



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

Interim Report

For the six months
ended 30 June 2006



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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 six months ended 30 June 2006, unaudited turnover increased to approximately RMB350 million, which represents a growth of approximately 11% as compared to the same period last year.

The sales quantities of the Group increased to approximately 260,000 tonnes, which represents an increase of approximately 11% as compared to the six months ended 30 June 2005.

The sales quantities and turnover of BB fertilizers and complex fertilizer of the Group increased to approximately 103,000 tonnes and approximately RMB168 million, which represents a growth of approximately 9.6% and approximately 0.6% respectively as compared with the first half of 2005.

Unaudited profit attributable to shareholders of the Group was approximately RMB28.2 million for the six months ended 30 June 2006, which represents a growth of approximately 12% as compared to that of the same period last year.

Unaudited basic earnings per share of the Group was approximately RMB6.38 cents for the six months ended 30 June 2006.

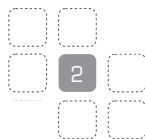
The Directors have resolved to pay an interim dividend at HK0.5 cent per share for the six months ended 30 June 2006.

To all shareholders,

The board of directors (the “Directors” or the “Board”) of Ko Yo Ecological Agrotech (Group) Limited (the “Company”) is pleased to present the unaudited condensed consolidated operating results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2006.

INTERIM DIVIDEND

The Board has resolved to pay an interim dividend of HK0.5 cent per share for the six months ended 30 June 2006 to shareholders whose names appear on the register of members of the Company as at the close of business on 7 September 2006. The interim dividend will be paid to shareholders on 27 September 2006. The register of members of the Company will be closed from 5 September 2006 to 7 September 2006, both days inclusive, during which period no share transfer shall be effected. In order to qualify for the interim dividend, all instruments of transfers accompanied by the relevant share certificates must be lodged with the Company’s share registrar, Union Registrars Limited, at Room 311-312, Two Exchange Square, Central, Hong Kong for registration by no later than 4:00 p.m. on 4 September 2006.



UNAUDITED CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the three months and six months ended 30 June 2006

The unaudited results of the Group for the three months and six months ended 30 June 2006 together with the unaudited comparative figures for the corresponding periods in 2005 are as follows:

	Notes	Three months ended 30 June		Six months ended 30 June	
		2006	2005	2006	2005
		RMB'000	RMB'000	RMB'000	RMB'000
Turnover	3	172,431	171,691	349,865	314,615
Cost of sales		(142,765)	(135,405)	(289,720)	(248,759)
Gross profit		29,666	36,286	60,145	65,856
Interest income		774	221	835	375
Distribution costs		(7,682)	(9,456)	(14,245)	(17,219)
Administrative expenses		(7,974)	(10,293)	(17,076)	(17,903)
Other income		5,106	926	5,655	2,368
Operating profit	4	19,890	17,684	35,314	33,477
Finance costs		(2,291)	(1,923)	(3,457)	(3,668)
Profit before taxation		17,599	15,761	31,857	29,809
Taxation	5	(1,857)	(2,606)	(3,622)	(4,632)
Profit after taxation		15,742	13,155	28,235	25,177
Minority interests		0	(18)	0	(29)
Profit attributable to shareholders		15,742	13,137	28,235	25,148
Basic earnings per share (RMB cents)	6	3.40	3.11	6.38	5.96
Diluted earnings per share (RMB cents)	6	3.35	N/A	6.36	N/A
Declared dividends per share (HK cent)	7	Nil	Nil	0.5	0.5

