2007 but are not relevant to the Group's operations:

- HK(IFRIC) – Int 7, "Applying the restatement approach under HKAS 29, Financial reporting in hyper-inflationary economies"; and

- HK(IFRIC) – Int 9, "Re-assessment of embedded derivatives".

2.2 Consolidation

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

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

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

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

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

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses (Note 2.9). The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

2.4 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(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 operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

2.5 Property, plant and equipment

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

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

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

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

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

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).

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

2.6 Land use rights

Land use rights are up-front payments to acquire a long-term interest in land, which are regarded as operating leases. These payments are stated at cost and amortised over their respective lease terms on a straight-line basis, net of accumulated impairment charge.

2.7 Exploration and evaluation assets

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

Exploration and evaluation assets include the cost of exploration rights and the expenditures incurred in the search for mineral resources as well as the determination of the technical feasibility and commercial viability of extracting those resources.

When the technical feasibility and commercial viability of extracting a mineral resource becomes demonstrable, any previously recognised exploration and evaluation assets are reclassified as property, plant and equipment, mining rights or other intangible assets. These assets are assessed for impairment and any impairment loss is recognised before reclassification.

2.8 Intangible assets

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates and is tested for impairment as part of the overall balance. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

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

2.9 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.

2.10 Impairment of exploration and evaluation assets

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

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

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

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

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

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

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

2.11 Financial assets

The Group classifies its financial assets in the following categories: 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 2006 and 2007, 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 2.13.

2.12 Inventories

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

2.13 Trade and other receivables

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

2.14 Cash and cash equivalents

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

2.15 Share capital

Ordinary shares are classified as equity.

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

2.16 Trade payables

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

2.17 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the 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.

2.18 Current and deferred income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

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

2.19 Employee benefits

(a) Employee leave entitlements

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

(b) Pension obligations

Pursuant to laws and regulations in the People's Republic of China ("Mainland China"), contributions to the basic old age insurance for the Group's Mainland China employees are made monthly to a government agency based on 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.

2.20 Provisions

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

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

2.21 Contingent liabilities

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

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

2.22 Revenue recognition

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

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

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

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

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

2.23 Government grants 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 subsidy income 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.

2.24 Leases

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

2.25 Dividend distribution

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

3.1 Estimates

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

(a) Useful lives of fixed assets

The estimate of useful lives of fixed assets was made by the directors with reference to the established industry practices, technical assessments made on the durability of the assets, as well as the historical magnitude and trend of repair and maintenance expenses incurred by the Group. It could change significantly as a result of technical innovations and competitor actions in responses to severe industry cycles. Management will increase the deprecation charge where useful lives are less than previously estimated lives, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

(b) Provision for impairment of trade receivables

The Group makes provision for impairment of trade receivables based on the assessment of the recoverability of trade receivables with reference to the extent and duration that the amount will be recovered. Provisions are applied to trade receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of impairment requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of receivables and impairment expenses in the period in which such estimate has been changed.

3.2 Judgements

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

(a) Impairment of exploration and evaluation assets

In determining whether the Group's exploration and evaluation assets are impaired, management has to exercise judgement in the area of asset impairment, particularly in assessing: (1) whether the Group is able to obtain the right to exploit in the specific mining site; (2) whether carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale. In any such case, the Group shall perform an impairment test in accordance with the accounting policy stated in Note 2.10.

(b) Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in Note 2.8. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

(c) Impairment of assets (other than exploration and evaluation assets and goodwill)

In determining whether an asset is impaired or the event previously causing the impairment no longer exists, management has to exercise judgement in the area of asset impairment, particularly in assessing: (1) whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by the net present value of future cash flows which are estimated based upon the continued use of the asset or 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.

(d) Recognition of share-based compensation expenses

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

4 TURNOVER

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 ("output VAT"). Such output VAT is payable after offsetting VAT paid by the Group on purchases. The applicable rates of output VAT range from 0% to 17%.

The Group's turnover and profit are generated from manufacturing and sale of chemical products and chemical fertilisers in Mailand China, no segment information is therefore presented.

