



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**

Interim Report

For the six months

ended 30 June 2007

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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 2007, unaudited turnover increased to approximately RMB491 million, which represents a growth of approximately 40% as compared to the same period last year.

The sales quantities and turnover of BB fertilizers and complex fertilizer of the Group increased to approximately 103,000 tonnes and approximately RMB171 million, which represents a growth of approximately 0.2% and approximately 1.8% respectively as compared with the first half of 2006.

Unaudited profit attributable to shareholders of the Group was approximately RMB17.4 million for the six months ended 30 June 2007, which represents a decrease of approximately 38% as compared to that of the same period last year.

Unaudited basic earnings per share of the Group was approximately RMB3.44 cents for the six months ended 30 June 2007.

The Directors have resolved to pay an interim dividend at HK0.3 cent per share for the six months ended 30 June 2007.



**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 2007.

**INTERIM DIVIDEND**

The Board has resolved to pay an interim dividend of HK0.3 cent per share for the six months ended June 2007 to shareholders whose names appear on the register of members of the Company as at the close of business on 7 September 2007. The interim dividend will be paid to shareholders on 27 September 2007. The register of members of the Company will be closed from 5 September 2007 to 7 September 2007, 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 register, Union Registrars Limited, at Room 1803, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong for registration by no later than 4:00 p.m. on 4 September 2007.

## UNAUDITED CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the three months and six months ended 30 June 2007

The unaudited results of the Group for the three months and six months ended 30 June 2007 together with the unaudited comparative figures for the corresponding periods in 2006 are as follows:

	Notes	Three months ended 30 June		Six months ended 30 June	
		2007	2006	2007	2006
		RMB'000	RMB'000	RMB'000	RMB'000
Turnover	3	<b>294,990</b>	172,431	<b>491,357</b>	349,865
Cost of sales		<b>(259,355)</b>	(142,765)	<b>(432,014)</b>	(289,720)
Gross profit		<b>35,635</b>	29,666	<b>59,343</b>	60,145
Interest income		<b>32</b>	774	<b>314</b>	835
Distribution costs		<b>(10,476)</b>	(7,682)	<b>(18,300)</b>	(14,245)
Administrative expenses		<b>(9,021)</b>	(7,974)	<b>(19,105)</b>	(17,076)
Other income		<b>1,153</b>	5,106	<b>5,721</b>	5,655
Operating profit	4	<b>17,323</b>	19,890	<b>27,973</b>	35,314
Finance costs		<b>(5,046)</b>	(2,291)	<b>(7,471)</b>	(3,457)
Profit before taxation		<b>12,277</b>	17,599	<b>20,502</b>	31,857
Taxation	5	<b>(1,549)</b>	(1,857)	<b>(3,087)</b>	(3,622)
Profit after taxation		<b>10,728</b>	15,742	<b>17,415</b>	28,235
Minority interests		<b>0</b>	0	<b>0</b>	0
Profit attributable to shareholders		<b>10,728</b>	15,742	<b>17,415</b>	28,235
Basic earnings per share (RMB cents)	6	<b>2.12</b>	3.40	<b>3.44</b>	6.38
Diluted earnings per share (RMB cents)	6	<b>N/A</b>	3.35	<b>N/A</b>	6.36
Declared dividends per share (HK cent)	7	<b>Nil</b>	Nil	<b>0.3</b>	0.5

## CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2007 and 31 December 2006

		(Unaudited) As at 30 June 2007 RMB'000	(Audited) As at 31 December 2006 RMB'000
	Notes		
<b>Non-current assets</b>			
Fixed assets		320,079	304,351
Deferred income tax assets	11	865	771
Land use rights		34,453	44,346
		<u>355,397</u>	<u>349,468</u>
<b>Current assets</b>			
Inventories		71,148	76,804
Trade and other receivables	8	84,521	64,378
Pledged bank deposits		58,064	20,801
Cash and bank deposits		31,787	12,839
		<u>245,520</u>	<u>174,822</u>
<b>Current liabilities</b>			
Trade and other payables	9	104,819	92,579
Current portion of long-term loans, secured	10	5,800	8,800
Short-term bank loans, secured	10	179,976	125,476
		<u>290,595</u>	<u>226,855</u>
<b>Net current liabilities</b>		<u>(45,075)</u>	<u>(52,033)</u>
<b>Total assets less current liabilities</b>		<u>310,322</u>	<u>297,435</u>
Finance by:			
Share capital		53,449	53,449
Reserves			
Declared interim/proposed final dividend		1,517	3,541
Others		251,770	235,872
		<u>306,736</u>	<u>292,862</u>
<b>Non-current liabilities</b>			
Long-term bank loans, secured	10	—	—
Provision for staff compensation		3,586	4,573
		<u>3,586</u>	<u>4,573</u>
		<u>310,322</u>	<u>297,435</u>

## UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2007 and 30 June 2006

	Six months ended	
	30 June	
	2007	2006
	RMB'000	RMB'000
Net cash generated from operating activities	62,016	55,443
Interest paid	(7,471)	(3,457)
Net cash inflow from operating activities	<u>54,545</u>	<u>51,986</u>
Investing activities		
Purchases of fixed assets and payments for construction-in-progress	(46,980)	(29,664)
Proceeds from disposal of fixed assets	373	164
Dividends received from long-term investment	—	1,733
Interest received	314	835
Net cash outflow from investing activities	<u>(46,293)</u>	<u>(26,932)</u>
Net cash inflow before financing activities	<u>8,252</u>	<u>25,054</u>
Financing activities		
Increase in pledged bank deposits	(37,263)	(9,200)
Issue of ordinary shares	—	66,362
New loans payable	130,576	80,420
Repayment of bank loans	(79,076)	(115,470)
Dividends paid	(3,541)	(6,580)
Net cash inflow from financing activities	<u>10,696</u>	<u>15,532</u>
Increase in cash and cash equivalents	18,948	40,586
Cash and cash equivalents at 1 January	<u>12,839</u>	<u>47,758</u>
Cash and cash equivalents at 30 June	<u><u>31,787</u></u>	<u><u>88,344</u></u>

## UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2007 and 30 June 2006

	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
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>
At 1 January 2007 (audited)	53,449	76,830	(22,041)	18,802	943	164,879	292,862
Net profit for the six months ended							
30 June 2007	—	—	—	—	—	17,415	17,415
2006 final dividend paid	—	—	—	—	—	(3,541)	(3,541)
At 30 June 2007	<u>53,449</u>	<u>76,830</u>	<u>(22,041)</u>	<u>18,802</u>	<u>943</u>	<u>178,753</u>	<u>306,736</u>



## NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS

### 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 interim financial statements 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 Enterprises Market of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”).

### 2. Principal accounting policies

The principal accounting policies used in the unaudited interim financial statements are consistent with those followed in the Group’s financial statements for the year ended 31 December 2006. The measurement basis used in the preparation of the unaudited interim financial statements is historical cost, except for certain investment properties and financial investments, which are measured at fair values. All inter-company transactions and balances within the Group have been eliminated on consolidation.

The Group had net current liabilities of RMB45,075,000 as at 30 June 2007. The directors of the Company have given due consideration to the liquidity of the Group and have adopted the going concern basis in preparing the consolidated financial statements for the six months ended 30 June 2007 on the basis that the Group has profitable operations and that it will succeed in negotiating with its bankers to roll over the outstanding bank loans.

The financial statements are unaudited but have been reviewed by the Audit Committee.

### 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 2007 (unaudited)		Six months ended 30 June 2006 (unaudited)	
	RMB'000	%	RMB'000	%
BB & complex fertilizers	170,865	34.8%	167,879	48.0%
Sodium carbonate	51,076	10.4%	44,950	12.8%
Ammonium chloride	19,851	4.0%	20,287	5.8%
Urea	109,215	22.2%	110,440	31.6%
Ammonia	5,930	1.2%	3,554	1.0%
Ammonium bicarbonate	1,952	0.4%	2,359	0.7%
Foliar and highly water soluble fertilizers	306	0.1%	396	0.1%
Others ( <i>Note</i> )	132,162	26.9%	—	—
	<u>491,357</u>	<u>100%</u>	<u>349,865</u>	<u>100%</u>

*Note:* Others include the trading of ammonium sulfate, ammonium di-hydrogen phosphate, mono-ammonium phosphate and urea.