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2006 and 31 December 2005

	Notes	(Unaudited) As at 30 June 2006 RMB'000	(Audited) As at 31 December 2005 RMB'000
Non-current assets			
Fixed assets		212,496	189,528
Long-term investment		—	1,000
Land use rights		44,637	45,124
		<u>257,133</u>	<u>235,652</u>
Current assets			
Inventories		50,921	74,340
Trade and other receivables	8	101,822	53,329
Pledged bank deposits		87,000	77,800
Cash and bank deposits		88,344	47,758
		<u>328,087</u>	<u>253,227</u>
Current liabilities			
Trade and other payables	9	168,661	124,790
Current portion of long-term loans, secured	10	3,000	9,000
Short-term bank loans, secured	10	109,820	135,870
		<u>281,481</u>	<u>269,660</u>
Net current assets/(liabilities)		<u>46,606</u>	<u>(16,433)</u>
Total assets less current liabilities		<u>303,739</u>	<u>219,219</u>
Finance by:			
Share capital		53,449	44,713
Reserves			
Declared interim/proposed final dividend		2,630	6,580
Others		234,865	151,634
Shareholders' funds		<u>290,944</u>	<u>202,927</u>
Non-current liabilities			
Long-term bank loans, secured	10	5,800	8,800
Provision for staff compensation		6,874	7,330
Deferred tax liabilities	11	121	162
		<u>12,795</u>	<u>16,292</u>
		<u>303,739</u>	<u>219,219</u>

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2006 and 30 June 2005

	Six months ended	
	30 June	
	2006	2005
	RMB'000	RMB'000
Net cash generated from operating activities	55,443	3,679
Interest paid	(3,457)	(3,668)
Net cash inflow from operating activities	<u>51,986</u>	<u>11</u>
Investing activities		
Purchases of fixed assets and payments for construction-in-progress	(29,664)	(8,617)
Proceeds from disposal of fixed assets	164	321
Dividends received from long-term investment	1,733	130
Interest received	835	375
Net cash outflow from investing activities	<u>(26,932)</u>	<u>(7,791)</u>
Net cash inflow/(outflow) before financing activities	<u>25,054</u>	<u>(7,780)</u>
Financing activities		
(Increase)/decrease in pledged bank deposits	(9,200)	14,560
Issue of ordinary shares	66,362	—
New loans payable	80,420	48,600
Repayment of bank loans	(115,470)	(39,130)
Dividends paid	(6,580)	(5,142)
Net cash inflow from financing activities	<u>15,532</u>	<u>18,888</u>
Increase in cash and cash equivalents	40,586	11,108
Cash and cash equivalents at 1 January	<u>47,758</u>	<u>13,926</u>
Cash and cash equivalents at 30 June	<u><u>88,344</u></u>	<u><u>25,034</u></u>

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2006 and 30 June 2005

	Share capital RMB'000	Share premium RMB'000	Merger reserve RMB'000	Reserve fund RMB'000	Enterprise expansion fund RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2005 (audited)	44,713	19,204	(22,041)	10,537	558	98,123	151,094
HKFRS 3	—	—	—	—	—	12,366	12,366
At 1 January 2005 (restated)	44,713	19,204	(22,041)	10,537	558	110,489	163,460
Net profit for the six months ended 30 June 2005	—	—	—	—	—	25,148	25,148
2004 final dividend paid	—	—	—	—	—	(5,142)	(5,142)
At 30 June 2005	<u>44,713</u>	<u>19,204</u>	<u>(22,041)</u>	<u>10,537</u>	<u>558</u>	<u>130,495</u>	<u>183,466</u>
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 six months ended 30 June 2006	—	—	—	—	—	28,235	28,235
2005 final dividend paid	—	—	—	—	—	(6,580)	(6,580)
At 30 June 2006	<u>53,449</u>	<u>76,830</u>	<u>(22,041)</u>	<u>11,307</u>	<u>943</u>	<u>170,456</u>	<u>290,944</u>

NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS

1. Basis of preparation

The interim financial statements were unaudited, which have been prepared in accordance with the Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the disclosure requirements set out in Chapter 18 of the Rules Governing the Listing of the Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”).

2. Principal accounting policies

The HKICPA has undertaken to converge by 1 January 2005 all Hong Kong Financial Reporting Standards (“HKFRS”) with International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board. As a result, the HKICPA had aligned HKFRS 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 HKFRS does not result in substantial changes to the Group’s accounting policies except certain presentation and disclosure of the accounts will be affected.

