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: 0827)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2008

— For the year ended 31st December 2008, the profit attributable to shareholders increased to approximately RMB61 million, which represents an increase of 47% as compared to year 2007.

— Basic earnings per share was approximately RMB1.0 cents for the year ended 31st December 2008.

— For the year ended 31st December 2008, sale turnover was approximately RMB655 million, which represents a decrease of 15.5% as compared to year 2007.

— The sale amount and quantities of BB Fertilizers and compound fertilizers of the Group decreased to approximately RMB198 million and 90,638 tonnes respectively, which represents a drop of 34% and 50.2% respectively as compared with year 2007.

— The Directors do not recommend the payment of any final dividend for the year ended 31st December 2008.

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 2008.

CONSOLIDATED INCOME STATEMENT

	Note	Year ended 31 December 2008 RMB'000	2007 RMB'000
Turnover	4	**654,920**	774,919
Cost of sales		**(498,318)**	(652,342)
Gross profit		**156,602**	122,577
Distribution costs		**(18,106)**	(28,156)
Administrative expenses		**(56,771)**	(41,772)
Other income - net	5	**2,199**	4,898
Operating profit		**83,924**	57,547
Finance costs - net	6	**(16,207)**	(12,624)
Profit before income tax		**67,717**	44,923
Income tax expense	7	**(7,060)**	(3,534)
Profit for the year		**60,657**	41,389
Profit attributable to equity holders of the Company		**60,657**	41,389
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in RMB per share)			
- Basic	8	**0.010**	0.016
- Diluted	8	**0.010**	0.016
Dividends	9	**1,703**	5,439

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Share capital	Reserves	Total
		RMB'000	RMB'000	RMB'000
Balance at 1 January 2007		53,449	239,413	292,862
Issue of ordinary shares		44,297	212,627	256,924
Fair value of employee share options		—	1,322	1,322
Profit for the year		—	41,389	41,389
Dividends	9	—	(5,058)	(5,058)
Balance at 31 December 2007		97,746	489,693	587,439
Balance at 1 January 2008		97,746	489,693	587,439
Issue of ordinary shares		26,896	183,040	209,936
Profit for the year		—	60,657	60,657
Dividends	9	—	(5,625)	(5,625)
Balance at 31 December 2008		124,642	727,765	852,407

CONSOLIDATED BALANCE SHEET

	Note	As at 31 December 2008 RMB'000	2007 RMB'000
ASSETS			
Non-current assets			
Land use rights		**42,284**	43,315
Property, plant and equipment		**759,835**	450,701
Exploration and evaluation assets		**331,547**	331,099
Goodwill		**8,900**	8,900
Deferred income tax assets		**2,071**	2,409
		1,144,637	836,424
Current assets			
Inventories		**98,258**	64,130
Trade and other receivables	10	**78,200**	66,874
Prepaid income tax, net		**4,205**	—
Pledged bank deposits		**59,336**	46,215
Cash and cash equivalents		**44,902**	19,201
		284,901	196,420
Total assets		**1,429,538**	1,032,844
EQUITY			
Capital and reserves attributable to the equity holders of the Company			
Share capital		**124,642**	97,746
Reserves			
– Proposed final dividend	9	**—**	3,922
– Others		**727,765**	485,771
Total equity		**852,407**	587,439

	Note	As at 31 December 2008 RMB'000	2007 RMB'000
LIABILITIES			
Non-current liabilities			
Long term bank loans, secured		**104,070**	117,568
Deferred subsidy income		**5,534**	6,008
Deferred income tax liabilities		**80,867**	80,867
		190,471	204,443
Current liabilities			
Trade and other payables	11	**173,059**	81,397
Current income tax liabilities		**—**	65
Short term bank loans, secured		**171,000**	159,500
Current portion of long term loans, secured		**42,601**	—
		386,660	240,962
Total liabilities		**577,131**	445,405
Total equity and liabilities		**1,429,538**	1,032,844
Net current liabilities		**(101,759)**	(44,542)
Total assets less current liabilities		**1,042,878**	791,882

Notes:

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 had been listed on the Growth Enterprise Market (the “GEM”) of the Stock Exchange of Hong Kong Limited (the “Stock Exchange”) since 10 July 2003. On 25th August 2008, the Company transferred the listing of its shares from GEM of the Stock Exchange to the Main Board of the Stock Exchange.