#### 4. Operating profit

Operating profit is stated after crediting and charging the following:

	Six months ended 30 June	
	2007	2006
	RMB'000	RMB'000
Charging:		
Staff costs (including directors' emoluments)		
– Salaries, wages and other benefits	16,306	14,977
– Contributions to retirement scheme	1,919	1,830
Cost of inventories	432,014	289,720
Provision for doubtful receivables	524	550
Loss on disposal of fixed assets	65	2
Operating leases for buildings	741	599
Depreciation of fixed assets	6,869	6,493
Auditors' remuneration	720	520
	<u>720</u>	<u>520</u>

#### 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 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 six months ended 30 June 2007 was approximately RMB2,827,000.

The preferential EIT rate applicable to Chengdu Ko Yo Compound for the six months ended 30 June 2006 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 six months ended 30 June 2007 was approximately RMB87,000.

The preferential EIT rate applicable to Dazhu Ko Yo Chemical for the six months ended 30 June 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 six months ended 30 June 2007 was RMB173,000.

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

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

	<b>Six months ended 30 June</b>	
	<b>2007</b>	2006
	<b>RMB'000</b>	RMB'000
EIT in the PRC	<b>3,181</b>	3,663
Deferred tax (Note 11)	<b>(94)</b>	(41)
	<b><u>3,087</u></b>	<u>3,622</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, 2007 and 2006 were based on:

	Three months ended		Six months ended	
	30 June		30 June	
	2007	2006	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Profit for the period	<u>10,728</u>	15,742	<u>17,415</u>	28,235
Weighted average number of shares for calculation of basic earnings per share	<u>505,820,000</u>	463,358,462	<u>505,820,000</u>	442,703,978
Effect of dilutive potential shares on the outstanding share options	<u>N/A</u>	6,344,544	<u>N/A</u>	1,426,575
Weighted average number of shares for calculation of diluted earnings per share	<u>505,820,000</u>	<u>469,703,006</u>	<u>505,820,000</u>	<u>444,130,553</u>

## 7. Dividend

The Board has resolved the payment of an interim dividend at HK0.3 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 2007. The dividend will be paid to shareholders on 27 September 2007. 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)	(Audited)
	As at	As at
	30 June 2007	31 December 2006
	RMB'000	RMB'000
Trade receivables	22,590	13,961
Prepayments, purchase deposits and other deposits	48,343	40,811
Notes receivable	1,439	808
Other receivables	12,149	8,798
	<u>84,521</u>	<u>64,378</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)	(Audited)
	As at	As at
	30 June 2007	31 December 2006
	RMB'000	RMB'000
Aged:		
Less than 3 months	16,259	8,648
More than 3 months but not exceeding 1 year	6,466	7,896
More than 1 year but not exceeding 2 years	32	534
More than 2 years but not exceeding 3 years	4,172	1,607
More than 3 years	1,433	656
	<u>28,362</u>	<u>19,341</u>
Less: provision for doubtful receivables	(5,772)	(5,380)
	<u><u>22,590</u></u>	<u><u>13,961</u></u>

#### 9. Trade and other payables

	(Unaudited)	(Audited)
	As at	As at
	30 June 2007	31 December 2006
	RMB'000	RMB'000
Trade payables	34,716	30,450
Notes payable	31,130	12,000
Deposits from customers	9,337	29,582
Accruals and other payables	29,636	20,547
	<u>104,819</u>	<u>92,579</u>

The aging analysis of trade payables is as follows:

	(Unaudited) As at 30 June 2007 RMB'000	(Audited) As at 31 December 2006 RMB'000
Aged:		
Less than 1 year	33,825	29,898
More than 1 year but not exceeding 2 years	518	552
More than 2 years but not exceeding 3 years	373	—
More than 3 years	—	—
	<u>34,716</u>	<u>30,450</u>

#### 10. Bank loans

	(Unaudited) As at 30 June 2007 RMB'000	(Audited) As at 31 December 2006 RMB'000
Short-term bank loans, secured	179,976	125,476
Long-term bank loans repayable:		
Less than 1 year	<u>5,800</u>	<u>8,800</u>
	5,800	8,800
Amounts due within 1 year included in current liabilities	<u>(5,800)</u>	<u>(8,800)</u>
	<u>Nil</u>	<u>Nil</u>

As at 30 June 2007, bank loans of the Group were generally secured by certain fixed assets and pledged cash deposits of the Group. These bank loans bear interest at the rate of 5.63% to 8.31% (2006: 4.5% to 6.7%) per annum.