3. Turnover

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

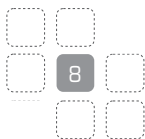
Turnover consisted of the following products:

	Six months ended 30 June 2006 (unaudited)		Six months ended 30 June 2005 (unaudited)	
	RMB'000	%	RMB'000	%
BB & complex fertilizers	167,879	48.0%	166,948	53.1%
Sodium carbonate	44,950	12.8%	51,596	16.4%
Ammonium chloride	20,287	5.8%	27,368	8.7%
Urea	110,440	31.6%	52,066	16.5%
Ammonia	3,554	1.0%	6,606	2.1%
Ammonium bicarbonate	2,359	0.7%	10,031	3.2%
Others	396	0.1%	—	—
	<u>349,865</u>	<u>100%</u>	<u>314,615</u>	<u>100%</u>

4. Operating profit

Operating profit is stated after crediting and charging the following:

	Six months ended 30 June	
	2006 RMB'000	2005 RMB'000
Crediting:		
Gain on disposal of fixed assets	—	272
Charging:		
Staff costs (including directors' emoluments)		
– Salaries, wages and other benefits	14,977	17,270
– Contributions to retirement scheme	1,830	1,521
Cost of inventories	289,720	248,759
Provision for doubtful receivables	550	461
Loss on disposal of fixed assets	2	88
Operating leases for buildings	599	519
Depreciation of fixed assets	6,493	5,213
Auditors' remuneration	520	562



5. 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 six months ended 30 June 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 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 six months ended 30 June 2006 was RMB2,971,000.

The EIT provision made for and preferential EIT rate applicable to Chengdu Ko Yo Compound for the six months ended 30 June 2006 are approximately RMB692,000 and 7.5%.

Dezhou Ko Yo Compound, Dazhu Ko Yo Chemical and Qingdao Ko Yo Chemical did not have assessable profit for the six months ended 30 June 2006.

The amount of taxation charged to the unaudited condensed consolidated profit and loss account represents:

	Six months ended 30 June	
	2006	2005
	RMB'000	RMB'000
EIT in the PRC	3,663	4,667
Deferred tax (Note 11)	(41)	(35)
	<u>3,622</u>	<u>4,632</u>

6. Earnings per share

The calculation of the basic and diluted earnings per share for the three months and six months ended 30 June, 2006 and 2005 were based on:

	Three months ended 30 June		Six months ended 30 June	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Profit for the period	15,742	13,137	28,235	25,148
Weighted average number of shares for calculation of basic earnings per share	<u>463,358,462</u>	<u>421,820,000</u>	<u>442,703,978</u>	<u>421,820,000</u>
Effect of dilutive potential shares on the outstanding share options	<u>6,344,544</u>	<u>N/A</u>	<u>1,426,575</u>	<u>N/A</u>
Weighted average number of shares for calculation of diluted earnings per share	<u>469,703,006</u>	<u>N/A</u>	<u>444,130,553</u>	<u>N/A</u>

7. Dividend

The Board has resolved the payment of an interim dividend at HK0.5 cent per share to the shareholders whose names appear on the register of members of the Company as at the close of business on 7 September 2006. The dividend will be payable on 27 September 2006. The dividend as declared should not be taken as an indication of the level of profit or dividend for the full year.

