



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)

Third Quarterly Report  
For the nine months ended 30 September 2005

## CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

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*This report, 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 GEM of the Stock Exchange 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 report 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 report misleading; and (iii) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

## HIGHLIGHTS

For the nine months ended 30 September 2005, unaudited turnover increased to approximately RMB478 million, which represents a growth of 55% as compared to the same period last year.

The sale quantities of the Group increased to approximately 356,000 tonnes, which represents an increase of 30% as compared to the nine months ended 30 September 2004.

The sale quantities and turnover of BB Fertilizers of the Group increased to approximately 127,000 tonnes and RMB226 million, which represent growth of 40% and 78% respectively as compared with the nine months period of last year.

Unaudited profit attributable to shareholders of the Group was approximately RMB38 million for the nine months ended 30 September 2005, which represents a growth of 88% as compared to the same period last year.

Unaudited basic earnings per share of the Group was approximately RMB9.1 cents for the nine months ended 30 September 2005.

## UNAUDITED CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the three months and nine months ended 30 September 2005

The board of directors (the “Board” or the “Directors”) of Ko Yo Ecological Agrotech (Group) Limited (the “Company”) is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the three months and nine months ended 30 September 2005, together with the unaudited comparative figures for the corresponding periods in 2004 as follows:

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000
Turnover	2	<b>163,424</b>	109,853	<b>478,039</b>	308,885
Cost of sales		<b>(125,352)</b>	(86,437)	<b>(374,111)</b>	(246,889)
Gross profit		<b>38,072</b>	23,416	<b>103,928</b>	61,996
Interest income		<b>561</b>	45	<b>936</b>	216
Distribution costs		<b>(8,513)</b>	(4,974)	<b>(25,732)</b>	(17,240)
Administrative expenses		<b>(12,312)</b>	(5,881)	<b>(30,215)</b>	(19,625)
Other income		<b>223</b>	1,603	<b>2,591</b>	2,315
Operating profit		<b>18,031</b>	14,209	<b>51,508</b>	27,662
Finance costs		<b>(2,129)</b>	(1,727)	<b>(5,797)</b>	(5,285)
Profit before taxation		<b>15,902</b>	12,482	<b>45,711</b>	22,377
Taxation	3	<b>(2,885)</b>	(1,023)	<b>(7,517)</b>	(2,107)
Profit after taxation		<b>13,017</b>	11,459	<b>38,194</b>	20,270
Minority interests		<b>20</b>	3	<b>(9)</b>	14
Profit attributable to shareholders		<b>13,037</b>	11,462	<b>38,185</b>	20,284
Basic earnings per share (RMB cents)	4	<b>3.09</b>	2.72	<b>9.05</b>	4.83
Diluted earnings per share	4	<b>N/A</b>	N/A	<b>N/A</b>	N/A
Dividends per share (HK cent)	5	<b>Nil</b>	Nil	<b>0.50</b>	0.30

## NOTES:

(Amounts expressed in Renminbi unless otherwise stated)

### 1. Basis of preparation

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

The adoption of HKFRS 2 has resulted in a change in accounting policy for employee share options. Prior to this, the provision of share options to employees did not result in a charge to the profit and loss account. Following the adoption of HKFRS 2, the fair value of share options at grant date is amortised over the relevant vesting periods to the profit and loss account. The Company has not applied this HKFRS retrospectively as share options of the Company granted after 7 November 2002 had vested at 1 January 2005.

