



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)



2007
Third Quarterly Report
For the nine months
ended 30 September 2007

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 2007, unaudited turnover increased to approximately RMB660 million, which represents a growth of 35% as compared to that of the same period last year.

The sale quantities and turnover of BB and Compound Fertilizers of the Group was approximately 148,504 tonnes and RMB245 million respectively, which represent a growth of 13% and 14% respectively as compared with that of the nine months ended 30 September 2006.

Unaudited profits attributable to shareholders of the Group were approximately RMB8.6 million and RMB26 million for the three months and nine months ended 30 September 2007 respectively, which represent an increase of 25% and a decrease of 26% respectively as compared to that of the same period last year.

Unaudited basic earnings per share of the Group was approximately RMB5.15 cents for the nine months ended 30 September 2007.

UNAUDITED CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the three months and nine months ended 30 September 2007

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 2007, together with the unaudited comparative figures for the corresponding periods in 2006 as follows:

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2007	2006	2007	2006
		RMB'000	RMB'000	RMB'000	RMB'000
Turnover	2	169,234	139,031	660,591	488,896
Cost of sales		(142,441)	(117,253)	(574,455)	(406,973)
Gross profit		26,793	21,778	86,136	81,923
Interest income		156	266	470	1,101
Distribution costs		(4,573)	(4,544)	(22,873)	(18,789)
Administrative expenses		(10,224)	(8,272)	(29,329)	(25,348)
Other income		2,391	1,333	8,112	6,988
Operating profit		14,543	10,561	42,516	45,875
Finance costs		(3,327)	(2,462)	(10,798)	(5,919)
Profit before taxation		11,216	8,099	31,718	39,956
Taxation	3	(2,599)	(1,200)	(5,686)	(4,822)
Profit after taxation		8,617	6,899	26,032	35,134
Minority interests		N/A	N/A	N/A	N/A
Profit attributable to shareholders		8,617	6,899	26,032	35,134
Basic earnings per share (RMB cents)	4	1.71	1.36	5.15	7.57
Diluted earnings per share	4	N/A	1.36	N/A	7.55
Dividends per share (HK cent)	5	Nil	Nil	0.30	0.50



NOTES:

(Amounts expressed in Renminbi unless otherwise stated)

1. Basis of preparation

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

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

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

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

2. Turnover

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

Turnover consisted the following products:

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

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

3. Taxation

No provision for profits tax in the Cayman Islands, the British Virgin Islands or Hong Kong has been made, as the Group had no assessable profit arising in or derived from those jurisdictions during the nine months ended 30 September 2007.

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

3. Taxation (Continued)

Pursuant to Chuan Guo Shui Han (2006) No. 40 issued by the local tax bureau of Sichuan province, foreign-invested enterprises established in Sichuan province are subject to Local Enterprise Income Tax ("LEIT") at the rate of 3%, since 1 January 2006.

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

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

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

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

4. Earnings per share

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

5. Dividend

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

6. Reserve

	Share capital	Share premium	Merger reserve	Reserve fund	Enterprise expansion fund	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance as at							
1 January 2006 (audited)	<u>44,713</u>	<u>19,204</u>	<u>(22,041)</u>	<u>11,307</u>	<u>943</u>	<u>148,801</u>	<u>202,927</u>
Issue of new shares*	<u>8,736</u>	<u>57,626</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>66,362</u>
Net profit for							
the nine months ended							
30 September 2006	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>35,134</u>	<u>35,134</u>
2005 Final dividend paid	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(6,580)</u>	<u>(6,580)</u>
2006 Interim dividend paid	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(2,630)</u>	<u>(2,630)</u>
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>
Balance as at							
1 January 2007 (audited)	<u>53,449</u>	<u>76,830</u>	<u>(22,041)</u>	<u>18,802</u>	<u>943</u>	<u>164,879</u>	<u>292,862</u>
Net profit for the nine months							
ended 30 September 2007	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>26,032</u>	<u>26,032</u>
2006 Final dividend paid	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(3,541)</u>	<u>(3,541)</u>
2007 Interim dividend paid	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(1,517)</u>	<u>(1,517)</u>
Balance as at							
30 September 2007	<u>53,449</u>	<u>76,830</u>	<u>(22,041)</u>	<u>18,802</u>	<u>943</u>	<u>185,853</u>	<u>313,836</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 2007, the sales of chemical fertilizers and chemical products manufactured and distributed by the Group, including BB Fertilizers, compound fertilizers, sodium carbonate, urea, ammonium chloride, ammonium bicarbonate, ammonia and the others, was approximately RMB660,591,000 with approximately 35% growth compared with the same period of last year.