8. Trade and other receivables

	(Unaudited) As at 30 June 2006 RMB'000	(Audited) As at 31 December 2005 RMB'000
Trade receivables	43,928	22,335
Prepayments, purchase deposits and other deposits	36,941	23,714
Notes receivable	4,788	2,212
Other receivables	16,165	5,068
	<u>101,822</u>	<u>53,329</u>

In general, the credit terms granted by the Group ranged from 0 to 3 months. The aging analysis of trade receivables is as follows:

	(Unaudited) As at 30 June 2006 RMB'000	(Audited) As at 31 December 2005 RMB'000
Aged:		
Less than 3 months	34,672	18,384
More than 3 months but not exceeding 1 year	8,655	5,250
More than 1 year but not exceeding 2 years	3,920	1,627
More than 2 years but not exceeding 3 years	277	656
More than 3 years	536	—
	<u>48,060</u>	<u>25,917</u>
Less: provision for doubtful receivables	(4,132)	(3,582)
	<u>43,928</u>	<u>22,335</u>

9. Trade and other payables

	(Unaudited) As at 30 June 2006 RMB'000	(Audited) As at 31 December 2005 RMB'000
Due to related companies	—	50
Trade payables	30,851	15,514
Notes payable	97,100	25,100
Deposits from customers	10,176	51,919
Accruals and other payables	30,534	32,207
	<u>168,661</u>	<u>124,790</u>

The aging analysis of trade payables is as follows:

	(Unaudited) As at 30 June 2006 RMB'000	(Audited) As at 31 December 2005 RMB'000
Aged:		
Less than 1 year	29,168	15,193
More than 1 year but not exceeding 2 years	1,623	305
More than 2 years but not exceeding 3 years	44	—
More than 3 years	16	16
	<u>30,851</u>	<u>15,514</u>

10. Bank loans

	(Unaudited) As at 30 June 2006 RMB'000	(Audited) As at 31 December 2005 RMB'000
Short-term bank loans, secured	109,820	135,870
Long-term bank loans repayable:		
Less than 1 year	3,000	9,000
More than 1 year but not exceeding 2 years	5,800	8,800
More than 2 years but not exceeding 5 years	—	—
More than 5 years	—	—
	<u>8,800</u>	<u>17,800</u>
Amounts due within 1 year included in current liabilities	<u>(3,000)</u>	<u>(9,000)</u>
	<u><u>5,800</u></u>	<u><u>8,800</u></u>

As at 30 June 2006, bank loans of the Group were generally secured by certain fixed assets of the Group. These bank loans bear interest at the rate of 4.5% to 6.7% (2005: 5.86% to 6.98%) per annum.

11. Deferred tax liabilities

Deferred tax liabilities is calculated in full on temporary differences under the liability method using the taxation rates applicable to the respective companies. The movement in deferred tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the relevant periods is as follows:

	Deferred tax liabilities		Deferred tax assets		Total	
	Difference in tax depreciation		Impairment of assets			
	30 June 2006 RMB'000	31 December 2005 RMB'000	30 June 2006 RMB'000	31 December 2005 RMB'000	30 June 2006 RMB'000	31 December 2005 RMB'000
Beginning of the year/period	624	624	(462)	(358)	162	266
Credited to profit and loss account	—	—	(41)	(104)	(41)	(104)
End of the year/period	<u>624</u>	<u>624</u>	<u>(503)</u>	<u>(462)</u>	<u>121</u>	<u>162</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Performance

For the six months ended 30 June 2006, the Group recorded a turnover of approximately RMB350 million, representing an increase of approximately 11% as compared with approximately RMB315 million for the same period last year. Profit attributable to shareholders was approximately RMB28.2 million (2005: approximately RMB25.1 million), which represented a growth of approximately 12% compared with previous year, and basic earnings per share were approximately RMB6.38 cents (2005: approximately RMB5.96 cents).

During the period under review, the total sales quantities of the Group reached 260,000 tonnes (2005: 235,000 tonnes), which represented a growth of approximately 11%, in which sales volume of BB fertilizers and complex fertilizers increased by approximately 9.6% as compared to the corresponding period of last year.

The growth in turnover for the period under review was attributable to the increase in production quantity of urea.

For the period under review, the gross profit margin of the Group decreased by approximately 3.7% to 17.2% compared with the corresponding period last year, which was mainly due to the decrease in selling price of ammonium chloride by approximately 29.5%. Cost of sales amounted to approximately RMB290 million, representing an increase of 16.5% as compared to corresponding period of last year. Distribution costs decreased by approximately 17.3%, and the administrative expenses decreased by 4.6% as compared with the corresponding period last year.