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

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

### 2. Turnover

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

Turnover consisted the following products:

	(unaudited)				(unaudited)			
	For the three months ended				For the nine months ended			
	30 September				30 September			
	2005		2004		2005		2004	
	RMB’000	%	RMB’000	%	RMB’000	%	RMB’000	%
BB Fertilizers	58,917	36	49,564	45	225,865	47	126,820	41
Sodium carbonate	25,274	15	23,054	21	76,870	16	57,513	19
Ammonium chloride	14,592	9	11,592	11	41,960	9	29,298	9
Urea	57,786	35	23,049	21	109,852	23	88,773	29
Ammonia	1,985	1	2,594	2	8,591	2	6,481	2
Ammonium bicarbonate	4,870	3	—	—	14,901	3	—	—
	<u>163,424</u>	<u>100</u>	<u>109,853</u>	<u>100</u>	<u>478,039</u>	<u>100</u>	<u>308,885</u>	<u>100</u>

### 3. Taxation

No provision for profits tax in the Cayman Islands, the British Virgin Islands or Hong Kong has been made, as the Group had no assessable profit arising in or derived from those jurisdictions during the nine months ended 30 September 2005.

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

The preferential EIT rate applicable for Chengdu Ko Yo Chemical in 2005 is 15%. Pursuant to relevant taxation regulations of the PRC and as approved by the local taxation bureau, Chengdu Ko Yo Chemical was entitled to deduct from its EIT expenses for an amount of 40% of cost of certain machinery acquired from the PRC enterprises, which are local machinery suppliers and unrelated to the Group. Accordingly, EIT provision made for Chengdu Ko Yo Chemical for the nine months ended 30 September 2005 was RMB6,819,000.

The EIT provision made for and preferential EIT rate applicable to Chengdu Ko Yo Compound for the nine months ended 30 September 2005 are approximately RMB698,000 and 7.5%.

Dezhou Ko Yo Compound, Dazhu Ko Yo Chemical and Qingdao Ko Yo Chemical did not have taxable profit for the nine months ended 30 September 2005.

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

### 4. Earnings per share

The calculation of the basic earnings per share for the three months and nine months ended 30 September 2005 and 2004 is based on the unaudited consolidated profit attributable to shareholders of approximately RMB13,037,000 and RMB38,185,000 for the relevant periods (2004: RMB11,462,000 and RMB20,284,000) and on the weighted average number of shares approximately 421,820,000 ordinary shares in issue for relevant periods in 2005 (2004: 420,791,000 for three months and 420,264,000 for nine months). Diluted earning per share is not presented as there was no dilutive potential share.

### 5. Dividend

The Board does not recommend the payment of interim dividend for the three months ended 30 September 2005 (30 September 2004: Nil).

## 6. Reserve

	Enterprise							Total
	Share capital	Share premium	Merger reserve	Reserve fund	expansion fund	Exchange difference	Retained earnings	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance as at								
1 January 2004								
(audited)	44,520	18,760	(22,041)	7,974	412	115	72,591	122,331
Net profit for								
the nine months ended								
30 September 2004	—	—	—	—	—	—	20,284	20,284
Appropriation	—	—	—	2,272	—	—	(2,272)	—
Share issuance on								
22 August 2004*	193	444	—	—	—	—	—	637
2003 Final dividend paid	—	—	—	—	—	—	(3,250)	(3,250)
2004 Interim dividend paid	—	—	—	—	—	—	(1,336)	(1,336)
	<u>44,713</u>	<u>19,204</u>	<u>(22,041)</u>	<u>10,246</u>	<u>412</u>	<u>115</u>	<u>86,017</u>	<u>138,666</u>
Balance as at								
30 September 2004	44,713	19,204	(22,041)	10,246	412	115	86,017	138,666
Balance as at								
1 January 2005								
(audited)	44,713	19,204	(22,041)	10,537	558	115	98,008	151,094
HKFRS 3	—	—	—	—	—	—	12,366	12,366
Balance as at								
1 January 2005								
(restated)	44,713	19,204	(22,041)	10,537	558	115	110,374	163,460
Net profit for								
the nine months ended								
30 September 2005	—	—	—	—	—	—	38,185	38,185
2004 Final dividend paid	—	—	—	—	—	—	(5,142)	(5,142)
2005 Interim dividend paid	—	—	—	—	—	—	(2,236)	(2,236)
	<u>44,713</u>	<u>19,204</u>	<u>(22,041)</u>	<u>10,537</u>	<u>558</u>	<u>115</u>	<u>141,181</u>	<u>194,267</u>
Balance as at								
30 September 2005	44,713	19,204	(22,041)	10,537	558	115	141,181	194,267

\* On 22 August 2004, 1,820,000 share options were exercised at HK\$0.33 per share.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

For the nine months ended 30 September 2005, the principal products manufactured and distributed by the Group, including sodium carbonate, ammonium chloride, urea, ammonia, ammonium bicarbonate and BB Fertilizers, achieved a turnover of approximately RMB478 million and total sales quantities of approximately 356,000 tonnes, which represented growth of approximately 55% and 30% respectively as compared with the same period last year.