## 11. Deferred income tax

Deferred taxation is calculated in full on temporary differences under the liability method using the taxation rates applicable to the respective companies. The movement in deferred income 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		Impairment			
	tax depreciation		of assets			
	30 June	31 December	30 June	31 December	30 June	31 December
	2007	2006	2007	2006	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Beginning of the year/period	—	(624)	771	462	771	(162)
Credited to profit and loss account	—	624	94	309	94	933
End of the year/period	—	—	865	771	865	771

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial Performance

For the six months ended 30 June 2007, the Group recorded a turnover of approximately RMB491 million, representing an increase of approximately 40% as compared with approximately RMB350 million for the same period last year. Profit attributable to shareholders was approximately RMB17.4 million (2006: approximately RMB28.2 million), which represented a decrease of approximately 38% compared with previous year, and basic earnings per share were approximately RMB3.44 cents (2006: approximately RMB6.38 cents).

During the period under review, the total sales quantities excluding trading portion of the Group reached 258,000 tonnes (2006: 260,000 tonnes), which were in similar level as compared with the same period of last year, in which sales volume of BB fertilizers and complex fertilizers increased by approximately 0.2% as compared to the corresponding period of last year.

The growth in turnover for the period under review was attributable to the increase in trading of ammonium sulfate, ammonium di-hydrogen phosphate and mono-ammonium phosphate.



## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### Financial Performance (Continued)

For the period under review, the gross profit margin of the Group decreased by approximately 5.1% to 12.1% as compared with the corresponding period last year, which were mainly due to the low gross profit margin of the trading portion, the urea plant in Xin Du District underwent the implementation of Cyclic Catalytic Regenerative Reforming (“CCR”) and the increase in export sales of BB and complex fertilizers. Cost of sales amounted to approximately RMB432 million, representing an increase of 49% as compared to corresponding period of last year. Distribution costs increased by approximately 28.5%, and the administrative expenses increased by 11.9% as compared with the corresponding period last year.

### Business Review

For the six months ended 30 June 2007, the Group’s turnover from the production and sales of BB fertilizers, complex fertilizers, sodium carbonate, urea, ammonium chloride, ammonium bicarbonate and liquid ammonia as well as the trading of ammonium sulfate, ammonium dihydrogen phosphate and mono-ammonium phosphate totaled approximate RMB491million with approximately 40% growth compared with the same period last year. The sales of urea, ammonium chloride and sodium carbonate were mainly contributed by the Group’s long-term customers. With the consolidation of domestic market and the expansion of overseas markets, the sales of BB fertilizers and complex fertilizers remained to be the steady source of the Group’s profit.

During the period under review, the Group recorded profit attributable to shareholders of approximately RMB17.4million, which represented an approximately 38% decrease compared to the same period last year, while the basic earnings per share was approximately RMB3.44 cents.

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### Business Review (Continued)

During the period under review, the Group recorded a substantial growth in turnover. Yet, the Group did not meet the target profit. The management believed that the reasons are as follows after serious review. Firstly, the major production facilities in the production plant in Xindou District, Chengdu, Sichuan Province was undergoing an upgrading of CCR system technology. The plant was set standstill in January 2007 and production was resumed in late February 2007. The standstill period had lasted for nearly 1.5 months. In addition to the alteration in the design and manufacturing process of the facilities, production was unstable after the resumption of production. Two idling periods to the production lines of ammonium compound were resulted and it had caused 2,124 and 3,500 tonnes decrease in the production of ammonium compound and urea respectively. The production cost was raised as well. Secondly, the growth in first half's turnover was mainly contributed by exports of chemical fertilizers, which was greatly affected by the exchange rate. The exchange rate of RMB to USD was 7.8:1 early this year but it has surged to 7.56:1 as of the end of June 2007. The total export volume was approximately 100,000 tonnes (included the remittance for exported goods that hadn't been settled by the end of June) and the accumulated export sales was USD21million in the first half year. Since the current foreign exchange hedging system in China is not expedient, the profit contributed by export therefore could not meet the target. Thirdly, structural problem existed in the sales of BB fertilizers and complex fertilizers. The sales of BB fertilizers and complex fertilizers designed for high value adding and highly profitable cash crops is lower while the sales of these fertilizers for field crops which are low value adding and with lower profitability is higher. Therefore, the overall profit level of BB fertilizers and complex fertilizers declined. Lastly, the production lines of BB fertilizers in Qingdao built in 2006 could not start operation as scheduled and the marketing work has just been launched. The Qingdao's plants therefore could not meet the target turnover and profit set by the Group.