Business Review

During the period under review, the Group continued to focus on maintaining relationship with its long-term customers via selling urea, sodium carbonate and ammonium chloride. The products contributed stable income to the Group.

BB fertilizers remained the core product of the Group. The sales quantity of BB fertilizers and complex fertilizers reached 103,000 tonnes, which represented an increase of 9,000 tonnes as compared to the same period last year. The main reason for the growth was the significant increase in export quantity. For the six months ended 30 June 2006, the export quantity of BB fertilizers and complex fertilizers was 20,499 tonnes. They were mainly exported to Southeast Asian countries, such as Thailand, Vietnam, Malaysia and Indonesia etc. It strengthened the Group's brand name in the overseas markets and therefore laid a solid foundation for the growth of BB fertilizers and complex fertilizers.

On the other hand, the sales quantity of urea reached 68,080 tonnes (2005: 35,799 tonnes), which represented an approximate 90.2% growth compared to the same period last year. The tremendous growth in sales quantity of urea was due to the increase in urea production capacity at Dazhu Ko Yo Chemical.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Business Review (Continued)

In response to the market demand, the quantity of output of ammonium bicarbonate was reduced to 5,127 tonnes (2005: 20,700 tonnes) for the period under review. Increasing urea quantity and deducting ammonium bicarbonate quantity changed the product mix of the Group. As the fertilizer efficiency of urea is higher than ammonium bicarbonate, the change in the product structure enabled the provision of more market-oriented and higher quality products, which is a milestone for product mix optimization of the Group. The sales quantity of sodium carbonate was 43,273 tonnes (2005: 44,954 tonnes), which represented a decrease of approximately 3.7%. The sales quantity of ammonium chloride was 37,975 tonnes (2005: 36,088 tonnes), which represented an increase of approximately 5.2%.

In 2006, the government continued to implement beneficial policies on chemical fertilizers in respect of free duty and preferential transportation, electricity and gas costs for fertilizer goods. According to the Ministry of Agriculture, the financial arrangements of allowance fund for quality species, farm equipment acquisition and "Testing Soil for Formulated Fertilization Project" in the year 2006 increased RMB800 million reaching RMB5.17 billion. Direct subsidies for food funding arrangements and incremental funds for the newly integrated agricultural resources amounted to RMB14.2 billion and RMB12.5 billion respectively.

The stable, comprehensive, and strengthened peasants-support and peasants-privilege policies have greatly mobilized peasants' enthusiasm for cultivation, thus significantly promoted the use of fertilizers. This also provided a favorable environment especially for the use of BB fertilizers and complex fertilizers. The National Development and Reform Commission anticipated an improvement in the market demand and supply situation for chemical fertilizers. Compared to last year, the annual production for chemical fertilizers increased by approximately 5.4% to 55 million tonnes. The growth of BB fertilizers and complex fertilizers maintained between 25% to 28%. The Directors are therefore confident of the development of BB fertilizers market.

Prospects

Our management believes that the Group will achieve a steady growth in total product sales by adopting practical marketing strategies. Firstly, the Group has conducted detailed and precise investigations and statistical analysis about soil testing recipes and balanced fertilization with peasants throughout the country. Secondly, the Group has actively built a national agricultural service system. The Group set up 23 agricultural service centers staffed with 248 technical service personnel. Thirdly, the Group has been focusing on building strong target villages and towns in order to increase regional market shares, accelerate pace of development as well as enhance branding effect. Finally, the Group has launched a corporate image campaign, including the employment of an image representative and the homogenizing of shop decoration, etc.



MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Prospects (Continued)

According to the current sales features, the Group is going to focus on the followings in the second half of the year:

1) To actively strengthen the cooperation with existing agricultural enterprises

Recently, the Group is looking for opportunities to cooperate with other agricultural companies. It is expected that the cooperation will generate approximately 40,000 tonnes of sales and facilitate the establishment of a long-term partnership.