The address of the registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and the principal place of business of the Company is Suite No. 02, 31st Floor, Sino 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 disposed of one of its subsidiaries in Shandong Province to an independent third party.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

As at 31 December 2008, the Group had net current liabilities of RMB101,759,000 as at 31 December 2008 (2007: RMB44,542,000) and capital commitments of RMB212,549,000 (see Note 12). 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 based on the following assessment:

– The Group has profitable operations and stable cash inflow from operating activities;

– On 26 February 2009, Dazhou City Dazhu Koyo Chemical Industry Co., Ltd. (“Dazhu Ko Yo Chemical”, a subsidiary of the Company) entered into a long term bank borrowing contract with a domestic bank in Mainland China, pursuant to which, the domestic bank will grant a long term bank borrowing of RMB300 million to the Group subject to and conditional on, including but not limited to, the receipt of capital contribution from International Finance Corporation (“IFC”). This loan is repayable from year 2010 to 2014. Given that the Company has already entered into a subscription agreement with IFC as described in the following paragraph, the directors of the Company believe that there is no difficulty in fulfilling the conditions and obtaining the aforesaid bank loan from the domestic bank;

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

- On 16 April 2009, the Company entered into a share subscription agreement with IFC, pursuant to which, IFC agrees to subscribe for 650,000,000 new shares of the Company at Hong Kong Dollar ("HKD") 0.12 per share (subject to adjustments) representing 9.23% of the entire equity interest of the Company as enlarged by the share subscription, at a total consideration of approximately US Dollar ("USD") 10 million;

- On 16 April 2009, Dazhu Koyo Chemical entered into a long term loan agreement with IFC, pursuant to which, IFC will grant a long term borrowing of USD20 million to the Group. The loan is repayable from year 2011 to 2017.

- The Group has not experienced any difficulties in renewing its short term bank loans upon their maturities and there is no evidence indicating that the banks will not renew the existing short term bank loans if the Group applies for the renewal. Subsequent to the balance sheet date and up to the date of approval of the financial statements, short term bank loans of approximately RMB49 million have been rolled over for a further year. In addition, certain banks have advised their intention in writing, though not legally binding, to renew or to extend the loans for a further year when they fall due in 2009;

- As of 31 December 2008, the capital expenditures committed by the Group amounted to approximately RMB213 million. These commitments are mainly related to the construction of the new production line project located in Dazhou, Sichuan province ("New Dazhou Project"). The capital commitments will be financed by capital contribution from IFC and long term loans from the domestic bank and IFC. The directors of the Company will undertake close monitoring process to control the magnitude and timing of the expected cash outlays associated with the New Dazhou Project.

In the opinion of the directors, in light of the above, the Group will have sufficient working capital to finance its operations and remain as a going concern in the foreseeable future. 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.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(a) Amendment and interpretations effective in 2008

- The HKAS 39, 'Financial instruments: Recognition and measurement', amendment on reclassification of financial assets permits reclassification of certain financial assets out of the held-for-trading and available-for-sale categories if specified conditions are met. The related amendment to HKFRS 7, 'Financial instruments: Disclosures', introduces disclosure requirements with respect to financial assets reclassified out of the held-for-trading and available-for-sale categories. The amendment is effective prospectively from 1 July 2008. This amendment does not have any impact on the Group's financial statements, as the Group has not reclassified any financial assets.

- HK(IFRIC) - Int 11, 'HKFRS 2 - Group and treasury share transactions', 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 an impact on the Group's financial statements.

(b) Interpretations effective in 2008 but not relevant

The following interpretation to published standards is mandatory for accounting periods beginning on or after 1 January 2008 but is not relevant to the Group's operations:

- HK(IFRIC) - Int 12, 'Service Concession arrangements'

- HK(IFRIC) - Int 14, 'HKAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction'

2 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

2.1 **Basis of preparation** *(Continued)*

(c) *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 January 2009 or later periods, but the Group has not early adopted them:

- HKFRS 8, 'Operating segments' (effective from 1 January 2009). HKFRS 8 replaces HKAS 14, 'Segment reporting'. 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. The expected impact is still being assessed in detail by management.

- HKAS 1 (Revised), 'Presentation of financial statements' (effective from 1 January 2009). The revised standard will prohibit the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the consolidated income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. The Group will apply HKAS 1 (Revised) from 1 January 2009.

- HKAS 23 (Revised), '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 (Revised) retrospectively from 1 January 2009 but it is not expected to have any material impact on the Group's financial statements.

- HKAS 27 (Revised), 'Consolidated and separate financial statements' (effective from 1 July 2009).The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is remeasured to fair value and a gain or loss is recognised in profit or loss. The Group will apply HKAS 27 (Revised) prospectively from 1 January 2010 but it is not expected to have any impact on the Group's financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

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

- HKAS 32 (Amendment), 'Financial instruments: Presentation', and HKAS 1 (Amendment), 'Presentation of financial statements' - 'Puttable financial instruments and obligations arising on liquidation' (effective from 1 January 2009). The amended standards require entities to classify puttable financial instruments and instruments, or components of instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation as equity, provided the financial instruments have particular features and meet specific conditions. The Group will apply the HKAS 32 (Amendment) and HKAS 1 (Amendment) from 1 January 2009, but it is not expected to have any impact on the Group's financial statements.

- HKFRS 1 (Amendment), 'First time adoption of HKFRS' and HKAS 27 'Consolidated and separate financial statements' (effective from 1 July 2009). The amended standard allows first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements. The amendment also removes the definition of the cost method from HKAS 27 and replaces it with a requirement to present dividends as income in the separate financial statements of the investor. The Company will apply HKAS 27 (Amendment) prospectively from 1 January 2010 in its separate financial statements. This amendment is not relevant to the Group.

