



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)

2008

First Quarterly Report
For the three months
ended 31 March 2008



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 2008, unaudited turnover was approximately RMB163 million, which represents an approximate 17% decrease as compared to that of the same period 2007.
- The sale quantities of BB and complex fertilizers of the Group was approximately 29,950 tonnes, which represents a decrease of 53.8% as compared with the first quarter of 2007.
- Profit attributable to shareholders of the Group was approximately RMB16.7 million for the three months ended 31 March 2008, which represents an approximately 149% increased as compared to that of the same period last year.
- Basic earnings per share of the Group was approximately RMB0.33 cents for the three months ended 31 March 2008.



UNAUDITED CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the three months ended 31 March 2008

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 2008, together with the unaudited comparative figures for the corresponding periods in 2007 as follows:

		Three months ended 31 March 2008	Three months ended 31 March 2007
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	2	162,692	196,367
Cost of sales		(126,983)	(172,659)
Gross profit		35,709	23,708
Interest income		128	282
Distribution costs		(5,712)	(7,824)
Administrative expenses		(11,742)	(10,084)
Other income		5,558	4,568
Operating profit		23,941	10,650
Finance costs		(3,906)	(2,425)
Profit before taxation		20,035	8,225
Taxation	3	(3,357)	(1,538)
Profit after taxation		16,678	6,687
Minority interests		—	—
Profit attributable to shareholders		16,678	6,687
Basic earnings per share (RMB cents)	4	0.33	1.32
Diluted earnings per share	4	0.33	N/A



Notes:

1. Basis of preparation

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

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

Principal accounting policies adopted by the Group in arriving at the financial information set out in this report are consistent with those adopted in the annual accounts for the year ended 31 December 2007. The measurement basis used in the preparation of the unaudited financial statements is historical cost, except for certain investment properties and financial investments, which are measured at fair values. All inter-company transactions and balance within the Group have been eliminated on consolidation.

The consolidated results for the three months ended 31 March 2008 are unaudited but have been reviewed by the audit committee of the Board.



2. Turnover

Turnover represents the net amounts received and receivable for chemical products and chemical fertilizers sold, less returns and allowances and value-added taxes, if applicable, during the 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 2008		For the three months ended 31 March 2007	
	RMB'000	%	RMB'000	%
BB & complex fertilizers	61,311	37.7	106,288	54.1
Sodium carbonate	31,765	19.5	24,609	12.5
Ammonium chloride	21,175	13.0	10,422	5.3
Urea	42,723	26.3	48,914	24.9
Ammonia	3,475	2.1	3,826	2.0
Ammonium bicarbonate	1,602	1.0	1,273	0.7
Others *	641	0.4	1,035	0.5
	<u>162,692</u>	<u>100</u>	<u>196,367</u>	<u>100</u>

Note: Others includes trading of sodium carbonate in 2008 and trading of highly water soluble fertilizer, foliar fertilizer and ammonium sulphate in 2007.



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 2008.

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 2008 is 18%. Accordingly, current income tax provision made for Chengdu Ko Yo Chemical for the three months ended 31 March 2008 was RMB2,579,000.

The preferential EIT rate applicable to Chengdu Ko Yo Compound for the three months ended 31 March 2008 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 2008 was RMB778,000.

The preferential EIT rate applicable to Dazhu Ko Yo Chemical for the three months ended 31 March 2008 is 7.5%, together with the rate of 3% of LEIT, the overall rate applicable is 10.5%. Accordingly, no current income tax provision had been made for Dazhu Ko Yo Chemical for the three months ended 31 March 2008.

Dezhou Ko Yo Compound and Qingdao Ko Yo Chemical did not have current income tax provision for the three months ended 31 March 2008.



4. Earnings per share

The calculation of basic earnings per share for the three months ended 31 March 2008 is based on the consolidated profit attributable to shareholders of approximately RMB16,678,000 (2007: RMB6,687,000) and the weighted average number of approximately 5,070,224,176 (2007: 505,820,000) ordinary shares in issue during the periods. Diluted earning per share for the three months ended 31 March 2008 is based on the weighted average number of shares together with the effect of dilutive potential shares on the outstanding share options and of approximately 5,101,364,852 for the relevant periods. For the three months ended 31 March 2007, diluted earning per share was not presented as there was no dilutive potential share.

