



玖源生態農業科技(集團)有限公司

Ko Yo Ecological Agrotech (Group) Limited

(incorporated in the Cayman Islands with limited liability)

(Stock code: 8042)

2006

Third Quarterly Report
For the nine months
ended 30 September 2006



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 2006, unaudited turnover increased to approximately RMB489 million, which represents a growth of 2.3% as compared to that of the same period last year.

The sale quantities of the Group increased to approximately 369,000 tonnes, which represents an increase of 3.5% as compared to the nine months ended 30 September 2005.

The sale quantities and turnover of BB and Complex Fertilizers of the Group was approximately 131,911 tonnes and RMB216 million respectively, which represent a growth of 3.5% and a decrease of 4.4% respectively as compared with that of the nine months ended 30 September 2005.

Unaudited profit attributable to shareholders of the Group was approximately RMB35 million for the nine months ended 30 September 2006, which represents a decrease of 8% as compared to that of the same period last year.

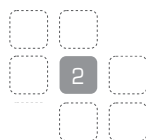
Unaudited basic earnings per share of the Group was approximately RMB7.57 cents for the nine months ended 30 September 2006.

UNAUDITED CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the three months and nine months ended 30 September 2006

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 2006, together with the unaudited comparative figures for the corresponding periods in 2005 as follows:

	Notes	Three months ended		Nine months ended	
		30 September		30 September	
		2006	2005	2006	2005
		RMB'000	RMB'000	RMB'000	RMB'000
Turnover	2	139,031	163,424	488,896	478,039
Cost of sales		(117,253)	(125,352)	(406,973)	(374,111)
Gross profit		21,778	38,072	81,923	103,928
Interest income		266	561	1,101	936
Distribution costs		(4,544)	(8,513)	(18,789)	(25,732)
Administrative expenses		(8,272)	(12,312)	(25,348)	(30,215)
Other income		1,333	223	6,988	2,591
Operating profit		10,561	18,031	45,875	51,508
Finance costs		(2,462)	(2,129)	(5,919)	(5,797)
Profit before taxation		8,099	15,902	39,956	45,711
Taxation	3	(1,200)	(2,885)	(4,822)	(7,517)
Profit after taxation		6,899	13,017	35,134	38,194
Minority interests		N/A	20	N/A	(9)
Profit attributable to shareholders		6,899	13,037	35,134	38,185
Basic earnings per share (RMB cents)	4	1.36	3.09	7.57	9.05
Diluted earnings per share	4	1.36	N/A	7.55	N/A
Dividends per share (HK cent)	5	Nil	Nil	0.50	0.50



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 revenues 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			
	2006		2005		2006		2005	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
BB & complex fertilizers	47,982	34.5	58,917	36.0	215,861	44.1	225,865	47.2
Sodium carbonate	25,199	18.1	25,274	15.5	70,149	14.4	76,870	16.1
Ammonium chloride	8,419	6.0	14,592	8.9	28,706	5.9	41,960	8.8
Urea	53,362	38.4	57,786	35.4	163,802	33.5	109,852	23.0
Ammonia	2,598	1.9	1,985	1.2	6,152	1.3	8,591	1.8
Ammonium bicarbonate	222	0.2	4,870	3.0	2,581	0.5	14,901	3.1
Others	1,249	0.9	—	—	1,645	0.3	—	—
	139,031	100	163,424	100	488,896	100	478,039	100

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 2006.

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 15% 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 2006 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 2006 was approximately RMB4,243,000.

The EIT provision made for and preferential EIT rate applicable to Chengdu Ko Yo Compound for the nine months ended 30 September 2006 are approximately RMB620,000 and 7.5% respectively.

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 2006.

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 2006 were based on the unaudited consolidated profit attributable to shareholders of the Company of approximately RMB6,899,000 and RMB35,134,000 for the relevant periods (2005: RMB13,037,000 and RMB38,185,000) and on the weighted average number of shares of approximately 505,820,000 and 463,974,000 ordinary shares in issue during the relevant periods (2005: 421,820,000 for three months and nine months). Diluted earning per share for the three months and nine months ended 30 September 2006 is based on the weighted average number of shares together with the effect of dilutive potential shares on the outstanding share options of approximately 507,878,000 and 465,628,000 for the relevant periods. In year 2005, diluted earning per share was 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 2006 (30 September 2005: Nil).