- HKFRS 2 (Amendment), 'Share-based payment' (effective from 1 January 2009). The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. As such these features would need to be included in the grant date fair value for transactions with employees and others providing similar services, that is, these features would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group will apply HKFRS 2 (Amendment) from 1 January 2009, but it is not expected to have any material impact on the Group's financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

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

- HKFRS 3 (Revised), 'Business combinations' (effective from 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the consolidated income statement. There is a choice on an acquisition by acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply HKFRS 3 (Revised) prospectively to all business combinations from 1 January 2010.

- HK(IFRIC) - Int 16 , 'Hedges of a net investment in a foreign operation' (effective for the accounting period beginning on or after 1 October 2008). HK(IFRIC) - Int 16 clarifies the accounting treatment in respect of net investment hedging. This includes the fact that net investment hedging relates to differences in functional currency not presentation currency, and hedging instruments may be held anywhere in the Group. The requirements of HKAS 21, 'The effects of changes in foreign exchange rates', do apply to the hedged item. The Group will apply HK(IFRIC) - Int 16 from 1 January 2009. It is not expected to have any material impact on the Group's financial statements.

- HKICPA's improvements to HKFRS published in October 2008

  In October 2008, HKICPA published its annual improvements to HKFRS to clarify some accounting treatments/ disclosure requirements under new/revised HKFRS and eliminate inconsistence. Management do not expect these amendments have a material impact on the Group's financial statements.

  – HKAS 1 (Amendment), 'Presentation of financial statements' (effective from 1 January 2009).
  – HKAS 19 (Amendment), 'Employee benefits' (effective from 1 January 2009).
  – HKAS 23 (Amendment), 'Borrowing costs' (effective from 1 January 2009).
  – HKAS 28 (Amendment), 'Investments in associates' (and consequential amendments to HKAS 32, 'Financial Instruments: Presentation' and HKFRS 7, 'Financial instruments: Disclosures') (effective from 1 January 2009).
  – HKAS 36 (Amendment), 'Impairment of assets' (effective from 1 January 2009).
  – HKAS 38 (Amendment), 'Intangible assets' (effective from 1 January 2009).
  – HKAS 39 (Amendment), 'Financial instruments: Recognition and measurement' (effective from 1 January 2009).
  – HKFRS 5 (Amendment), 'Non-current assets held for sale and discontinued operations' (and consequential amendment to HKFRS 1, 'First-time adoption') (effective from 1 July 2009).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

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

- HKICPA's improvements to HKFRS published in October 2008 *(Continued)*

  There are a number of minor amendments to HKFRS 7, 'Financial instruments: Disclosures', HKAS 8, 'Accounting policies, changes in accounting estimates and errors', HKAS 10, 'Events after the balance sheet date', HKAS 18, 'Revenue' and HKAS 34, 'Interim financial reporting' which are not addressed above. These amendments are unlikely to have an impact on the Group's financial statements and have therefore not been analysed in detail.

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 (Note 2.8).

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated income statement within 'finance income or cost, net'. All other foreign exchange gains and losses are presented in the consolidated income statement within 'other income, net'.

(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 consolidated 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Foreign currency translation *(Continued)*

(c) Group companies (Continued)

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 consolidated income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. 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 identified according to operating segment.

2.9 Impairment of investments in subsidiaries and non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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: at fair value through profit or loss, loans and receivables. 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 2007 and 2008, other than loans and receivables, the Group did not hold any financial assets in other categories.

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 carried at amortised cost using the effective interest method.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 consolidated 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.

Borrowing costs incurred for the construction of any qualifying assets are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

2.18 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised directly in equity. In this case, the tax is also recognised in equity.

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. It 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 by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 28.6% of the standard salary set by the provincial government, of which 20.6% is borne by the Group and the remainder is borne by the employees. Except for the monthly contribution of 20.6% 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 is determined by reference to the fair value of the options granted, excluding the impact of any non-market service and performance vesting conditions (for example, profitability, sales growth targets remaining an employee of the entity over a specified time period). 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. The total amount expensed is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision of original estimates, if any, in the consolidated 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.19 Employee benefits *(Continued)*

(d) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grants 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 property, plant and equipment 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, except for the refund of value-added tax ("VAT") which is deducted in arriving at the carrying amount of property, plant and equipment.

Government grants 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 Critical accounting estimates and assumptions

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 property, plant and equipment

The estimate of useful lives of property, plant and equipment 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 depreciation 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 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

3.2 Critical judgements in applying the entity's accounting policies

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 fair value less costs to sell 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 derecognising; 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 in 2007. 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 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 Mainland China, no segment information is therefore presented.