5. Dividend

The Board does not recommend the payment of interim dividend for the three months ended 31 March 2008 (31 March 2007: Nil).

6. Reserve

Movements of the Group's reserves were as follows:

	Share premium <i>RMB' 000</i>	Merger reserve <i>RMB' 000</i>	Reserve fund <i>RMB' 000</i>	Enterprise expansion fund <i>RMB' 000</i>	Retaining earnings <i>RMB' 000</i>	Total <i>RMB' 000</i>
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>
Balance as at						
1 January 2008 (audited)	289,457	(22,041)	20,835	1,131	200,311	489,693
Net Profit for the three months ended 31 March 2008	—	—	—	—	16,678	16,678
Issue of ordinary share	54,596	—	—	—	—	54,596
Balance as at 31 March 2008	<u>344,053</u>	<u>(22,041)</u>	<u>20,835</u>	<u>1,131</u>	<u>216,989</u>	<u>560,967</u>



MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For the three months ended 31 March 2008, the Group recorded a turnover of approximately RMB163 million, representing a decrease of 17% as compared with approximately RMB196 million for the same period last year. The turnover derived from the sales of BB and complex fertilizers was RMB61.3 million, which represent a decrease of 42% as compared with the same period last year. Profit attributable to shareholders was approximately RMB16.7 million (2007: RMB6.7 million), which represented an increase of 149% compared with the same period last year, and earnings per share was RMB0.33 cents (2007: RMB1.32 cents).

During the period under review, the gross profit margin was increased to 21.9% from 12.1% in the same period last year, which was due to the implementation of Cyclic Catalytic Regenerative Reforming (CCR) technique in the Group's production systems of the plant in Xin Du District and the increase in selling price of the products. Distribution costs were decreased by 27.0% as compared to same period last year. The Group's administrative expenses were increased 16.4% to approximately RMB11.7 million as compared with RMB10.1 million last year.



MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Business Review

For the three months ended 31 March 2008, 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 ammonia. As affected by the export policy on chemical fertilizers, the export sales of the Group's products on the first quarter were decreased and lead to the decrease in turnover and sales volume of chemical fertilizers and chemical products. However, the increase in selling price of products and the production equipments were operated in high efficiency, the Group recorded a substantial growth in profit over the same period of last year.

Having experienced the worst snow storms in 50 years in Southern provinces in the first quarter of 2008, there was an increase in the need to re-grow the crops and to grow alternative crops in the PRC. As a result, the national consumption of chemical fertilizers and chemical products was higher than expected during the farming season. The Group was progressive in organizing the supply of raw materials and electricity in order to meet the market's demand. Moreover, the successful implementation of the Cyclic Catalytic Regenerative Reforming (CCR) technique in 2007 enabled the production facilities to operate in high stability, in which the high efficiency in production and lower production cost were secured. These acted as a driving force of the first quarter's performance.

On the other hand, selling price of fertilizers remained expensive due to rising raw materials cost and shortage in stock. Price of the Group's products also sustained at a high level and increased by 73% at most as compared to the same period of last year. This guaranteed the revenue of the first quarter.

During the period under review, profit attributable to shareholders was approximately RMB16.7 million, which represented a growth of approximately 149% compared to the same period of last year. Basic earnings per share reached approximately RMB0.33 cents.



MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Prospects

During the period under review, the project with annual capacity of ammonia compound and urea of approximately 400,000 tonnes and 450,000 tonnes in the Natural Gas Energy Utilization Area of Dazhou city, Sichuan (四川省達州市天然氣能源化工園區) was successfully implemented. The production progress of ammonia compound foundation and construction foundation achieved as scheduled. The first batch, the second batch, and the third batch of dismantling equipments were all delivered to project sites in the first quarter of 2008. Maintenance and installation work of the dismantling equipment are carried out in April 2008.