5 OTHER INCOME

	2007	2006
	RMB'000	RMB'000
Amortisation of subsidy income	**859**	583
Tax refund for reinvestments *(Note a)*	**1,520**	2,865
Gain from disposal of available-for-sale investment	**—**	733
Sales of scrap materials	**1,839**	1,021
Others	**680**	1,120
	4,898	6,322

(a) Tax refund for reinvestments

Amount represented PRC tax refunds on capital reinvestment and it is calculated with reference to certain percentage of the tax paid.

6 FINANCE COSTS - NET

	2007	2006
	RMB'000	RMB'000
Interest expenses of bank borrowings	**13,244**	7,928
Interest income	**(1,321)**	(1,425)
Others	**701**	406
	12,624	6,909

7 INCOME TAX EXPENSE

No provision for profits tax in the Cayman Islands, British Virgin Islands or Hong Kong has been made, as the Group had no assessable profit arising in or derived from those jurisdictions during the years ended 31 December 2007 and 2006.

Chengdu Ko Yo Chemical, Chengdu Ko Yo Compound and Dazhu Ko Yo Chemical qualify as foreign investment production enterprises and were established in the western regions. As approved by local tax bureaus, they are subject to the preferential tax policies for the development of western regions with Enterprise Income Tax ("EIT") at the rate of 15% and Local Enterprise Income Tax at the rate of 3%.

Dazhu KoYo Chemical is entitled to full exemption from EIT in the first two profitable years and a 50% reduction for the next three years thereafter. 2007 is the second profit-making year of Dazhu KoYo Chemical and thus the preferential EIT rate applicable to Dazhu KoYo Chemical for the year ended 31 December 2007 is 0% (2006: 0%).

Dezhou Ko Yo Compound and Qingdao Ko Yo Chemical did not have taxable profit for the year ended 31 December 2007 (2006: Nil).

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

	2007	2006
	RMB'000	RMB'000
Current tax for Mainland China	**5,172**	5,661
Deferred income tax	**(1,638)**	(933)
	3,534	4,728

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:

	2007	2006
	RMB'000	RMB'000
Profit before taxation	**44,923**	33,324
Calculated at statutory taxation rate of 18% (2006:18%)	**8,086**	5,998
Expenses not deductible for tax purposes	**63**	—
Effects of income tax exemption *(Note a)*	**(4,976)**	—
Tax losses for which no deferred income tax was recognised	**1,493**	—
Tax effect of increase in tax rate used for the recognition of deferred tax *(Note b)*	**(480)**	—
Effects on tax holiday available to different companies of the Group	**(652)**	(1,270)
Taxation	**3,534**	4,728

(a) Effects of income tax exemption

As approved by the local tax bureau in Sichuan, PRC, Ko Yo Chemical is entitled to an income tax exemption with an amount of 40% on the purchase cost of certain qualified equipment manufactured in the PRC.

(b) Tax effect of increase in tax rate used for the recognition of deferred tax

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the "new CIT Law"), which is effective from 1 January 2008. Under the new CIT Law, the EIT rate for both domestic and foreign investment enterprises will be uniformed at 25%. There will be a transition period for enterprises that currently receive preferential tax treatments and are entitled to tax exemptions or reductions granted by relevant tax authorities. Since the deferred income tax assets shall be measured at the tax rates that are expected to apply to the period when the asset is realised, the change in the applicable tax rate will affect the determination of the carrying values of deferred income tax assets of the Group. The Group have obtained approvals from relevant tax authorities for the applicable tax rates during the transition periods and adopted those EIT rates in computing the deferred taxation as at 31 December 2007.

8 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.

	2007	2006 (Restated)
Profit attributable to equity holders of the Company (RMB'000)	**41,389**	28,596
Weighted average number of ordinary shares in issue (thousands)	**2,574,462**	2,371,355
Basic earnings per share (RMB per share)	**0.016**	0.012

(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.

	2007	2006 (Restated)
Profit attributable to equity holders of the Company (RMB'000)	**41,389**	28,596
Weighted average number of ordinary shares in issue (thousands)	**2,574,462**	2,371,355
Adjustment-share options (thousands)	**1,675**	3,200
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**2,576,137**	2,374,555
Diluted earnings per share (RMB per share)	**0.016**	0.012

The weighted average number of ordinary shares for the purpose of basic and diluted earnings per share for the years ended 31 December 2006 have been adjusted for the Company's share subdivision in December 2007, by assuming the share subdivision has been taken place on 1 January 2006. As a result, the basic and diluted earnings per share for the year ended 31 December 2006 have been restated.