5 OTHER INCOME - NET

	2008	2007
	RMB'000	RMB'000
Sales of scrap materials	**1,637**	1,839
Amortisation of subsidy income	**474**	859
Subsidy income	**440**	—
Loss from disposal of a subsidiary	**(422)**	—
Tax refund for reinvestments *(Note a)*	**—**	1,520
Other	**70**	680
	2,199	4,898

(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

	2008	2007
	RMB'000	RMB'000
Interest expense of bank borrowings	**18,225**	13,244
Interest income	**(2,620)**	(1,321)
Others	**602**	701
	16,207	12,624

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 2008.

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 in Mainland China. 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% (2007:18%, which included the Local Enterprise Income Tax at the rate of 3%). The Local Enterprise Income Tax has been exempted in 2008.

Dazhu Ko Yo Chemical is entitled to full exemption from EIT in the first two profitable years and a 50% reduction for the next three years thereafter. 2008 is the third profit-making year of Dazhu KoYo Chemical and thus the preferential EIT rate applicable to Dazhu Ko Yo Chemical for the year ended 31 December 2008 is 7.5% (2007: 0%).

Dezhou Ko Yo Compound and Qingdao Ko Yo Chemical did not have assessable profit for the year ended 31 December 2008 (2007: Nil).

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

	2008	2007
	RMB'000	RMB'000
Current tax for Mainland China	**6,722**	5,172
Deferred income tax	**338**	(1,638)
	7,060	3,534

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

	2008	2007
	RMB'000	RMB'000
Profit before income tax	**67,717**	44,923
Calculated at statutory taxation rate of 15% (2007:18%)	**10,158**	8,086
Expenses not deductible for tax purposes	**120**	63
Effects of income tax exemption *(Note (a))*	**(3,144)**	(4,976)
Tax losses for which no deferred income tax was recognised	**1,842**	1,493
Tax effect of decrease in tax rate used for the recognition of deferred tax *(Note (b))*	**—**	(480)
Effects on tax holiday available to different companies of the Group	**(1,916)**	(652)
Taxation	**7,060**	3,534

7 INCOME TAX EXPENSE *(Continued)*

(a) Effects of income tax exemption

As approved by the local tax bureau in Sichuan, PRC, Ko Yo Chemical and Dazhu Ko Yo Chemical are 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 and 2008.

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.

	2008	2007
Profit attributable to equity holders of the Company (RMB'000)	**60,657**	41,389
Weighted average number of ordinary shares in issue (thousands)	**5,895,770**	2,574,462
Basic earnings per share (RMB per share)	**0.010**	0.016

(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.

	2008	2007
Profit attributable to equity holders of the Company (RMB'000)	**60,657**	41,389
Weighted average number of ordinary shares in issue (thousands)	**5,895,770**	2,574,462
Adjustment - share options (thousands)	**9,410**	1,675
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**5,905,180**	2,576,137
Diluted earnings per share (RMB per share)	**0.010**	0.016

9 DIVIDENDS

	2008 RMB'000	2007 RMB'000
Interim, paid, of HKD0.0003 (2007: HKD0.0006, on post-subdivision basis) per ordinary share	**1,703**	1,517
Final, no final dividend is proposed (2007: HKD0.0008 per ordinary share)	**—**	3,922
	1,703	5,439

At a meeting held on 8 August 2008, the directors declared an interim dividend of HKD0.0003 (approximately RMB0.0003) per ordinary share, totalling approximately RMB1,703,000, which was paid during the year ended 31 December 2008.

The directors do not recommend the payment of a final dividend for the year ended 31 December 2008.

10 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2008 RMB'000	2007 RMB'000	**2008 RMB'000**	2007 RMB'000
Trade receivables	**12,552**	13,562	**—**	—
Less: provision for impairment of trade receivables	**(5,176)**	(5,647)	**—**	—
Trade receivables - net	**7,376**	7,915	**—**	—
Prepayments	**56,469**	48,152	**480**	150
Notes receivable	**5,860**	5,021	**—**	—
Due from employees	**3,689**	4,398	**—**	—
Dividends receivable from a subsidiary	**—**	—	**39,176**	54,177
Deposits	**3,500**	—	**—**	—
Others	**1,306**	1,388	**—**	—
	78,200	66,874	**39,656**	54,327

As at 31 December 2008, the fair value of trade and other receivables of the Group approximated their carrying amounts.

10 TRADE AND OTHER RECEIVABLES *(Continued)*

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	
	2008	2007
	RMB'000	RMB'000
Less than 3 months	**6,667**	7,758
More than 3 months but not exceeding 1 year	**733**	287
More than 1 year but not exceeding 2 years	**352**	4,641
More than 2 years but not exceeding 3 years	**4,541**	370
More than 3 years	**259**	506
	12,552	13,562
Less: provision for doubtful receivables	**(5,176)**	(5,647)
	7,376	7,915

Trade receivables that are less than three months past due are not considered impaired. As of 31 December 2008, trade receivables of RMB587,000 (2007: RMB36,000) 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	
	2008	2007
	RMB'000	RMB'000
More than 3 months but not exceeding 1 year	**587**	36