Meanwhile, the project has been listed in the focused construction projects of the Sichuan province's "eleventh five-year plan" and the focused construction projects of Sichuan province in 2007, and has achieved the affirmation of the Development and Reform Committee of Sichuan and China Petrochemical Corporation on natural gas supply of 450 million cubic metres per year. Driven by the operation of the project, the Boards expects the Group's turnover and profit will continue to grow in the future.

According to a notice issued by the Development and Reform Committee on 19 February, the minimum purchasing price of rice and wheat will be raised in 2008, ranging from 2% - 7%. On 20 February, the Development and Reform Committee granted an amount of approximately RMB20.6 billion as comprehensive allowance for agricultural industry. Hence, the 2008 comprehensive allowance for agricultural industry reached RMB48.2 billion, representing an increase of 75% over last year. These policies were effective in alleviating the negative impacts posed on farmers that were caused by the rise in price of fertilizers, and securing the farmers' motivation to grow crops as well as promoting food production and increasing farmers' income. As Spring has come, fertilizers will be in great usage, together with the beneficial agricultural policies adopted by the government, the demand for each type of fertilizer will still be large.

In order to realize the operation target of our Group in this year, the Group will fully utilize its favourable conditions and resources, to progressively coordinate the supply of raw materials, extend the production workload, and be devoted to raise the production efficiency under the premise of safety.

DISCLOSURE OF INTERESTS

(a) Interests of the Directors in the Company

As at 31 March 2008, 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	2,924,440,000	2,100,000	2,926,540,000	54.25%
Yuan Bai	366,464,000	2,000,000	368,464,000	6.83%
Chi Chuan	62,640,000	21,000,000	83,640,000	1.55%
Man Au Vivian	31,320,000	19,000,000	50,320,000	0.93%
Li Shengdi	—	21,000,000	21,000,000	0.39%
Hu Xiaoping	—	2,000,000	2,000,000	0.04%
Woo Che-wor, Alex	—	2,000,000	2,000,000	0.04%
Qian Laizhong	—	2,100,000	2,100,000	0.04%

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 2008, 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 2008, 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
Pinpoint Asset Management Group	Beneficial Owner	340,000,000	6.30%

Save as disclosed above, as at 31 March 2008, the Directors are not aware of any other person (other than the Directors and chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.



DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the Directors or the management shareholders of the Company and their respective associates (as defined under the GEM Listing Rules) had any interest in a business which competes or may compete, directly or indirectly with the business of the Company during the period under review.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the three months ended 31 March 2008, the Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company also had made specific enquiry of all directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by directors.

AUDIT COMMITTEE

The Company established an audit committee on 10 June 2003 with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Company and the Group and provide advice and comments to the Directors. The audit committee has three members comprising the three independent non-executive directors, namely, Mr. Hu Xiaoping, Mr. Woo Che-wor, Alex and Mr. Qian Laizhong.

The audit committee has reviewed with management the accounting principles and practices adopted by the Company and the Group and discussed internal controls and financial reporting matters including a review of the unaudited quarterly accounts of the Company and the Group for the three months ended 31 March 2008.

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

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.

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.

SHARE PLACING

On 18th February 2008, 500,000,000 existing ordinary shares of HKD0.02 each in the share capital of the Company (the "Shares") were placed at HKD0.145 per share (the "Placing Price") through the share placement (the "Share Placement") and on 29th February 2008, the Company issued 500,000,000 new Shares with the aggregate nominal value of HKD10,000,000 (the "New Shares"). The placees were professional, institutional and private investors who were independent of and not connected with the directors, chief executive, management shareholders or substantial shareholders of the Company or any of its subsidiaries. The Placing Price represented a discount of approximately 8.81% to the closing price of HKD0.159 per Share as quoted on the Stock Exchange on 18th February 2008. The New Shares represented approximately 10.2% of the issued Shares prior to the Share Placement. A net proceed of approximately HKD69 million in aggregate after expenses and commissions was received and the net price for New Shares was approximately HKD0.138. Such proceeds was applied to the new urea plant with an annual production capacity of 400,000 tonnes of ammonia and 450,000 tonnes of urea in Dazhou, Sichuan Province, the PRC as per announcement dated 19th February 2008.

By Order of the Board

Li Weiruo

Chairman

Chengdu, the PRC, 9 May 2008