2) To cooperate with large farmlands and bases

This has been determined to be the key development of the Group in the second half of the year. Besides, the Group and three sugar factories in Guangxi have reached preliminary agreement to jointly sell sugar cane BB fertilizers and establish long-term and stable distribution channels. At the same time, the Group is also negotiating with Heilongjiang Jiamusi Farm and Xinjiang Production and Construction Corps as regards sales cooperation, such as the sale of cotton and wheat BB fertilizers as well as compound fertilizers.

3) To carry out primary research on high-end compound fertilizers

The development trend of high nitrogen, controlled release and slow release compound fertilizers has provided a strong market support for the Group's research and development on quality product formulae. The Group will base on market demand to timely introduce new types of fertilizers so as to increase its competitiveness.

4) To seek potential development opportunity

The Group will make full use of the natural gas resources in the western part of China, increase the scale of its main business as well as enhance its status and competitiveness in the industry.

Through constantly strengthening sales foundation, enhancing cooperation with large agricultural enterprises, farmlands and bases, and raising turnover as well as implementing cost-control measures, the Directors believe that the Group will be able to achieve its business objectives for 2006.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 June 2006, the Group had net current assets of approximately RMB46,606,000. Current assets as at 30 June 2006 comprised cash and bank deposits of approximately RMB88,344,000, pledged bank deposits of approximately RMB87,000,000, inventories of approximately RMB50,921,000, trade and other receivables of approximately RMB101,822,000. Current liabilities as at 30 June 2006 comprised short-term loans and current portion of long-term bank loans of approximately RMB112,820,000 and trade and other payables of approximately RMB168,661,000.

CAPITAL COMMITMENTS

As at 30 June 2006, the Group had outstanding capital commitments of approximately RMB16,848,000.

FINANCIAL RESOURCES

As at 30 June 2006, the Group had cash and bank balances of approximately RMB88,344,000 and standby bank facilities of approximately RMB47 million. The Company intends to finance the Group's future operations, capital expenditure and other capital requirements with the existing bank balances and standby bank facilities.

GEARING RATIO

The Group's gearing ratios were 50% and 58% as at 30 June 2006 and 31 December 2005 respectively. The gearing ratios were calculated based on total liabilities over total assets as at the balance sheet dates.

CONTINGENT LIABILITIES

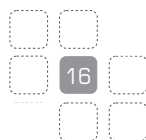
The Group had no significant contingent liabilities as at 30 June 2006.

MATERIAL ACQUISITIONS/DISPOSALS

The Group had no material acquisitions/disposals during the six months ended 30 June 2006 and it is the same for the comparative six months ended 30 June 2005.

SEGMENTAL INFORMATION

All the Group's activities are conducted in the PRC and are within the same business segment. Accordingly, neither analysis by geographical segments nor analysis by business segments is presented.



DETAILS OF FUTURE PLANS FOR MATERIAL INVESTMENT OR CAPITAL ASSETS

Other than the future plans set out in the section headed “Future Plans” in the prospectus of the Company dated 30 June 2003 (the “Prospectus”), the Directors do not have any future plans for material investment or capital assets.

EMPLOYEE INFORMATION

As at 30 June 2006, the Group had 1,831 (2005: 1,975) employees, comprising 6 (2005: 6) in management, 83 (2005: 156) in finance and administration, 1,621 (2005: 1,717) in production, 111 (2005: 86) in sales and marketing and 10 (2005: 10) in research and development, 1,825 (2005: 1,969) of these employees were located in the PRC and 6 (2005: 6) were located in Hong Kong.

CHARGES ON THE GROUP'S ASSETS

As at 30 June 2006, certain land use rights and buildings with a total net book value of approximately RMB84,400,000 (2005: RMB68,389,000), plant and machinery with a total net book value of approximately RMB23,210,000 (2005: RMB22,675,000) and bank deposits of approximately RMB87,000,000 (2005: RMB39,380,000) were pledged as collateral for the Group's bank loans and notes payable.