9 DIVIDENDS

	2007 RMB'000	2006 RMB'000
Interim, paid, of HKD0.003 (2006: HKD0.005) per ordinary share (on pre-subdivision basis)	**1,517**	2,631
Final, proposed, of HKD0.0008 (2006: HKD0.0014) per ordinary share (on post-subdivision basis)	**3,922**	3,541
	5,439	6,172

At a meeting held on 10 August 2007, the directors declared an interim dividend of HKD0.003 (approximately RMB0.003) per ordinary share (on pre-subdivision basis), totalling approximately RMB1,517,000, which was paid during the year ended 31 December 2007.

At a meeting held on 28 March 2008, the directors proposed a final dividend of HKD0.0008 (approximately RMB0.0007) per ordinary share (on post-subdivision basis), totalling approximately RMB3,922,000. This proposed dividend is not reflected as a dividend payable in these financial statements.

10 TRADE AND OTHER RECEIVABLES

	Group	
	2007	2006
	RMB'000	RMB'000
Trade receivables	**13,562**	19,341
Less: provision for impairment of trade receivables	**(5,647)**	(5,380)
Trade receivables - net	**7,915**	13,961
Prepayments	**48,152**	41,186
Notes receivable	**5,021**	808
Due from employees	**4,398**	4,852
Dividends receivable from a subsidiary	**—**	—
Others	**1,388**	3,571
	66,874	64,378

As at 31 December 2007, the fair value of trade and other receivables of the Group approximated their carrying amounts.

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	
	2007	2006
	RMB'000	RMB'000
Less than 3 months	**7,758**	8,648
More than 3 months but not exceeding 1 year	**287**	7,896
More than 1 year but not exceeding 2 years	**4,641**	534
More than 2 years but not exceeding 3 years	**370**	1,607
More than 3 years	**506**	656
	13,562	19,341
Less: provision for doubtful receivables	**(5,647)**	(5,380)
	7,915	13,961

Trade receivables that are less than three months past due are not considered impaired. As of 31 December 2007, trade receivables of RMB36,000 (2006: RMB3,085,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	Group	
	2007	2006
	RMB'000	RMB'000
More than 3 months but not exceeding 1 year	**36**	3,023
More than 2 years but not exceeding 3 years	**—**	62
	36	3,085

As at 31 December 2007, trade receivables of RMB5,768,000 (2006: RMB7,608,000) were impaired. The amount of the provision was RMB5,647,000 as of 31 December 2007 (2006: RMB5,380,000). The individually impaired receivables mainly relate to wholesalers, which are in unexpected difficult economic situations. It was assessed that a portion of the receivables is expected to be recovered. The ageing of these receivables is as follows:

	Group	
	2007	2006
	RMB'000	RMB'000
More than 3 months but not exceeding 1 year	**251**	4,873
More than 1 year but not exceeding 2 years	**4,641**	534
More than 2 years but not exceeding 3 years	**370**	1,545
More than 3 years	**506**	656
	5,768	7,608

The carrying amounts of the Group's trade and other receivables are denominated in Renminbi.

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

	2007	2006
	RMB'000	RMB'000
At 1 January	**5,380**	3,582
Provision for receivable impairment	**3,121**	1,798
Unused amounts reversed	**(2,854)**	—
At 31 December	**5,647**	5,380

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

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. The Group does not hold any collateral as security.

11 TRADE AND OTHER PAYABLES

	Group	
	2007	2006
	RMB'000	RMB'000
Trade payables *(Note a)*	**24,473**	30,450
Notes payable *(Note b)*	**7,130**	12,000
Advances from customers	**27,430**	29,582
Accrued expenses	**9,874**	6,361
Deposits from suppliers	**3,379**	2,530
Other taxes payable	**1,601**	2,571
Others	**7,510**	6,658
	81,397	90,152

(a) Trade payables

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

	2007	2006
	RMB'000	RMB'000
Aged:		
Less than 1 year	**23,877**	29,898
More than 1 year but not exceeding 2 years	**368**	552
More than 2 years but not exceeding 3 years	**228**	—
	24,473	30,450

(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 2007, notes payable of approximately RMB7,130,000 (2006: RMB12,000,000) were pledged by bank deposits of RMB2,139,000 (2006: RMB5,601,000).