10 TRADE AND OTHER RECEIVABLES *(Continued)*

As at 31 December 2008, trade receivables of RMB5,298,000 (2007: RMB5,768,000) were impaired. The amount of the provision was RMB5,176,000 as of 31 December 2008 (2007: RMB5,647,000). 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	
	2008	2007
	RMB'000	RMB'000
More than 3 months but not exceeding 1 year	**146**	251
More than 1 year but not exceeding 2 years	**352**	4,641
More than 2 years but not exceeding 3 years	**4,541**	370
More than 3 years	**259**	506
	5,298	5,768

The carrying amounts of the Group's and the Company's trade and other receivables are denominated in the following currencies:

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
RMB	**77,720**	66,724	**—**	—
HKD	**480**	150	**39,656**	54,327
	78,200	66,874	**39,656**	54,327

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

	Group	
	2008	2007
	RMB'000	RMB'000
At 1 January	**5,647**	5,380
Provision for receivables	**56**	3,121
Unused amounts reversed	**(527)**	(2,854)
At 31 December	**5,176**	5,647

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		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade payables *(Note a)*	**54,540**	24,473	**—**	—
Notes payable *(Note b)*	**48,130**	7,130	**—**	—
Advances from customers	**46,072**	27,430	**—**	—
Accrued expenses	**10,673**	9,874	**2,136**	6,349
Deposits from suppliers	**3,559**	3,379	**—**	—
Other taxes payable	**624**	1,601	**—**	—
Others	**9,461**	7,510	**—**	—
	173,059	81,397	**2,136**	6,349

The carrying amounts of the Group's and the Company's trade and other payables are denominated in the following currencies:

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
RMB	**170,923**	75,048	**—**	—
HKD	**2,136**	6,349	**2,136**	6,349
	173,059	81,397	**2,136**	6,349

(a) Trade payables

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

	2008	2007
	RMB'000	RMB'000
Aged:		
Less than 1 year	**52,509**	23,877
More than 1 year but not exceeding 2 years	**1,988**	368
More than 2 years but not exceeding 3 years	**43**	228
	54,540	24,473

(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 2008, notes payable of approximately RMB48,130,000 (2007: RMB7,130,000) were pledged by bank deposits of RMB24,487,000 (2007: RMB2,139,000).

12 COMMITMENTS - GROUP

(a) Capital commitments for property, plant and equipment

	2008	2007
	RMB'000	RMB'000
Constructions-in-progress:		
Contracted but not provided for	**212,549**	259,396

(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:

	2008	2007
	RMB'000	RMB'000
Not later than one year	**1,341**	1,087

The Company had no capital commitment and no commitments under operating leases as at 31 December 2008 (2007: Nil).

13 EVENT AFTER THE BALANCE SHEET DATE

– On 26 February 2009, Dazhu Ko Yo Chemical entered into a long term bank borrowing contract with a domestic bank in Mainland China, pursuant to which, the domestic bank will grant a long term bank borrowing of RMB300 million to the Group subject to and conditional on, including but not limited to, the receipt of capital contribution of USD10 million from IFC. The loan is repayable from 2010 to 2014.

– On 16 April 2009, the Company entered into a share subscription agreement with IFC, pursuant to which, IFC agrees to subscribe for 650,000,000 new shares of the Company at HKD0.12 per share (subject to adjustments) representing 9.23% of the entire equity interest of the Company as enlarged by the share subscription, at a total consideration of approximately USD10 million.

– On 16 April 2009, Dazhu Ko Yo Chemical entered into a long term loan agreement with IFC, pursuant to which, IFC will grant a long term borrowing of USD20 million to the Group. The loan is repayable from 2011 to 2017.

– Subsequent to the balance sheet date and up to the date of approval of the financial statements, short term bank loans of approximately RMB49 million have been rolled over for a further year.

BUSINESS REVIEW

During the year under review, the Group achieved a significant increase in profit attributable to shareholders by riding on the sustained and stable development of the overall economy in the People's Republic of China (the "PRC") and in spite of the adverse impacts brought by the snowstorm, the Wenchuan Earthquake and the global financial crisis. For the year ended 31st December 2008, the audited profit of the Group attributable to shareholders amounted to approximately RMB 61,000,000, an increase of 47% over RMB 41,000,000 of last year. Basic earnings per share amounted to approximately RMB 1.0 cents. The substantial increase in profit achieved by the Group was mainly due to:

1. High prices of chemical fertilizers driven by increasing prices of raw materials in the first half of the year. Take urea price for example, as a result of the increases in the price of international chemical fertilizers due to surging price of international crude oil, the factory price of domestic urea in China increased by 20% over the same period last year;