FOREIGN EXCHANGE EXPOSURE

Since most of the income and expenditure of the Group were received and paid in local currencies in the countries and places where the Group operates, the Directors do not consider that the Group was significantly exposed to any foreign currency exchange risk.

SHARE OPTION SCHEME

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 (the “Scheme”), which was amended by an ordinary resolution duly passed at an extraordinary general meeting by the Company's shareholders on 28 July 2004. A summary of the principal terms and conditions of the Scheme are set out in the section headed “Share Option Scheme” in Appendix IV to the Prospectus and details of amendments of the Scheme are set out in the circular of the Company dated 12 July 2004.

SHARE OPTION SCHEME (Continued)

Details of options granted by the Company pursuant to the Scheme and outstanding as at 30 June 2006 were disclosed in the following table:

	Number of options					Grant date	Exercise price HK\$	Number of options	
	Held at 1 January 2006	Grant during period	Exercised during period	Cancelled during period	Held at 30 June 2006			Exercisable from grant date until 22 September 2013	Exercisable from grant date until 10 April 2016
Directors									
Li Weiruo	—	420,000	—	—	420,000	16 May 2006	0.75	—	420,000
Yuen Bai	—	400,000	—	—	400,000	16 May 2006	0.75	—	400,000
Chi Chuan	4,200,000	—	—	—	4,200,000	23 September 2003	0.62	4,200,000	—
Man Au Vivian	3,800,000	—	—	—	3,800,000	23 September 2003	0.62	3,800,000	—
Li Shengdi	4,200,000	—	—	—	4,200,000	23 September 2003	0.62	4,200,000	—
Hu Xiaoping	400,000	—	—	—	400,000	23 September 2003	0.62	400,000	—
Woo Che-wor Alex	400,000	—	—	—	400,000	23 September 2003	0.62	400,000	—
Qian Laizhong	—	420,000	—	—	420,000	16 May 2006	0.75	—	420,000
Employees									
	12,200,000	—	—	800,000	11,400,000	23 September 2003	0.62	11,400,000	—
	—	10,500,000	—	—	10,500,000	11 April 2006	0.75	—	10,500,000
Total	25,200,000	11,740,000	—	800,000	36,140,000			24,400,000	11,740,000

DISCLOSURE OF INTERESTS

(a) Interests of the Directors in the Company

As at 30 June 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 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	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%

(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") <i>(Note)</i>	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

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	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 June 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.

DISCLOSURE OF INTERESTS (Continued)

(c) Interests of other persons in the Company

As at 30 June 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	35,485,000	7.02%

Save as disclosed above, as at 30 June 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 with the business of the Company during the period under review.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the six months ended 30 June 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 the management of the Group 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 interim financial statements accounts of the Company and the Group for the six months ended 30 June 2006.

REMUNERATION COMMITTEE

The remuneration committee of the Company was established in January 2005. The primary duties of the remuneration committee are to review and recommend the Board for the remuneration policy of the Directors. The remuneration committee has three members comprising two independent non-executive Directors, namely, Mr. Hu Xiaoping, Mr. Qian Laizhong and one executive Director, namely, Ms. Chi Chuan.

CORPORATE GOVERNANCE

The Board practices and procedures set out in Rules 5.35 to 5.45 of the GEM Listing Rules were replaced by the Code on Corporate Governance Practices (the “Code”) as set out in Appendix 15 to the GEM Listing Rules, which has been effective for accounting period commencing on or after 1 January 2005. Appropriate actions have been taken by the Company for complying with the Code on Corporate Governance Practices. Except A2.1 of the Code, the Group has complied with the code provisions set out in the Code. The Group will complete the separation of the roles of chairman and chief executive officer with clear division of their responsibilities as soon as possible.

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 August 2006