12 COMMITMENTS – GROUP

(a) Capital commitments for property, plant and equipment

	2007	2006
	RMB'000	RMB'000
Constructions-in-progress:		
Contracted but not provided for	**259,396**	264,478

(b) Commitments under operating leases

The Group leases offices under non-cancellable operating lease agreements. The lease terms are between 1 and 2 years, and the majority of lease agreements are renewable at the end of the period at market rate.

The Group had future aggregate minimum lease payments under non-cancellable operating leases for land and buildings are as follows:

	2007	2006
	RMB'000	RMB'000
Not later than one year	**1,087**	756
Later than one year and not later than five years	**—**	88
	1,087	844

13 EVENT AFTER THE BALANCE SHEET DATE

Subsequent to the balance sheet date, short-term bank loans of RMB39 million have been rolled over for a further year and new additional short-term bank loans of RMB8 million have been granted and drawn down with a term of one year.

On 29 February 2008, 500,000,000 shares of HKD0.02 each were issued by the Company at HKD0.145 per share pursuant to the Placing and Subscription Agreement, resulting in net proceeds of approximately HKD69 million (approximately RMB64 million).

BUSINESS REVIEW

During the year under review, the Group was benefited from sustained growth of the economy of the People's Republic of China (the "PRC"), an obvious increase was obtained by the turnover and the profit attributable to shareholders.

The financial results for the year ended 31st December 2007, the turnover of the Group was approximately RMB775,000,000 (2006: RMB611,000,000), which represented an increase of 26.9%. The total sales volume of BB Fertilizer and compound fertilizer of the Group was approximately 182,173 tonnes (2006: 156,571 tonnes), which represented an increase of 16.4%. Audited profit attributable to shareholders of the Company was approximately RMB41 million, representing an increase of 45% compared to that of last year. Basic earnings per share reached approximately RMB1.6 cents.

During the year under review, the Group recorded a sustained increase in turnover and profit throughout the year. It was mainly benefited from the following reasons:

1. Under the influence of the rise in raw material cost and international fertilizer prices, the Group made adjustment to the selling price of the products according to the market trend; the maximum increase rate of selling price reached 18.2%.

2. In order to stem out the deficiencies in the previous two quarters, the Group took proactive action. With help of that, the Group's production facilities were operated in high stability. The sales grew steadily and reached RMB775 million with an increase of 26.9% compared with the same period of last year.

3. The Group made good use of resource, ensured decent supply of coal, electricity and natural gases during the third and the fourth quarters. These efforts provided supportive force to meet the ultimate target of increase in production.

After reviewing the results for the year ended 31st December 2007, the directors of the Company (the "Directors") proposed a final dividend of HKD0.08 cents per share for the year ended 31st December 2007 (2006: HKD0.14 cents after adjustment for the effect of shares subdivision (the "Share Subdivision") of 1 into 5 on 27th December 2007).

PROSPECTS

Industry Review

Demand for Fertilizers Continues to Increase

Demand for fertilizers in the PRC will continue to increase. Followings are the main reasons: 1) the population in the PRC will continue to increase before 2030; 2) the area of cultivated lands is diminishing; 3) the growing speed of the cash crops is relatively faster; 4) since the amount of food stock worldwide falls and the demand for food increases, the international food price and the food price in the PRC was pushed up and the demand for fertilizers enlarges; 5) the price of agricultural products goes up and the PRC government increases the allowance for the peasants, which enable peasants to invest more in fertilizers; 6) due to rise in oil price, the open up of biofuels will further increase the demand for fertilizers.

Stable National Policy Creates Favorable Environment for the Growth of Fertilizer Industry

PRC is a big agricultural country, countryside makes up 70% of the population of the entire nation. This has determined the importance of agriculture to the PRC. The PRC government is devoted to give an impetus to embody the "San Nong" (「三農」) policy concretely in two aspects.

First, Increase the direct comprehensive allowance for the peasants. In 2007, the PRC government further increased the allowance for agricultural production. Direct allowance for food and comprehensive allowance for agricultural industry has reached RMB42.7 billions, represents an increase of 63% compared to that of last year. The national policy proves the strong determination of the PRC government to increase peasants' income and slow down the rising of crop production cost.