To tackle the above-mentioned issues, the Group believes that the substantial increase in turnover with decreased profit was contributed by both objective factors as well as the management's problem. In order to accelerate rapid growth in the future, the Group will analyze the factors and fix the problems.

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### Prospects

#### Production plants

After studying the past experience of production standstill the Group will strive to maintain the stability in compound ammonium production lines in Sichuan's Xindou, optimize the efficiency and effectiveness after advancing CCR technology of the plants, reduce the production cost and raise the productivity.

The complex fertilizer plant in Qingdao with 300,000 tonnes capacity is under final examination and audit. When the plant is fully launched, it will not only contribute income to the Group, but also relieve the tight demand on fertilizers in the markets in Shandong and Northern China.

The Group will speed up the construction work of the production plant in Dazhou, Sichuan Province. The construction has been fully launched and is undergoing as scheduled. The site is equipped with luxurious natural gas and electricity supply. This will guarantee sufficient supply of raw materials and energy to the production facilities and this is also with better cost advantage. The construction and operation of the plant will surely raise the profit level of the Group.

#### Product structure adjustment and marketing

To tackle the problem on product structure and marketing of BB fertilizers and compound fertilizers in Chengdu, Sichuan, basing on comprehensive market research and analysis, the Group will adjust the product structure and target markets. Rapeseeds, vegetables, fruits and Chinese medical herbs are mostly cultivated in Sichuan and its periphery regions. These crops are highly value adding and the farmers are more likely to apply fertilizers at higher price to these crops. Targeting the markets in these regions is beneficial in boosting the sales volume and profit of BB fertilizers and compound fertilizers. Therefore, the Group will highlight the sales of the fertilizers specialized for rapeseeds, vegetables, fruits and Chinese medical herbs in Sichuan and its periphery regions starting from the second half year. Yet, the Group will also maintain the present markets in order to consolidate the market network and sales channels.

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### Prospects (Continued)

#### Product structure adjustment and marketing (Continued)

The BB fertilizer plant in Qingdao, Shandong will start operation soon. Shandong is the major region of vegetable growing and retailing as well as the major regions of vegetable exports. In which, garlic, onions, green onions and peanuts receive good reputation from overseas markets and rank the first in the export volume in China. These vegetables demand heavily on quality and environmental-friendly fertilizers. The fertilizers produced in Qingdao's plant can fully meet these criteria. To deal with this, the management in Qingdao's plant has assigned the plant to produce and sell the fertilizers specialized for the cash crops such as garlic, onions, green onions and peanuts, while the production and sales is also with the supplement of fertilizers which are specialized for other crops. Basing on this factor, Qingdao's plant will focus on the development of the target markets growing garlic, onions, green onions and peanuts, strengthen the marketing campaign and establish sales channels in order to make Qingdao's plant a growth driver of the Group's future's turnover and profit.

#### Research and development of technology and products

The group will maintain close cooperation with Soil and Fertilizer Institute, Chinese Academy of Agricultural Sciences in Sichuan to focus on the research of new primary BB fertilizer formula, slow release fertilizer ("SRF") and controlled release fertilizer ("CRF"). In the second half year, The Group plans to launch SRF and CRF in sampling fields across China and to obtain the regarding reports. SRF and CRF fertilizers are listed as one of the highlighted new fertilizers in China's "Eleventh Five-year-plan". Meanwhile, the Group will also cooperate with Soil and Fertilizer Institute, Chinese Academy of Agricultural Sciences in Shandong to research and develop specialized fertilizers which are suitable for garlic, onions and green onions in order to meet market's demand.

#### National favorable agricultural policies and stabilized demand and supply of chemical fertilizers

The growth of this year's chemical fertilizers in China remains stable because of the national favorable policy on chemical fertilizer manufacturing. According to the statistics of China Fertilizer Information Net, the net quantities of sales of chemical fertilizers in the first 5 months in 2007 have a growth of 14.6%. The demand of chemical fertilizers is expected to grow rapidly with the surging price of agricultural products.

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### Prospects (Continued)

#### **National favorable agricultural policies and stabilized demand and supply of chemical fertilizers(Continued)**

Recently, a representative attending “Nitrogenous Fertilizer Industry Summit 2007” commented, “In order to accelerate the development of China’s chemical fertilizers and to maintain stable information flow for agricultural manufacturing, various favorable policies and tariff policies on chemical fertilizer manufacturing which have already been implemented by the government will remain unchanged. The maximum price of chemical fertilizers will also remain the same within this year.”