2. Effective implementation of the management philosophy of "minimizing costs and maximizing profits" as ensured by the increasingly strict, scientific and flexible management method of the Group. This was reflected in: (A) the efficient and steady operation of our production facilities, particularly the Group's synthetic ammonia production facilities in Xindu District, Sichuan Province, which achieved remarkable results in energy-saving and cost-reducing after an intermittent conversion technical reform, laying a solid base for achieving the profit goals for the whole year; and (B) the fact that in face of disasters such as the snowstorm, the Wenchuan Earthquake and the financial crisis, the management of the Group remained sober in sizing up the situation and made active adjustments to operation strategies to minimize loss and effectively protect the interests of the Company and its shareholders. For example, the Company downsized its fertilizer export business at the beginning of the year in light of the implementation by the State of new customs duty regulation policies, and as a result the Group recorded an interim gross profit margin of 22.8%, an increase of approximately 10.7% over the same period last year. In response to the Wenchuan Earthquake, the Company maintained good communication with investors through publication of announcements while seeking help from the government and successfully recovered production in a safe manner within two weeks. At the strike of the financial crisis, unlike some chemical fertilizer producers that experienced huge losses due to inventory of expensive stock or reduced or halted production due to weak market demand, the Company kept raw materials stock under good control by sticking to the principle of "mainly focusing on risk control and maintaining appropriate stock levels" in raw materials stock. By entering into "fixed floor price" contracts with raw materials suppliers, the Company not only obtained raw materials supply, but also minimized the loss of the Company due to fluctuation in the price of raw materials. Furthermore, in light of the market condition, the Company conducted specialised studies and initiated various counter-measures to reduce costs, strengthen agrichemical services, explore market and increase sales, which helped to protect the interests of the Company.

For the year ended 31st December 2008, the Group's turnover amounted to approximately RMB655 million, a decrease of 15.5% as compared to RMB 775,000,000 in the same period last year; the Group's sales volume amounted to approximately 397,000 tonnes, a decrease of 28% as compared to 553,000 tonnes in the same period last year. During the year under review, the Group did not record increase in its turnover and sales volume mainly due to the facts that: (1) product export business decreased due to the effects of China's customs duty regulation policies. In 2008, in order to ensure the fertilizer supply in domestic market and stabilise the chemical fertilizer price in the PRC, the State adjusted the rate of customs duty more than once, and as a result, export customs duty for compound fertilizers increased to 100% from zero and export customs duty for urea increased to 185% from 35% at the beginning of the year; and (2) due to the global financial crisis and the resulting slump in international crude oil price and fertilizer price, hesitant atmosphere filled the market and resulted in weak demand for fertilizers.

In view of the result of the Group for the year under review, the Board did not recommend the payment of any final dividend for the year ended 31st December 2008. The total dividend paid during the year ended 31st December 2008 amounted to HKD 0.03 cents per share (2007: HKD 0.14 cents per share after the adjustment for the effect of share subdivision (the "Share Subdivision") of 1 into 5 on 27th December 2007).

OUTLOOK

Industry Review

Demand for chemical fertilizers will remain steady

Chemical fertilizers play a critical role in grain production increase. According to the Food and Agriculture Organization of the United Nations (FAO), developing countries may increase grain yield per unit area by 55-57% and increase gross yield by 30-31% via application of chemical fertilizers. According to statistics, approximately 35% of the total grain production in the PRC from 1986 to 1990 was achieved through application of chemical fertilizers. Therefore, fertilizers are the essential material security for China's grain production increase and grain safety. The table below sets out the statistics of China's grain planting areas, amounts of chemical fertilizers applied and grain productions in the recent years, so as to explain the importance of chemical fertilizers to China's grain production increase:

Corps planting area, grain production and amount of chemical fertilizers applied from 2005 to 2007

Year	Total corps planting area *('000 hectare)*	Grain planting area *('000 hectare)*	Percentage of grain planting area to total planting area *(%)*	Grain production *('000 tonnes)*	Amount of chemical fertilizers applied *('000 tonnes of pure nutrient)*
2005	155,487.2	104,278.5	67.07	484,024	47,662
2006	152,149.5	104,957.7	68.98	498,042	49,277
2007	153,463.9	105,638.4	68.83	501,500	51,078

Source: China Chemical Fertilizer Information Centre

It is expected that, in 2009, chemical fertilizers application in the PRC will continue to increase steadily in spite of the global financial crisis. The reasons are: (1) policies supporting agriculture issued by the State, such as the policies to raise grain purchasing prices, agriculture investment and grain planting subsidies, will help in some extent to stimulate peasants' enthusiasm for planting grain and thus stabilize the demand for chemical fertilizers; (2) as the price of petrochemical energy rises, biological energy has become more popular in recent years. This will boost the application of chemical fertilizers for currently the vast majority of raw materials used in biological energy production are mainly corps; and (3) declining prices of chemical fertilizers will reinforce the purchasing power of peasants and thus boost chemical fertilizer application. The table below sets out the forecast of demand for chemical fertilizers in the PRC:

Forecast of demand for chemical fertilizers in the PRC

Unit: ('000 tonnes of pure nutrient)

Year	**Total**	**N**	**P_2O_5**	**K_2O**	**N: P_2O_5:K_2O**
2010	53,300	31,500	12,500	9,300	1:0.4:0.3
2015	57,800	34,000	13,600	10,200	1:0.4:0.3

Source: China Chemical Fertilizer Information Centre

Generally favourable industrial policies of the State will boost the development of chemical fertilizer industry

Since 2008, in spite of the snowstorm, the Wenchuan Earthquake and the global financial crisis, the overall trend for the rapid and balanced development of China's economy has not changed and the overall situation for the development of China's economy has remained positive under the State's flexible and prudent macroeconomic control. In 2009, the State will boost its economic development mainly through expanding domestic demand. According to the measures issued recently, "agriculture, rural areas and peasants" have become an important field for investment. Specifically, these measures include, among other things, the following:

1. In 2009, the State will continue to raise the subsidies for peasants. In particular, the State subsidies for purchasing agriculture implements will amount to RMB 10 billion, an increase of RMB 6 billion over 2008.