Second, national policy continues to support the agriculture related industries (支農行業), such as chemical fertilizer industry where it is the production raw material of agriculture. Facing the pressure of high cost, some favourable national policies will be retained.

Industry policy introduced by the PRC government recently

Since 30 June 2006, for the nation-wide chemical fertilizer industry, the price of electricity usage in chemical fertilizer increased RMB2.5 cents per kilowatt-hour on average. After this adjustment, favourable national electric power policy targeted at chemical fertilizer industry was still adopted in many provinces in 2007. The practice ensured a favourable price for the use of electric power in the industry. In August 2007, "The Policy of Natural Gas Usage" was formulated. 'In particular for the chemical fertilizer projects approved by the Government, the supply of natural gas must remain stable in long term' is clearly stated in the policy. Subsequently, a decree was issued by the National Development and Reform Commission. The decree stated that starting from 10 November, the standard price for manufacturing of natural gas for industrial use (including power generation and transportation) increased RMB0.4 per cubic metre, and the price of chemical fertilizer use natural gas remained unchanged. 24 December 2007, China Customs published the Decree No.74 (year 2007); from 1 January to 31 December 2008, the export duties of certain kinds of chemical fertilizer and raw materials for fertilizer industry were adjusted. December 2007, the National Development and Reform Commission stated that the price system of petroleum and natural gas would be revised in 2008; the price of power and new energy would be taken into consideration when adjusting the new price of petroleum. During a relevant meeting, an officer from the National Development and Reform Commission stated that national policy would stabilize the price of agricultural-economic products like chemical fertilizer and continue to provide chemical fertilizer use electric power, water and transportation fee at a favourable price. The increase in production cost of agriculture-economic products resulted from increased price of oil products, natural gas and power would be compensated through increasing the comprehensive direct compensation for agricultural-economic products.

According to the above mentioned decrees issued by the government, favourable national policy for the industry has been modified. Similar to the recently issued Chinese Chemical Fertilizer Export Duties Decree 2008, these measures provide a way to protect the resources of the industry and speeding up the integration of the industry; such measures would contribute to rapid development of the promotion of the industry.

With the encouragement and support from the above mentioned favourable national policy, the Directors believe that the steady growth of agricultural economy, food production and peasants' income would help stabilizing the demand for chemical fertilizer.

Objectives and Strategies

Strengthen Administration and Strive Hard to Lower Cost and Expenses through Increasing Overall Efficiency

In the coming year, the Group will further strengthen its administration and management standard, technology and product invention, in order to maintain its high efficiency in production facilities. Therefore, these can fulfil the objective of lowering costs and expenses and increasing overall efficiency.

Do the utmost to carry out Dazhou New Urea Plant Project in order to enhance competitiveness

The rising cost of raw material and resource shortage would be the two most concerned problems of chemical fertilizers industry. Some small and medium enterprises with low profit-earning power can possibly be eliminated from the market. The trend of integration of chemical fertilizer industry has become more obvious. During the current integration of chemical fertilizer industry, the factor of resource shall have a leading effect. In the coming few years, resources oriented vertical integration shall be more important.

In accordance with the trend in industry integration and to enhance the Group's position and strength in the fertilizer and chemical industry, the board of Directors brought up the plan to take advantage of the rich natural gas resources in Sichuan in 2006. The Group initiated a project with annual productivity of ammonia compound and urea of approximately 400,000 tonnes and 450,000 tonnes in the Natural Gas Energy Industrial Area of Dazhou city, Sichuan. The project located near in the largest natural gasfield, Puguang Gasfield, in China for the time being. The cumulative proved reserves of the natural gasfield reaches 251 billion cubic metres; technically accessible proved reserves of the natural gasfield reaches 188 billion cubic metres. The Group's large scale chemical engineering project can be secured by sufficient natural resources, with natural gas as the important raw material for production of nitrogen fertilizers and with the open up and use of the new gas fields in Puguang.

Currently, the Group is carrying out the Dazhou New Urea Plant Project at full speed. The project went into full operation, and the progress was as achieved as scheduled. At the time being, the underground pipe network is already built. The first batch, the second batch and the third batch of dismantling equipments were delivered to the project sites in January, February and March 2008 respectively. It is estimated that the maintenance and installation work of dismantling equipments shall be carried out in April 2008. Meanwhile, the project has been listed in the focused construction projects of the Sichuan province's "eleventh five-year plan" and the focused construction projects of Sichuan province in 2007, and has achieved the affirmation of the Development and Reform Committee of Sichuan and China Petrochemical Corporation on natural gas supply of 450 million cubic metres per year. As the project processes rich natural gas and electricity supply, resources and power needed for production facilities shall be soundly secured.

