



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**

First Quarterly Report  
For the three months  
ended 31 March 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 three months ended 31 March 2007, unaudited turnover increased to approximately RMB196 million, which represents an approximate 11% growth as compared to that of the same period 2006.
- The sale quantities of BB and complex fertilizers of the Group increased to 64,853 tonnes, which represents a growth of 24% as compared with the first quarter of 2006.
- Profit attributable to shareholders of the Group was approximately RMB6.7 million for the three months ended 31 March 2007, which represents an approximately 46% decreased as compared to that of the same period last year.
- Basic earnings per share of the Group was approximately RMB1.32 cents for the three months ended 31 March 2007.

## UNAUDITED CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the three months ended 31 March 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 consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the three months ended 31 March 2007, together with the unaudited comparative figures for the corresponding periods in 2006 as follows:

	Notes	Three months ended 31 March 2007 RMB'000	Three months ended 31 March 2006 RMB'000
Turnover	2	196,367	177,434
Cost of sales		(172,659)	(146,955)
Gross profit		23,708	30,479
Interest income		282	61
Distribution costs		(7,824)	(6,563)
Administrative expenses		(10,084)	(9,102)
Other income		4,568	549
Operating profit		10,650	15,424
Finance costs		(2,425)	(1,166)
Profit before taxation		8,225	14,258
Taxation	3	(1,538)	(1,765)
Profit after taxation		6,687	12,493
Minority interests		—	—
Profit attributable to shareholders		6,687	12,493
Basic earnings per share (RMB cents)	4	1.32	2.96
Diluted earnings per share	4	N/A	N/A



*Notes:*

## **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 materials 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 previously recognized negative goodwill as at 1 January 2005 shall be derecognized with a corresponding adjustment to the opening balance of retained earnings.

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.

## 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 three-month 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 31 March 2007		For the three months ended 31 March 2006	
	RMB'000	%	RMB'000	%
BB & complex fertilizers	106,288	54.1	86,527	48.8
Sodium carbonate	24,609	12.5	20,778	11.7
Ammonium chloride	10,422	5.3	9,625	5.4
Urea	48,914	24.9	56,324	31.7
Ammonia	3,826	2.0	1,906	1.1
Ammonium bicarbonate	1,273	0.7	2,118	1.2
Others	1,035	0.5	156	0.1
	<u>196,367</u>	<u>100</u>	<u>177,434</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 three months ended 31 March 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.

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, the overall rate (both EIT and LEIT) applicable to Chengdu Ko Yo Chemical in 2007 is 18%. Accordingly, current income tax provision made for Chengdu Ko Yo Chemical for the three months ended 31 March 2007 was RMB1,329,000.

The preferential EIT rate applicable to Chengdu Ko Yo Compound for the three months ended 31 March 2007 is 15%, together with the rate of 3% of LEIT, the overall rate applicable is 18%. Accordingly, current income tax provision made for Chengdu Ko Yo Compound for the three months ended 31 March 2007 was RMB123,000.

The preferential EIT rate applicable to Dazhu Ko Yo Chemical for the three months ended 31 March 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 three months ended 31 March 2007 was RMB86,000.

Dezhou Ko Yo Compound and Qingdao Ko Yo Chemical did not have current income tax provision for the three months ended 31 March 2007.

#### 4. Earnings per share

The calculation of basic earnings per share for the three months ended 31 March 2007 is based on the consolidated profit attributable to shareholders of approximately RMB6,687,000 (2006: RMB12,493,000) and the weighted average number of approximately 505,820,000 (2006: 421,820,000) ordinary shares in issue during the periods. Diluted earnings per share is not presented as there were no dilutive potential ordinary shares.

#### 5. Dividend

The Board does not recommend the payment of interim dividend for the three months ended 31 March 2007 (31 March 2006: Nil).

#### 6. Reserve

Movements of the Group's reserves were as follows:

	Share premium RMB'000	Merger reserve RMB'000	Reserve fund RMB'000	Enterprise expansion fund RMB'000	Retaining earnings RMB'000	Total RMB'000
Balance as at						
1 January 2006 (audited)	19,204	(22,041)	11,307	943	148,801	158,214
Net Profit for the three months ended 31 March 2006	—	—	—	—	12,493	12,493
Balance as at 31 March 2006	<u>19,204</u>	<u>(22,041)</u>	<u>11,307</u>	<u>943</u>	<u>161,294</u>	<u>170,707</u>
Balance as at						
1 January 2007 (audited)	76,830	(22,041)	18,802	943	164,879	239,413
Net Profit for the three months ended 31 March 2007	—	—	—	—	6,687	6,687
Appropriation	—	—	236	188	(424)	—
Balance as at 31 March 2007	<u>76,830</u>	<u>(22,041)</u>	<u>19,038</u>	<u>1,131</u>	<u>171,142</u>	<u>246,100</u>



## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial Review

For the three months ended 31 March 2007, the Group recorded a turnover of approximately RMB196 million, representing an increase of 11% as compared with approximately RMB177 million for the same period last year. The total sale quantities reached 140,367 tonnes (2006: 129,927 tonnes), which represented a growth of approximately 8%. The turnover derived from the sales of BB and complex fertilizers was RMB106 million, which achieved a growth of 23% as compared with the same period last year. During the period under review, the growth in turnover of BB and complex fertilizers of the Group was due to increase in sale quantities of BB Fertilizers. Profit attributable to shareholders was approximately RMB6.7 million (2006: RMB12.5 million), which represented a decrease of 46% compared with the same period last year, and earnings per share was RMB1.32 cents (2006: RMB2.96 cents).

During the period under review, the gross profit margin was decreased to 12.1% from 17.2% in the same period last year, which was due to the Group's production systems of the plant in Xin Du District underwent the implementation of Cyclic Catalytic Regenerative Reforming (CCR) technique losing 7,200 machinery hours and the increase in export sales of BB and complex fertilizers resulting in the decrease in apportion of sales of products with high gross profit margin. Distribution costs were increased by 19.2% as compared to same period last year. The Group's administrative expenses were increased 10.8% to approximately RMB10.1 million as compared with RMB9.1 million last year.

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### Business Review

For the three months ended 31 March 2007, the Group remained focused on manufacture and distribution of chemical fertilizers and chemical products, including BB Fertilizers, complex fertilizers, sodium carbonate, urea, ammonium chloride, ammonium bicarbonate and liquid ammonia. Contributed to further expansion of the overseas market, export volume of BB and complex fertilizer increased. The Group recorded turnover and sales volume reached approximately RMB196 million and 140,367 tonnes, increased 11% and 8% respectively over the same period of last year.

During the period under review, profit attributable to shareholders was approximately RMB6.7 million, which represented a decrease of approximately 46% compared to the same period of last year. Basic earnings per share reached approximately RMB1.32 cents.

According to the statistics of the Office of State Flood Control and Drought Relief Headquarters, as at 28 March 2007 the drought tillage reached 203 million acreages in China, especially serious in the Southwestern region. This unfavorably affected fertilizers application. Due to the dry weather and insufficient demand of fertilizers in the market, production and sales of the Group's BB and complex fertilizers in the first quarter in China market dropped approximately by 24,000 tonnes. Meanwhile, shortage of natural gas supply and the implementation of CCR technique led to the standstill of machineries of approximately 7,200 machinery hours and reduction of production of ammonium compound of approximately 5,300 tonnes, which eventually affecting the revenues in the first quarter.

During the period under review, the Group progressively explored the overseas market. The products have been tapped into South-east Asia countries like Indonesia, Vietnam, the Philippines and Malaysia, etc. Among all, sales of BB and complex fertilizers attained substantial growth, reached approximately 37,000 tonnes, increased 2,680%, foreign exchange income amounted to USD6.9 million. This effectively alleviated the insufficient demand in the China market, and contributed to the first quarter of this year.

During the period under review, the Group's CCR technique reconstruction project of ammonia compound production line in Xin Du District, Sichuan Province commenced production on February 2007, and is expected to greatly reduce the usage of electricity and natural gas, and to enhance the competitive edge in production cost of the Group.



## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

### **Prospects**

Starting from April, plowing and fertilizers application come into the peak season, demand in fertilizers market will be boosted. Owing to the relatively high food price this year and the implementation of numerous favorable national policies for peasants, they became more active to plow. Hence, all fertilizers could maintain a rather satisfactory demand.

In order to realize the operation target of our Group in the coming three quarters, the Group will progressively coordinate the supply of raw materials, be devoted to raise fertilizers' production, and create respectable external conditions for production of fertilizers. The Group will seize the advantageous opportunities of the decreasing trend of using coal, electricity and natural gas for warming, enhance the connection of coal, electricity and natural gas corporations, ensure decent supply of raw materials and power, as well as fully utilize the production capacity of fertilizers under the premise of safety.

## DISCLOSURE OF INTERESTS

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

As at 31 March 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 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 the Growth Enterprise Market of Stock Exchange (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

At 31 March 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.

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

At 31 March 2007, 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 31 March 2007, 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.

## **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 three months ended 31 March 2007.

The Company confirmed that annual confirmations of independence were received from each of independent non-executive directors of the Company pursuant to Rule 5.09 of the GEM Listing Rules and all independent non-executive directors are considered independent.

## **BOARD PRACTICES AND PROCEDURES**

Save for the founder of the Group, Mr. Li Weiruo, currently holds both roles of the Chairman and the Chief Executive Officer, the Company had complied throughout the period under review the minimum standards of good practice concerning the general management responsibilities of the Board as in the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules. Appropriate actions have been taken by the Company for complying with the Code on Corporate Governance Practices.



## **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 May 2007