2. Reinforcing investments in respect of "agriculture, rural areas and peasants". The Ministry of Agriculture of the PRC has issued a circular lately, requiring agricultural authorities at all levels to implement promptly the arrangements and requirements of the central government to expand domestic demand and promote balanced and relatively rapid economic growth.

3. Substantially raising the floor price for purchasing grain produced in 2009. Take white wheat, red wheat and mixed wheat for example, the purchase prices will be raised by 13% to 15.3% over 2008.

On 25th December 2008, the State Council issued the latest chemical fertilizer industry policy – "The factory price of all chemical fertilizers and the FOB price of chemical fertilizers other than potash fertilizers shall be changed to market adjusted price in stead of government guided price". In the above industry policy, the Sate also decided to maintain temporarily preferential policies for chemical fertilizer companies on raw materials and transportation, including preferential policies on electricity utilisation in production, gas utilisation, railway transportation and taxation. This policy is a good news for the chemical fertilizer industry in the long term.

Directors of the Company (the "Directors") believe that, with increased investments by the State in respect of "agriculture, rural areas and peasants", promoted enthusiasm of peasants for planting grain, further increase in grain purchase prices and further improvement in the affordability of peasants, demand for chemical fertilizers will increase steadily and thus facilitate the development of chemical fertilizer industry and agriculture.

OBJECTIVES AND STRATEGIES

To endure the "cold winter" by detailed management and reinforced confidence as well as cost reduction

In light of unfavourable factors such as the financial crisis and the slowdown of the global economy, the management of the Group has proposed new philosophy and requirements on management for the coming year, which include, among other things:

1. Putting emphasis on budget management to reduce costs and expenses through defined budget and eliminate unnecessary expenses;

2. Enhancing the unity of the core management and the confidence of the staff and further reinforcing internal staff management and training, with a view to improve the overall management and work efficiency;

3. Encouraging innovative marketing and concept transformation, so as to deepen network distribution and consolidate product supply; and

4. Making efforts to expand financing resources to strengthen the Company's operation capability.

The Directors believe that, under the guidance of the above philosophy, all staff of the Group will have the confidence to achieve the operation objectives for the whole year and survive this "cold winter".

Newly-established project in Dazhou, Sichuan Province is proceeding smoothly and is expected to commence trial production in 2009

The Group's project with annual capacity of synthetic ammonia and urea of approximately 400,000 tonnes and 450,000 tonnes respectively in the Natural Gas Energy Utilization Area of Dazhou City, Sichuan Province progressed smoothly. It is a new project initiated by the management of the Company after comprehensive consideration on the development trend of chemical and fertilizer industry and on the basis of the fact that rich natural gas resources exist in that place.

At present, this project has been examined and approved by Sichuan Development and Reform Commission and is listed in the key construction projects of the Eleventh Five Year Plan of Sichuan Province and the key projects to commence construction in 2008 of Sichuan Province, and has obtained the confirmation from Sichuan Development and Reform Commission and China Petrochemical Corporation on natural gas supply of 450 million cubic metres per year. The on-site works of the project progressed as scheduled, with the installation of imported equipment for synthetic ammonia fully completed and dismantled equipment for urea arriving in succession and being inspected, repaired and installed. Training works for operators were also completed as scheduled. Trial run of equipment is under preparation and such equipment is expected to commence trial production and commercial operation in the second half of 2009.

The Directors expected that the completion and the commencement of commercial operation of this project will inject strong momentum for the growth of revenue and profit of the Company. Therefore, the management and all staff of the Company will go all out to facilitate the progress of the project, with a view to ensure its successful launch as soon as possible.

Update on exploitation licence application for a phosphorous mine

The application for the exploitation licence of a phosphorous mine of Sichuan Chengyuan Chemical Industry Company Limited ("Sichuan Cuyo"), a wholly-owned subsidiary of the Group, located at Qingping Township, Mianzhu City, Sichuan Province has been delayed due to the consequential impact on the overall infrastructure brought about by the earthquakes occurred in Wenchuan, Sichuan Province of the PRC in May 2008. Sichuan Cuyo had been granted by the Bureau of Land and Resource of Sichuan Province (四川省國土資源廳) an extension of the exclusivity period of the Mine (礦區範圍預留期), within which Sichuan Cuyo was conferred with a preferential right to apply for the exploitation licence, from 30th June 2008 to 30th June 2009

Currently, Sichuan Cuyo has completed the preparation of documents, such as Environmental Assessment Report, Safety Assessment Report, Environmental Preservation Plan and Mineral Resources Exploitation Plan.

