



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)



Interim Report

For the six months ended 30 June 2003



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)

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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

- The Company was successfully listed on GEM of the Stock Exchange on 10 July 2003.
- For the six months ended 30 June 2003, unaudited turnover increased to approximately RMB148.6 million, which represents an approximate 15% growth as compared to that of the same period last year. However, the net profit decreased by approximately 14% as compared to that of the same period last year.
- Earnings per share of the Group was approximately RMB3.22 cents for the six months ended 30 June 2003.
- The Directors have resolved to pay an interim dividend at HK 0.6 cent per share for the six months ended 30 June 2003.

To all shareholders,

The board of directors (the "Directors" or the "Board") is pleased to present the unaudited condensed consolidated operating results of Ko Yo Ecological Agrotech (Group) Limited (the "Company") and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2003.

The Company was successfully listed on GEM of the Stock Exchange on 10 July 2003, subsequent to the balance sheet date as at 30 June 2003 for the interim results. The Company, together with the vendors (the "Vendors") of the sale shares (the "Sale Shares"), offered 128,000,000 shares in aggregate, of which 115,200,000 shares were offered by way of placing and 12,800,000 shares were offered by way of public offer (the "Share Offer"). A total amount of HK\$51,200,000 was raised. The net proceeds of the Share Offer after deducting the related fees and expenses and the proceeds attributable to the sale of the Sale Shares by the Vendors was approximately HK\$29,000,000. The net proceeds will be mainly used for the establishment of additional production facilities, the purchase of equipment for BB Fertilisers, the development of new products, product research and assessment, the advertising and promotion of new products and the expansion of the Group's sales force.

INTERIM DIVIDEND

The Board has resolved to pay an interim dividend of HK 0.6 cent per share for the six months ended 30 June 2003 to shareholders whose names appear on the register of members of the Company as at the close of business on 10 September 2003. The Board will announce the payment date of such interim dividend as soon as possible. The register of members of the Company will be closed from 8 September 2003 to 10 September 2003, 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, Standard Registrars Limited, at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration by no later than 4:00 p.m. on 5 September 2003.



THE FINANCIAL STATEMENTS

UNAUDITED CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30 June 2003

The unaudited condensed consolidated results of the Group for the three months and six months ended 30 June 2003 together with the unaudited comparative figures for the corresponding periods in 2002 are as follows:

	Notes	Three months ended 30 June		Six months ended 30 June	
		2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Turnover	2	75,291	75,901	148,564	129,395
Cost of sales		(59,104)	(58,713)	(117,136)	(100,738)
Gross profit		16,187	17,188	31,428	28,657
Interest income		32	30	64	61
Distribution and selling expenses		(4,037)	(2,818)	(7,583)	(4,531)
General and administrative expenses		(5,265)	(3,953)	(9,847)	(7,610)
Other income		1,688	745	2,234	1,305
Profit from operations		8,605	11,192	16,296	17,882
Finance cost		(1,542)	(1,243)	(2,864)	(2,229)
Profit before taxation	3	7,063	9,949	13,432	15,653
Taxation	4	13	26	88	439
Profit after taxation		7,076	9,975	13,520	16,092
Minority interest		-	-	-	(286)
Profit attributable to shareholders		7,076	9,975	13,520	15,806
Earnings per share					
– basic and diluted (RMB cents)	5	1.68	2.38	3.22	3.76
Proposed dividends per share (HK cents)	6	Nil	Nil	0.6	Nil



CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2003

		(Unaudited) As at 30 June 2003 RMB'000	(Audited*) As at 31 December 2002 RMB'000
	Notes		
NON-CURRENT ASSETS			
Fixed assets		159,131	160,913
Deposits for purchase of fixed assets		461	–
Long-term investment		1,000	1,000
Negative goodwill		(10,964)	(11,103)
		149,628	150,810
CURRENT ASSETS			
Inventories		11,953	17,319
Marketable securities	7	5,000	–
Amounts due from related companies		10	18
Amounts due from shareholders		354	317
Trade receivables	8	33,684	29,929
Notes receivable		809	1,742
Prepayments and other receivables		34,443	24,894
Pledged bank deposits		9,647	9,500
Cash and bank deposits		13,195	7,010
		109,095	90,729
CURRENT LIABILITIES			
Trade payables	9	19,319	9,666
Notes payable		11,647	11,500
Accruals and other payables		15,730	16,162
Deposits from customers		2,820	3,070
Amounts due to related companies		104	108
Amounts due to shareholders		55	14
Current portion of long-term loans	10	7,000	9,000
Short-term bank loans	10	44,430	30,430
		101,105	79,950
NET CURRENT ASSETS		7,990	10,779
TOTAL ASSETS LESS CURRENT LIABILITIES		157,618	161,589