For the three months ended 30 September 2005, profit attributable to shareholders and turnover of the Group increased to approximately RMB13 million and RMB163 million respectively, which represented growth of approximately 14% and 49% as compared to the third quarter of 2004. The growth in the Group's turnover was mainly attributable to the increases in selling prices and sale quantities of the products of the Group.

During the period under review, as costs of production and distribution remained high, and prices of resources including oil, natural gas and coal stayed at high level, the average selling prices of the Group's products increased from 2% to 36% as compared with last year.

For the three months ended 30 September 2005, sales quantity and turnover of BB Fertilizers of the Group decreased as compared with the previous two quarters, which was mainly because after the peak season in July, the fertilizer market has entered the preparation stage for the springcrop in the coming year, thus the market for the three months ended 30 September 2005 was undergoing slack season.

During the period under review, the Group continued its service-oriented measures to upgrade its services provided to distributors and peasants. Not only could this enhance the Group's brand name, but also boost the sale quantities of the Group's products to a historical high level. The Group's sale quantities achieved 356,000 tonnes, a growth of approximately 30% as compared to the same period of last year. The enhancement of the Group's services and brand name was mainly due to:

1. The Group made more effort on promotion in aspects of product application and technical knowledge through mass media including televisions, radios, newspapers and magazines.
2. The Group educated peasants about techniques in utilizing fertilizers through the agriculture service department. Testing in different districts, the Group established a new one-stop service between the manufacturer and peasants, creating a closer relationship between the Group and peasants.

## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

### **Business Review** *(Continued)*

During the period under review, the Group's subsidiary, Dazhou City Dazhu Ko Yo Chemical Industry Co., Ltd. improved on corporate management and operating production after the previous consolidation and technology enhancement, contributing turnover of RMB58 million to the Group. The company's overall operation in the third quarter 2005 was better than the second quarter due to the following reasons:

1. Strengthening of scientific management – through the rewarding system, staff was motivated to accomplish the production and efficiency. The guiding direction of operation of “company benefit as the focus, profit as the goal” was formed.
2. Continuous increasing investment on technology enhancement – the company invested approximately RMB2 million to upgrade and repair the current facilities and tackle the safety problem and bottleneck problem of the production plant to ensure the facilities can function at full capacity for a long time.

During the period under review, the Group was awarded “Distinguished National Petroleum and Chemical Civil Enterprise” by the Chinese Petroleum and Chemical Industry Association.

### **Prospects**

For the three months ended 30 September 2005, the continuous introduction of macro beneficial policies introduced by the Chinese government has created a favorable environment for the growth of the Group's business.

On 1 July 2005, the agricultural document [2005] 101 “Temporary Management Measures of the Compensation Fund for Testing Soil to Prescribe and Apply Suitable Fertilizers” was promulgated and implemented by the Agriculture Department of the Ministry of Finance. The compensation fund is a measure of the Ministry of Finance to encourage and support peasants to apply fertilizers scientifically in order to increase the effectiveness of fertilizers and their harvest, and lessen agricultural pollution. The beneficial targets include corporations promoting agricultural technology that are in-charge of the tasks of testing soil to prescribe suitable fertilizers, and enterprises that process fertilizers according to the prescription.

## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

### **Prospects** *(Continued)*

Based on the aforementioned policies, the Group will strengthen its co-operation with the Agriculture Department of regional governments to actively develop projects of testing soil to prescribe fertilizers and set up areas to demonstrate how to apply fertilizers according to prescription, in order to increase the Group's strength in product prescription. The Directors anticipate that the recognition of BB Fertilizers in the market will rise rapidly with the help of regional governments and increased promotion of the Group.