The Board expects there shall be sustained growth in turnover and profit of the Group in the future after the project goes into operation. After the new plant with annual capacity of 400,000 tonnes of ammonia and 450,000 tonnes of urea go into operation, the Group plans to expand the annual production capacity of urea to 800,000 tonnes, matching to the production volume of ammonia. Therefore, to enhance the competitiveness and profit, the Group shall work to its best ability and speed up the construction progress of the project and put it into production as soon as possible.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31st December 2007, the Group had net current liabilities of approximately RMB44,542,000. Current assets as at 31st December 2007 comprised cash and bank deposits of approximately RMB19,201,000, pledged bank deposits of approximately RMB46,215,000, inventories of approximately RMB64,130,000, trade receivables of approximately RMB7,915,000 and prepayments and other current assets of approximately RMB58,959,000. Current liabilities as at 31st December 2007 comprised short-term bank loans of approximately RMB159,500,000, trade and notes payables of approximately RMB31,603,000, deposits from customers of approximately RMB27,430,000 and accrued charges and other payables of approximately 22,429,000. Details of the Group's adoption of going concern basis in preparing the consolidated financial statements is set out in Note 2.1 (page 6).

CAPITAL COMMITMENTS

As at 31st December 2007, the Group had outstanding capital commitments of approximately RMB259,396,000. Details of the Group's capital commitments are set out in Note 12 (page 30).

FINANCIAL RESOURCES

As at 31st December 2007, the Group had cash and bank deposits of approximately RMB19,201,000 and pledged bank deposits of approximately RMB46,215,000. The Company intends to finance the Group's future operations, capital expenditure and other capital requirements with the existing bank balances and the capital market.

As at 31st December 2007, the total bank loans and notes payable balances of the Group amounted to RMB284,198,000.

GEARING RATIO

The Group's gearing ratios were approximately 76% and 79% as at 31st December 2007 and 31st December 2006 respectively. The gearing ratios were calculated based on total liabilities over total equity as at the respective balance sheet dates.

SUBSEQUENT EVENTS

Details of subsequent events of the Company are set out in Note 13 (page 30).

DIVIDEND

The Directors recommend the payment of a final dividend of HKD0.08 cents per share to the shareholders whose names appear on the register of members of the Company as at the close of business on 25th April 2008. The dividend will be payable on 24th May 2008. The register of members of the Company will be closed from 22nd April 2008 to 25th April 2008, both days inclusive, during which period no share transfer shall be effected. In order to qualify for the final dividend, all instruments of transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar, Union Registrars Limited, Room 1901-02, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong for registration by no later than 4:00 p.m. on 21st April 2008.

NUMBER OF EMPLOYEES

As at 31st December 2007, the Group had 1,796 (2006: 1,822) employees, comprising 6 (2006: 6) in management, 97 (2006: 168) in finance and administration, 1,594 (2006: 1,555) in production, 93 (2006: 87) in sales and marketing and 6 (2006: 6) in research and development. 1,790 (2006: 1,816) of these employees were located in the PRC and 6 (2006: 6) were located in Hong Kong.

Pension schemes of the Group are set out in Note 2.19 (page 17).

AUDIT COMMITTEE

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

The audit committee has reviewed with management the accounting principles and practices adopted by the Company and the Group and discussed internal controls and financial reporting matters including a review of the audited financial statements of the Company and the Group for the year ended 31st December 2007.

CORPORATE GOVERNANCE PRACTICES

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

ANNUAL GENERAL MEETTING

The annual general meeting of the members of the Company will be held at Suite No. 02, 31st Floor, Sino Plaza, 255-257 Gloucester Road, Causeway Bay, Hong Kong on 25th April 2008 at 11:00 am. Notice of the annual general meeting of the Company will be dispatched with the circular of the Company on 31st March 2007.

By Order of the Board
Li Weiruo
Chairman

Hong Kong, 28th March 2008

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

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