		(Unaudited) As at 30 June 2003 RMB'000	(Audited*) As at 31 December 2002 RMB'000
	Notes		
NON-CURRENT LIABILITIES			
Long-term bank loans	10	35,800	36,800
Provision for staff compensation		7,540	7,632
Amounts due to related companies		2,171	2,171
Convertible note payable		–	5,300
Other long-term payables		31,600	42,500
Deferred tax liabilities	11	2,965	3,052
		80,076	97,455
MINORITY INTERESTS			
		–	–
NET ASSETS			
		77,542	64,134
CAPITAL AND RESERVES			
Capital		33,199	3,181
Reserves		44,343	60,953
		77,542	64,134

* certain figures for 2002 have been restated to reflect the adoption of Statements of Standard Accounting Practice 12 (revised) ("SSAP 12") on "Income Taxes"



UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2003

	Six months ended 30 June	
	2003 RMB'000	2002 RMB'000
NET CASH FROM OPERATING ACTIVITIES	14,537	1,949
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease in pledged bank deposits with maturity over three months	2,000	-
Purchases of fixed assets and payments for construction-in-progress	(2,848)	(9,444)
Proceeds from disposal of fixed assets	52	8
Deposits for purchase of fixed assets	(461)	(394)
Payment for acquisition of additional equity interest in a subsidiary	-	(300)
Purchase of long-term investment	-	(1,000)
Purchase of marketable securities	(5,000)	-
Interest received	64	61
NET CASH USED IN INVESTING ACTIVITIES	<u>(6,193)</u>	<u>(11,069)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term bank loans	14,000	8,800
(Repayment of)/proceeds from long-term bank loans	(3,000)	4,950
Proceeds from the issuance of convertible note	-	5,300
Payment for listing expenses	(112)	(2,439)
Repayment of other long-term payables	(10,900)	(225)
NET CASH FROM/(USED IN) FINANCING ACTIVITIES	<u>(12)</u>	<u>16,386</u>
INCREASE IN CASH AND CASH EQUIVALENTS	8,332	7,266
CASH AND CASH EQUIVALENTS, AT THE BEGINNING OF PERIOD	<u>14,510</u>	<u>11,394</u>
CASH AND CASH EQUIVALENTS, AT THE END OF PERIOD	<u><u>22,842</u></u>	<u><u>18,660</u></u>



UNAUDITED CONSOLIDATED STATEMENT OF MOVEMENT IN EQUITY

	Capital	Capital	Share	Reserve	Enterprise	Exchange	Accumulated	Total
	Capital	reserve	issuance	fund	expansion	reserve	profits	
	RMB'000	RMB'000	cost	fund	fund	RMB'000	RMB'000	RMB'000
Balance as at 1 January 2002 (audited)	3,180	7,977	-	4,356	412	61	23,467	39,453
Adjustment on adoption of SSAP 12 (Revised)	-	-	-	-	-	-	(343)	(343)
As restated	3,180	7,977	-	4,356	412	61	23,124	39,110
Net profit for the six months ended 30 June 2002	-	-	-	-	-	-	15,806	15,806
Share issuance cost	-	-	(2,707)	-	-	-	-	(2,707)
Balance as at 30 June 2002	<u>3,180</u>	<u>7,977</u>	<u>(2,707)</u>	<u>4,356</u>	<u>412</u>	<u>61</u>	<u>38,930</u>	<u>52,209</u>
Balance as at 1 January 2003 (audited)	3,181	7,977	(6,227)	4,356	412	61	54,807	64,567
Adjustment on adoption of SSAP 12 (Revised)	-	-	-	-	-	-	(433)	(433)
As restated	3,181	7,977	(6,277)	4,356	412	61	54,374	64,134
Net profit for the six months ended 30 June 2003	-	-	-	-	-	-	13,520	13,520
Share issuance cost	-	-	(112)	-	-	-	-	(112)
Reorganisation on 10 June 2003*	30,018	(30,018)	-	-	-	-	-	-
Balance as at 30 June 2003	<u>33,199</u>	<u>(22,041)</u>	<u>(6,339)</u>	<u>4,356</u>	<u>412</u>	<u>61</u>	<u>67,894</u>	<u>77,542</u>

* By the board resolutions of the Company passed on 10 June 2003, the Company became the holding company of the other companies comprising the Group following the corporate reorganisation. A total of 313,200,000 shares of par value HK\$0.1 each in the capital of the Company were issued at par, which amounts to HK\$31,320,000 in total.



NOTES TO THE UNAUDITED COMBINED FINANCIAL STATEMENTS

(Amounts expressed in Renminbi unless otherwise stated)

I. Basis of preparation

The interim report of the Group was unaudited. The interim financial statements of the Group have been reviewed by the audit committee of the Group.