Since 1 July 2005, according to the promulgation of document [2005] 87, the value-added tax for urea manufactured by domestic enterprises has been temporarily waived following the 50% refund of value-added tax.

As fluctuation of the market and risk of winter inventory increase, and BB Fertilizers have entered the low season stage in some regions, the Directors predict that the Group's business growth in the fourth quarter will be less than the previous three quarters due to the relatively lower market demand. However, because of national beneficiary policies and protection of gas and electricity, the Directors anticipate that the overall growth of the year will be still greater than last year.

The Group will continue to prepare the manufacturing facilities in Qingdao Ko Yo Chemical, in order to enable it to commence operation in the first quarter of 2006, thus establishing a sound preparation for the overall operation of the Group next year.

The Group remains focused to establish itself as one of leading suppliers of BB Fertilizers in China.

## DISCLOSURE OF INTERESTS

### (a) Interests of the Directors in the Company

As at 30 September 2005, the interests and short positions of the Directors and chief executives in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the “SFO”), which are required (a) to be notified to the Company and the Stock Exchange of Hong Kong Limited (“Stock Exchange”) pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) to be recorded in the register required to be kept under section 352 of the SFO; or (c) to be notified to the Company and the Stock Exchange pursuant to the minimum standards of dealings by directors referred to in Rule 5.46 of the Rules Governing the Listing of Securities on GEM (the “GEM Listing Rules”) were as follows:

#### (i) Long positions in the shares and the underlying shares of the Company

Name of Director	Type of shares	Capacity	Aggregate long position in shares and underlying shares	Approximate percentage of interests in the issued share capital
Li Weiruo	Personal	Beneficial owner	206,440,000	48.94
Yuan Bai	Personal	Beneficial owner	35,448,000	8.40
Chi Chuan	Personal	Beneficial owner	16,728,000	3.97
			<i>(Note)</i>	
Man Au Vivian	Personal	Beneficial owner	10,064,000	2.39
			<i>(Note)</i>	
Li Shengdi	Personal	Beneficial owner	4,200,000	1.00
			<i>(Note)</i>	
Hu Xiaoping	Personal	Beneficial owner	400,000	0.10
			<i>(Note)</i>	
Woo Che-wor, Alex	Personal	Beneficial owner	400,000	0.10
			<i>(Note)</i>	

## DISCLOSURE OF INTERESTS (Continued)

### (a) Interests of the Directors in the Company (Continued)

- (i) Long positions in the shares and the underlying shares of the Company (Continued)

*Note:* Long position in the underlying shares of the Company

Share options were granted to certain directors, employees and consultant of the Company or its Subsidiaries under the share option scheme adopted by written resolutions of shareholders on 10 June 2003, which was amended by an ordinary resolution duly passed at an extraordinary general meeting by the Company's shareholders on 28 July 2004. Details of the options granted to Directors during the period are as follows:

Name of Director	Date of Grant	Outstanding as at 1 January 2005	Number of share options			Outstanding as at 30 September 2005	Exercisable period	Exercise price HK\$
			Granted during the period	Exercised during the period	Cancelled during the period			
Chi Chuan	23 September 2003	4,200,000	—	—	—	4,200,000	23 September 2004 - 22 September 2013	0.62
Man Au Vivian	23 September 2003	3,800,000	—	—	—	3,800,000	23 September 2004 - 22 September 2013	0.62
Li Shengdi	23 September 2003	4,200,000	—	—	—	4,200,000	23 September 2004 - 22 September 2013	0.62
Hu Xiaoping	23 September 2003	400,000	—	—	—	400,000	23 September 2004 - 22 September 2013	0.62
Woo Che-wor, Alex	23 September 2003	400,000	—	—	—	400,000	23 September 2004 - 22 September 2013	0.62