6. Reserve

	Share capital	Share premium	Merger reserve	Reserve fund	Enterprise expansion fund	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance as at 1 January 2005 (audited)	44,713	19,204	(22,041)	10,537	558	98,123	151,094
HKFRS3	—	—	—	—	—	12,366	12,366
Balance as at 1 January 2005 (restated)	44,713	19,204	(22,041)	10,537	558	110,489	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)
Balance as at 30 September 2005	<u>44,713</u>	<u>19,204</u>	<u>(22,041)</u>	<u>10,537</u>	<u>558</u>	<u>141,296</u>	<u>194,267</u>
Balance as at 1 January 2006 (audited)	44,713	19,204	(22,041)	11,307	943	148,801	202,927
Issue of new shares*	8,736	57,626	—	—	—	—	66,362
Net profit for the nine months ended 30 September 2006	—	—	—	—	—	35,134	35,134
2005 Final dividend paid	—	—	—	—	—	(6,580)	(6,580)
2006 Interim dividend paid	—	—	—	—	—	(2,630)	(2,630)
Balance as at 30 September 2006	<u>53,449</u>	<u>76,830</u>	<u>(22,041)</u>	<u>11,307</u>	<u>943</u>	<u>174,725</u>	<u>295,213</u>

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

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

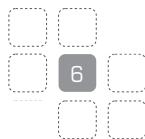
For the nine months ended 30 September 2006, the Group record a turnover of approximately RMB489,000,000, representing an increase of 2.27% compared to the corresponding period last year. The total product sales volume reached approximately 370,000 tonnes.

The financial results for the nine months ended 30 September 2006 fell short of the management's expectation, and also lower than that of the corresponding period last year. The main reasons is that in August 2006, major markets of the Group's products including Sichuan, Chongqing and eastern Jiangnan encountered the most severe drought since 1951 and within the past 100 years respectively. The data from the China Observatory showed that as at 31 August 2006, the area of drought was more than 3,200,000 hectares, and the area with no harvest was approximately 727,000 hectares in Sichuan and Chongqing. The production of grain reduced by approximately 5,000,000 tonnes, causing direct economic loss of approximately RMB15 billion. The three consecutive typhoons in the coastal areas also affected the agricultural activities adversely, leading to evident reduction of the purchasing power of farmers, thus fertilizers usage and price of fertilizers. Compared with the same period last year, the selling price of ammonium chloride was reduced by RMB185/tonne on average from January to September this year. The total profit reduced by approximately RMB11,000,000, which negatively affected the product sales performance and revenue growth of the Group .

As a consequence of severe drought in the during the period under review, the electricity supply was generally reduced in Sichuan, which affected the manufacture of the Group's production facilities and production quantity. In October 2006, the supply of electricity has returned to normal situation.

In addition, as the desulphurization factory underwent maintenance, there was shortage in natural gas supply, which led to a decrease in production quantity and an increase in production cost. It is expected that after the completion of the cyclic catalytic reforming (the "CCR") technique improvement project of ammonia compound production line in the first quarter of 2007, the usage of electricity and natural gas will be reduced.

Drought in Sichuan, Chongqing and Jiangnan affected the sales performance of BB fertilizers, the core product of the Group. For the three months ended 30 September 2006, the total sales volume of compound fertilizers and BB fertilizers was approximately 28,726 tonnes, representing a decrease of approximately 15% compared with that of the corresponding period last year, which was approximately 33,858 tonnes.



MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Business Prospects

1. To acquire resources near headwater and make full use of advantageous natural gas resources in west China.

The exploitation of natural gas in Dazhou of Sichuan Province has been listed as one of the State focal projects. CNPC (Hong Kong) Limited and China Petroleum and Chemical Corporation will make high capital investment during the “eleventh five-year plan” period to make Dazhou become one of the key natural gas bases in China. The Group is planning to initiate a project with annual production capacity of ammonia compound and urea of approximately 400,000 tonnes and 450,000 tonnes respectively in Dazhou. The project has recently achieved remarkable progress. The amount of natural gas requirement of the project has been confirmed and the preparation work has been finished. In addition, fund raising of the project is progressing smoothly. The project will increase significantly not only the scale of production but also the competitiveness of the Group in the industry, thus boosting its turnover and profit. The Group’s productivity of ammonia compound and urea will increase by 286% and 281% respectively after the project commences.

2. To reconstruct equipment and optimize production facilities

The CCR technique reconstruction on production line with an annual output of approximately 50,000 tonnes of ammonia compound at Chengdu Ko Yo Chemical Industry Co., Ltd started in July 2006. It will be completed and commence operation in the first quarter of 2007. The technique reconstruction will not only reduce production cost of ammonia compound by approximately RMB12,000,000 , but also increases the production capacity of urea by 10,000 approximately tonnes, sodium carbonate by approximately 10,000 tonnes and ammonium chloride by approximately 12,000 tonnes. The technique enhancement will increase the profitability of the Group in the long run.