The interim financial statements have been prepared in accordance with the Statements of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants and the disclosure requirements set out in Chapter 18 of the Rules Governing the Listing of the Securities on GEM of the Stock Exchange. Principal accounting policies adopted in these financial statements, except for the adoption of revised statements of standard accounting practices effective from 1 January 2003, is the same as those adopted in preparing the 2002 annual financial statements.

Adoption of revised Statements of Standard Accounting Practice

Effective 1 January 2003, the following SSAP issued by the Hong Kong Society of Accountants have been adopted:

SSAP 1 (revised)	:	Presentation of Financial Statements
SSAP 12 (revised)	:	Income Taxes
SSAP 34 (revised)	:	Employee Benefits

The adoption of SSAP 1(revised) and SSAP 34(revised) had no material effect on the amounts reported in the prior year.

During the current period, the Group has adopted SSAP 12(revised) on "Income Taxes". The principal effect of the implementation of SSAP 12(revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the timing differences between profit as computed for taxation purposes and profit as stated in the financial statements to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future. SSAP 12(revised) requires the adoption of deferred tax in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in tax computation, with limited exceptions. Applying the new policy, accumulated profits as at 31 December 2002 have been reduced by approximately RMB0.433 million. The balance on the Group's negative goodwill at 31 December 2002 has been reduced by approximately RMB2.263 million, representing the deferred tax liability recognized in respect of the fair value adjustment on business combination in 1999.



2. Turnover

Turnover represents the net amounts received and receivable for chemical products and chemical fertilisers sold, less returns and allowances and value-added taxes, if applicable, during the six-month period. The Group operates within one geographical segment as its revenues are primarily generated in the People's Republic of China (the "PRC") and its assets are located there. Accordingly, no segmental information is presented.

Turnover consisted the following products:

	(Unaudited) Six months ended 30 June 2003		(Unaudited) Six months ended 30 June 2002	
	RMB'000	%	RMB'000	%
BB Fertilisers	52,918	35.6%	43,608	33.7%
Sodium carbonate	35,191	23.7%	37,006	28.6%
Ammonium chloride	19,227	12.9%	18,610	14.4%
Urea	37,797	25.4%	29,624	22.9%
Ammonia	3,431	2.4%	547	0.4%
	<u>148,564</u>	<u>100%</u>	<u>129,395</u>	<u>100%</u>

3. Profit before taxation

Profit before taxation is stated after crediting and charging the following:

	(Unaudited) Six months ended 30 June 2003	(Unaudited) 2002
	RMB'000	RMB'000
Crediting:		
Gain on disposal of fixed assets	52	8
Charging:		
Staff costs (including directors' emoluments)	8,523	7,283
Provision for doubtful receivables	400	–
Finance cost – interest expenses on loans wholly repayable – within five years	2,864	2,229
Depreciation of fixed assets	4,630	3,994
Auditors' remuneration	–	–



4. Taxation

No provision for profits tax in the Cayman Islands, the British Virgin Islands or Hong Kong has been provided for, as the Group had no assessable profit arising in or derived from those jurisdictions during the six months ended 30 June 2003.

Chengdu Ko Yo Compound Fertilizer Co., Ltd. ("Chengdu Ko Yo Compound") is established as foreign investment enterprises in the PRC, which is subject to full exemption from Enterprise Income Tax ("EIT") during the year of 2003. Chengdu Ko Yo Chemical Industry Co., Ltd ("Chengdu Ko Yo Chemical") was entitled to a 50% reduction for EIT in 2003, which applicable rate of EIT was reduced to 7.5%. 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 the cost of certain machinery acquired from PRC enterprises, which are local machinery suppliers and unrelated to the Group. Accordingly, no EIT provision was made for the six months ended 30 June 2003.

Taxation in income statements represents net reversal of deferred tax liabilities, which details are set out in Note 11.

5. Earnings per share

The calculation of the earnings per share for the three months and the six months ended 30 June 2002 and 2003 is based on the unaudited profit for the relevant periods and on the 420,000,000 shares in issue in connection with the reorganization in preparation for the Company's shares to be listed on GEM of the Stock Exchange on 10 July 2003. There is no potential dilutive effect on the earnings per share.

6. Dividend

The Board has resolved the payment of an interim dividend at HK 0.6 cent per share for the six months ended 30 June 2003 (2002: Nil), amounting to HK\$2,520,000 in total, which will be payable to shareholders whose names appear on the register of members of the Company as at 10 September 2003. The payment date will be announced as soon as possible. The dividend as declared should not be taken as an indication of the level of profit or dividend for the full year.