## DISCLOSURE OF INTERESTS *(Continued)*

### (a) Interests of the Directors in the Company *(Continued)*

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

Name of Director	Name of company	Number and description of shares	Capacity	Type of interest	Approximate percentage of holding
Li Weiruo	Ko Yo Development Co., Limited ("Ko Yo Hong Kong") <i>(Note)</i>	2,100,000 non-voting deferred shares	Beneficial owner	Personal	70
Yuan Bai	Ko Yo Hong Kong	420,000 non-voting deferred shares	Beneficial owner	Personal	14
Chi Chuan	Ko Yo Hong Kong	120,000 non-voting deferred shares	Beneficial owner	Personal	4
Man Au Vivian	Ko Yo Hong Kong	60,000 non-voting deferred shares	Beneficial owner	Personal	2

*Note:* a wholly-owned subsidiary of the Company

## DISCLOSURE OF INTERESTS *(Continued)*

### (a) Interests of the Directors in the Company *(Continued)*

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

Name of Director	Capacity	Name of company	Number and description of shares	Aggregate percentage of holding of such class
Li Weiruo	Beneficial owner	Ko Yo Hong Kong	2,100,000 non-voting deferred shares	70
Yuan Bai	Beneficial owner	Ko Yo Hong Kong	420,000 non-voting deferred shares	14
Chi Chuan	Beneficial owner	Ko Yo Hong Kong	120,000 non-voting deferred shares	4
Man Au Vivian	Beneficial owner	Ko Yo Hong Kong	60,000 non-voting deferred shares	2

## **DISCLOSURE OF INTERESTS** *(Continued)*

### **(b) Interests of the substantial shareholders in the Company**

As at 30 September 2005, there was no substantial shareholder (not being a Director or a chief executive of the Company) who had any interests or short positions in the shares or underlying shares of the Company which are required to be notified to the Company and the Stock Exchange under Divisions 2 and 3 of Part XV of the SFO and recorded in the register required to be kept under section 336 of the SFO, and who were directly or indirectly deemed to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company.

### **(c) Interests of other persons in the Company**

As at 30 September 2005, there was no person or company (not being a Director or a chief executive of the Company) who had any interests or short positions in the shares or underlying shares of the Company which are required to be notified to the Company and the Stock Exchange under Divisions 2 and 3 of Part XV of the SFO and recorded in the register required to be kept under section 336 of the SFO, and who were directly or indirectly deemed to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company.

## **DIRECTORS' INTEREST IN COMPETING BUSINESS**

None of the Directors or the management shareholders of the Company and their respective associates (as defined under the GEM Listing Rules) had any interest in a business which competes or may compete, directly or indirectly with the business of the Company during the period under review.

## COMPLIANCE ADVISER'S INTERESTS

Pursuant to a compliance adviser agreement dated 9 July 2003 between the Company and Guotai Junan Capital Limited (“Guotai Junan”), Guotai Junan has been appointed as the compliance adviser of the Company as required under the GEM Listing Rules at a fee for the remainder of the financial year of the Company ending 31 December 2003 and for a period of two years thereafter expiring on 31 December 2005.

As confirmed by Guotai Junan, as at 30 September 2005, neither Guotai Junan, their directors, employees nor any of their respective associates (as defined under the GEM Listing Rules) have any interest in any securities of the Company or any of its associates.

## CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the nine months ended 30 September 2005, the Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company also had made specific enquiry of all directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by directors.

## AUDIT COMMITTEE

The Company established an audit committee on 10 June 2003 with written terms of reference in compliance with Rules 5.28 to 5.33 of 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 the Group 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 unaudited quarterly accounts of the Company and the Group for the nine months ended 30 September 2005.

## BOARD PRACTICES AND PROCEDURES

Except certain provisions disclosed in the half-year report of the Group, the Group has complied with the code provisions set out in the Code on Corporate Governance Practices in Appendix 15 of the GEM Listing Rules.

## 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 period under review.

By Order of the Board

**Li Weiruo**

*Chairman*

Chengdu, the PRC, 8 November 2005