3. To enhance investment in products R&D

In order to strengthen the leading position of the Group in BB fertilizers industry and to compete with existing competitors and new entrants, the Group will leverage on the good relationship with the strategic alliance, Soil and Fertilizers Institute of Sichuan Academy of Agricultural Science, to investigate and develop new prescriptions and products as well as to improve product quality. Moreover, market research and investigation has been conducted on the dilute technique of nitrogenous fertilizers of BB Fertilizers proactively.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

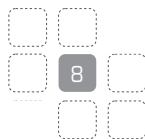
Business Prospects (Continued)

4. Open up overseas markets

With economic globalization, production of fertilizers will further concentrate on resources origins and international trade of fertilizers will also be expanded. As a result, the difference in supply and demand of fertilizers in Asia will increasingly be intensified.

Demand for fertilizers in South Asia will continue to surge at an annual growth rate of approximately 8%. Whereas the demand for fertilizers in Eastern and Middle Europe, Central Asia, East and West Asia, Northeastern Africa and Oceania will grow at a lower pace approximately between 2 to 4.5% per annum. It is anticipated that the demand growth rate for fertilizers in Northeastern Asia will remain at approximately 1% per year. While fertilizer consumption in Northeastern Asia and Western Europe will decline slightly, dramatic decrease in Northern America is expected for the second consecutive year at a rate of approximately 5%, returning to the consumption level in 2002/03. (Source: China Industry Development Research Centre <中國產業研究中心>).

The National Development and Reform Committee and the Ministry of Finance have adjusted the temporary tariff policies. The tariff rate from January to September 2006 was 30% and that from October to December 2006 is 15%. The implementation of 15%-tax policy will be extended for a month (Source: Light Nitrogenous Fertilizers Information <小氮肥信息>). From January to September 2006, the Group has exported a total of approximately 25,600 tonnes of compound fertilizers. It will boost the sales aboard in the coming three months so as to reinforce product branding and enhance market share in overseas markets. Compound fertilizers will be mainly exported to Southeast Asian countries, such as Thailand, Vietnam, Malaysia, Indonesia and Philippines etc.



DISCLOSURE OF INTERESTS

(a) Interests of the Directors in the Company

As at 30 September 2006, 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 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

Directors	Personal long position in shares (beneficial owner)	Personal long position in share options (beneficial owner)	Aggregate long position in shares and underlying shares	Total interests in the issued share capital
Li Weiruo	206,440,000	420,000	206,860,000	40.90%
Yuan Bai	35,448,000	400,000	35,848,000	7.09%
Chi Chuan	12,528,000	4,200,000	16,728,000	3.31%
Man Au Vivian	6,264,000	3,800,000	10,064,000	1.99%
Li Shengdi	—	4,200,000	4,200,000	0.83%
Hu Xiaoping	—	400,000	400,000	0.08%
Woo Che-wor, Alex	—	400,000	400,000	0.08%
Qian Laizhong	—	420,000	420,000	0.08%

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 of non-voting deferred shares	Capacity	Type of interest	Approximate interests in holding
Li Weiruo	Ko Yo Development Co., Limited ("Ko Yo Hong Kong") (Note)	2,100,000	Beneficial Owner	Personal	70%
Yuan Bai	Ko Yo Hong Kong	420,000	Beneficial Owner	Personal	14%
Chi Chuan	Ko Yo Hong Kong	120,000	Beneficial Owner	Personal	4%
Man Au Vivian	Ko Yo Hong Kong	60,000	Beneficial Owner	Personal	2%

Note: a wholly-owned subsidiary of the Company

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

Name of Director	Name of company	Number of non-voting deferred shares	Capacity	Type of interest	Approximate interests in holding of such class
Li Weiruo	Ko Yo Hong Kong	2,100,000	Beneficial Owner	Personal	70%
Yuan Bai	Ko Yo Hong Kong	420,000	Beneficial Owner	Personal	14%
Chi Chuan	Ko Yo Hong Kong	120,000	Beneficial Owner	Personal	4%
Man Au Vivian	Ko Yo Hong Kong	60,000	Beneficial Owner	Personal	2%

DISCLOSURE OF INTERESTS *(Continued)***(b) Interests of the substantial shareholders in the Company**

As at 30 September 2006, 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 2006, so far as is known to any Director or chief executive of the Company, the following person had an interest 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.

Name	Capacity	Number of shares	Interests in issued share capital of the Company
Fidelity International Limited	Beneficial Owner	34,055,000	6.73%

Save as disclosed above, as at 30 September 2006, the Directors are not aware of any other person (other than the Directors and chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

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.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the nine months ended 30 September 2006, 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 2006.

BOARD PRACTICES AND PROCEDURES

Save and except for the information disclosed in the interim report of the Group for the six months ended 30 June 2006, 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, 10 November 2006