Once approved, this phosphorous mine will become a strategic resource for the Company's middle-and-long-term development, allow the Company's industry chain to expand both upstream and downstream and lay a foundation for further improvement of economic benefits and the sustained development of the Group.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31st December 2008, the Group had net current liabilities of approximately RMB101,759,000. Current assets as at 31st December 2008 comprised cash and bank deposits of approximately RMB44,902,000, pledged bank deposits of approximately RMB59,336,000, inventories of approximately RMB98,258,000, trade receivables of approximately RMB7,376,000 and prepayments and other current assets of approximately RMB75,029,000. Current liabilities as at 31st December 2008 comprised short-term bank loans of approximately RMB171,000,000, short-term portion for long-term loans of approximately RMB42,601,000, trade and notes payables of approximately RMB102,670,000, deposits from customers of approximately RMB46,072,000 and accrued charges and other payables of approximately RMB24,317,000. Details of the Group's adoption of going concern basis in preparing the consolidated financial statements is set out in Note 2.1.

CAPITAL COMMITMENTS

As at 31st December 2008, the Group had outstanding capital commitments of approximately RMB212,549,000. Details of the Group's capital commitments are set out in Note 12.

FINANCIAL RESOURCES

As at 31st December 2008, the Group had cash and bank deposits of approximately RMB44,902,000 and pledged bank deposits of approximately RMB59,336,000. 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 2008, the total bank loans and notes payable balances of the Group amounted to RMB365,801,000.

GEARING RATIO

The Group's gearing ratios were approximately 68% and 76% as at 31st December 2008 and 31st December 2007 respectively. The gearing ratios were calculated based on total liabilities over total equity as at the respective balance sheet dates.

CONTINGENT LIABILITIES

The Group had no significant contingent liabilities as at 31st December 2008.

MATERIAL ACQUISITION/DISPOSAL

There was no material acquisition or disposal in the year 2008 which would have been required to be disclosed under the Rules Governing the Listing of Securities ("Listing Rules") on Stock Exchange.

SEGMENTAL INFORMATION

The Group activities are primarily conducted in the PRC. The Group's turnover and profit are generated from manufacturing and sale of chemical products and chemical fertilisers, no segment information is therefore present in the consolidated financial statements.

DETAILS OF FUTURE PLANS FOR MATERIAL INVESTMENT OR CAPITAL ASSETS

Other than the investment of new urea plant with an annual capacity of 400,000 tonnes of ammonia in and 450,000 tonnes of urea as per announcement dated 5th October 2006, the Directors do not have any future plans for material investment or capital assets.

CHARGES ON THE GROUP'S ASSETS

As at 31st December 2008, certain land use rights and buildings with a total net book value of approximately RMB65,415,000 (2007: RMB60,502,000), plant and machinery with a total net book value of approximately RMB24,404,000 (2007: RMB29,930,000) and bank deposits approximately RMB59,336,000 (2007: RMB46,215,000) were pledged as collateral for the Group's bank loans and notes payable.

DIVIDEND

After considering of the heavy capital expenditure of the new urea plant, the Directors do not recommend the payment of any final dividend for the year ended 31st December 2008.

NUMBER OF EMPLOYEES

As at 31st December 2008, the Group had 2,042 (2007: 1,796) employees, comprising 6 (2007: 6) in management, 108 (2007: 97) in finance and administration, 1,846 (2007: 1,594) in production, 76 (2007: 93) in sales and marketing and 6 (2007: 6) in research and development. 2,036 (2007: 1,790) of these employees were located in the PRC and 6 (2007: 6) were located in Hong Kong.

Pension schemes of the Group are set out in Note 2.19.

AUDIT COMMITTEE

The Company established an audit committee on 10th June 2003 and has adopted the term of reference in line with the Code on Corporate Governance Practice issued by the Stock Exchange. 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 2008.

AUDITORS' PROCEDURES PERFORMED ON THIS RESULTS ANNOUNCEMENT

The figures in respect of the announcement of the Group's results for the year ended 31 December 2008 have been agreed by the Auditors, PricewaterhouseCoopers,to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an audit, review or other assurance engagement, and consequently no assurance has been expressed by PricewaterhouseCoopers on this announcement.

CORPORATE GOVERNANCE PRACTICES

The board of directors ("Board") 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. Throughout the year under review, the Board adopted the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules and the Company had complied with the Code.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the year under review.

By Order of the Board
Ko Yo Ecological Agrotech (Group) Limited
Li Weiruo
Chairman

Hong Kong 24 April 2009

As at the date of this announcement, the executive Directors are Mr. Li Weiruo, Mr. Yuan Bai, Ms. Chi Chuan, Ms. Man Au Vivian and Mr. Li Shengdi; the independent non-executive Directors are Mr. Hu Xiaoping, Mr. Woo Che-wor, Alex and Mr. Qian Laizhong.