Agriculture industry in China is still under a favourable environment for business development. With great potential for the development of chemical fertilizers, the Group will seize the opportunity to raise the turnover, boost the profit level and strive to achieve 2007’s sales target and future development plans of the Group so as to deliver maximum shareholders’ value.

## LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 June 2007, the Group had net current liabilities of approximately RMB45,075,000. Current assets as at 30 June 2007 comprised cash and bank deposits of approximately RMB31,787,000, pledged bank deposits of approximately RMB58,064,000, inventories of approximately RMB71,148,000, trade and other receivables of approximately RMB84,521,000. Current liabilities as at 30 June 2007 comprised short-term loans and current portion of long-term bank loans of approximately RMB185,776,000 and trade and other payables of approximately RMB104,819,000.

## CAPITAL COMMITMENTS

As at 30 June 2007, the Group had outstanding capital commitments of approximately RMB235,870,000.



## FINANCIAL RESOURCES

As at 30 June 2007, the Group had cash and bank balances of approximately RMB31,787,000 and standby bank facilities of approximately RMB10 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 49% and 44% as at 30 June 2007 and 31 December 2006 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 2007.

## MATERIAL ACQUISITIONS/DISPOSALS

Other than the major transaction on the acquisition of production facilities as per announcement dated 5 October 2006, the Group had no material acquisitions/disposals during the six months ended 30 June 2007 and it is the same for the comparative six months ended 30 June 2006.

## SEGMENTAL INFORMATION

The Group's activities are primarily conducted in the PRC and are within the same business segment. During the six months ended 30 June 2007, the total sales of export was approximately RMB150,105,000 and represents 31% of the total sales. Export sales comprised sales of complex fertilizer of approximately RMB76,270,000, trading of ammonium sulfate of approximately RMB6,403,000, trading of ammonium di-hydrogen phosphate and mono-ammonium phosphate of approximately 67,432,000.



## **DETAILS OF FUTURE PLANS FOR MATERIAL INVESTMENT OR CAPITAL ASSETS**

Other than the major transaction on the acquisition of production facilities as per announcement dated 5 October 2006, the Directors do not have any future plans for material investment or capital assets.

## **EMPLOYEE INFORMATION**

As at 30 June 2007, the Group had 1808 (2006: 1,831) employees, comprising 6 (2006: 6) in management, 105 (2006: 83) in finance and administration, 1,594 (2006: 1,621) in production, 95 (2006: 111) in sales and marketing and 8 (2006: 10) in research and development, 1802 (2006: 1,825) of these employees were located in the PRC and 6 (2006: 6) were located in Hong Kong.

## **CHARGES ON THE GROUP'S ASSETS**

As at 30 June 2007, certain land use rights and buildings with a total net book value of approximately RMB104,505,000 (2006: RMB84,400,000), plant and machinery with a total net book value of approximately RMB56,680,000 (2006: RMB23,210,000) and bank deposits of approximately RMB58,064,000 (2006: RMB87,000,000) were pledged as collateral for the Group's bank loans and notes payable.

## **FOREIGN EXCHANGE EXPOSURE**

The Group exposes to foreign exchange risks as certain portion of sales are denominated in foreign currencies, primarily with respect to the US dollar. The management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

## 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.

Details of options granted by the Company pursuant to the Scheme and outstanding as at 30 June 2007 were disclosed in the following table:

	Number of options					Grant date	Exercise price HK\$	Number of options	
	Held at 1 January 2007	Grant during period	Exercised during period	Cancelled during period	Held at 30 June 2007			Exercisable	Exercisable
								from grant date until 22 September 2013	from grant date until 10 April 2016
<b>Directors</b>									
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
<b>Employees</b>									
	11,400,000	—	—	—	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
<b>Total</b>	<u>36,140,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>36,140,000</u>			<u>24,400,000</u>	<u>11,740,000</u>



## DISCLOSURE OF INTERESTS

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

As at 30 June 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 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%

## 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 June 2007, so far as is known to any Director or chief executive of the Company, 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 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	25,675,000	5.08%

Save as disclosed above, as at 30 June 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 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 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.

## 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 2007.

## 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 2007