For the three months and nine months ended 30 September 2007, the Group recorded profit attributable to shareholders of RMB8,617,000 and RMB26,032,000 respectively, which represent an increase of 25% and a decrease of 26% respectively as compared with the same period of last year. Thanks to the Group's proactive adjustment and remedial policies to stem out the deficiencies in the past, the Group's production facilities were operated in high stability. The net profit for the three months ended 30 September 2007 recorded a substantial growth as compared to the same period last year.

In September 2007, Chengdu Ko Yo Compound Fertilisers Co., Limited, a wholly owned subsidiary of the Company, was accredited the award of "Asia 10 Most Innovative Brand Award" (亞洲十大最具創新品牌獎) by "Asia Brand Ceremony Organizing Committee" (亞洲品牌盛典組委會) and Mr. Li Weiruo, Chairman of the Group was also accredited as "Asia 10 Brand Innovative Personality Award" (亞洲品牌十大創新人物獎).

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Prospects

The National Development and Reform Commission of the PRC released “The Policy of Natural Gas Usage” on 30 August 2007, of which it clearly stated that the supply of natural gas must remain stable according to the current natural gas policy. In particular for the chemical fertilizer projects approved by the Government, the supply of natural gas must remain stable in long term. The policy also encourages optimization of natural gas efficiency by using advanced technology and facilities. For the urea manufacturers using natural gas as the key energy, the policy is beneficial in long-term natural gas supply and it provides the Group with favorable environment for future’s growth.

The Group will speed up the construction of the urea plant at Dazhou City, Sichuan Province, the PRC, according to the above-mentioned policy. We will also speed up to launch the production in order to amplify the Group’s profit in future.

In the aspect of technology and product research and development, the Group will not only continue the effort on the research of new BB fertilizer formula, slow release fertilizer and controlled release fertilizer as well as the specialized fertilizers for cash crops such as rapes, peanuts, garlic and onions which are cultivated in Sichuan Province and Shandong Province, the PRC, the Group will also undergo the preliminary research of producing compound fertilizer by extruding-prilling method. The method is a brand new technology to produce compound fertilizer and has been rapidly developed overseas in recent years. It is believed that the method will help enhance product quality of the Group.

With the help of national favorable policies and guarantee natural gas and electricity supply, the Group will strive to meet the target of this year. Meanwhile, the Group will also strengthen the product marketing and research in Sichuan’s and Shandong’s key markets. This is to lay solid foundation for the operation in 2008 in order to enhance shareholders’ value.

DISCLOSURE OF INTERESTS

(a) Interests of the Directors in the Company

As at 30 September 2007, 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) share capital	Personal long position in share options (beneficial owner)	Aggregate long position in shares and	Total interests in the issued underlying shares
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%

(b) Interests of the substantial shareholders in the Company

As at 30 September 2007, 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.

DISCLOSURE OF INTERESTS *(Continued)*

(c) Interests of other persons in the Company

As at 30 September 2007, so far as is known to any Director or chief executive of the Company, no 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.

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 2007, 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.

MATERIAL ACQUISITIONS/DISPOSALS

Other than the major transaction on the acquisition of production facilities as per announcement dated 5 October 2006 and the very substantial and connected transaction on the acquisition of phosphate mine as per announcement dated 21 September 2007, the Group had no material acquisitions/disposals during the nine months ended 30 September 2007 and it is the same for the comparative nine months ended 30 September 2006.



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 2007.

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 2007, 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, 9 November 2007