7. Marketable securities

The marketable securities represent a unit trust fund issued by bank in the PRC. The closing value of that unit trust as at 30 June 2003 was just higher than the original cost. The immaterial change was not reflected in the balance sheet as at 30 June 2003.

8. Trade receivables

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 2003 RMB'000	(Audited) As at 31 December 2002 RMB'000
Aged:		
Less than 3 months	25,544	27,436
More than 3 months but not exceeding 1 year	8,838	2,791
More than 1 year but not exceeding 2 years	-	-
More than 2 years but not exceeding 3 years	-	-
More than 3 years	409	409
	34,791	30,636
Less: Provision for doubtful receivables	(1,107)	(707)
	33,684	29,929



9. Trade payables

The aging analysis of trade payables is as follows:

	(Unaudited)	(Audited)
	As at	As at 31
	30 June 2003	December 2002
	RMB'000	RMB'000
Aged:		
Less than 1 year	17,788	8,369
More than 1 year but not exceeding 2 years	234	46
More than 2 years but not exceeding 3 years	46	31
More than 3 years	1,251	1,220
	<u>19,319</u>	<u>9,666</u>

10. Bank loans

	(Unaudited)	(Audited)
	As at	As at
	30 June	31 December
	2003	2002
	RMB'000	RMB'000
Short-term bank loans	<u>44,430</u>	<u>30,430</u>
Long-term bank loans repayable:		
Less than 1 year	7,000	9,000
More than 1 year but not exceeding 2 years	18,000	11,000
More than 2 years but not exceeding 5 years	17,800	25,800
	<u>42,800</u>	<u>45,800</u>
Less: current portion	<u>(7,000)</u>	<u>(9,000)</u>
Long-term portion	<u>35,800</u>	<u>36,800</u>

As at 30 June 2003, bank loans were generally secured by certain fixed assets of the Group. These bank loans bear interest at the rate of 5.04% to 7.14% (2002: 6.12% to 7.14%) per annum. As at 30 June 2003, all bank loan facilities of the Group were fully utilised.



11. Deferred taxation

The following are the major deferred tax assets and recognized by the Group and movements thereon during the current and prior periods:

	Upon business combination RMB'000	Accelerated tax depreciation RMB'000	Provision for doubtful receivable RMB'000	Others timing difference RMB'000	Total RMB'000
As 1 January 2002					
- as previously reported (audited)	-	997	(60)	(154)	783
- adjustment on adoption of SSAP 12 (revised)	2,743	-	-	-	2,743
- as restated	2,743	997	(60)	(154)	3,526
Charge/(Credit) to income for the six months ended 30 June 2002	(24)	(418)	22	(19)	(439)
Charge/(Credit) to income for the six months ended 31 December 2002	(23)	(94)	(26)	108	(35)
Balance at 1 January 2003	2,696	485	(64)	(65)	3,052
Charge/(Credit) to income for the six months ended 30 June 2003	(24)	69	6	(139)	(88)
Balance at 30 June 2003	2,672	554	(58)	(204)	2,965

12. Subsequent events

The Company was successfully listed on GEM of the Stock Exchange on 10 July 2003.



MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

For the six months ended 30 June 2003, the products manufactured and distributed by the Group, including sodium carbonate, ammonium chloride, urea, ammonia and BB Fertilisers, achieved a turnover of approximately RMB149,000,000, representing an increase of approximately 15% compared with that of the same period in the previous year. The net profit of the Group, however, recorded a decrease of approximately 14% compared with that of the same period in the previous year.

The decrease in profit was mainly attributable to the increase in production costs due to the rise in the costs of natural gas and electricity, the decrease in the selling prices of sodium carbonate, and the increase in the selling and management expenses incurred by the Group in the first half of the year.

The increase in the prices of natural gas was mainly due to the outbreak of war in Iraq, resulting in the increase in price of natural gas all over the world as well as the increase in the prices of natural gas in the PRC. In addition, the increase in the prices of natural gas was also due to the fact that suppliers of natural gas adjusted the prices of natural gas for scheduled demand and unscheduled demand. The main reason for the increase in electricity cost was that electricity supply was affected by the lack of water for electricity generation in hydroelectric power stations because some of provinces in the PRC suffered from severe droughts in the first half of this year. The relevant authority of the government of Sichuan Province introduced a policy of upward adjustment to electricity cost during the drought period between December 2002 and April 2003 which was also a cause for an increase in electricity cost. The increase in the prices of natural gas and electricity resulted in an increase in the production costs of the Group's products and a decrease in the gross profit margin in the first half of the year.

The selling prices of sodium carbonate dropped substantially in the first half of the year, resulting in a decrease in the sales revenue of the Group. Besides, the annual overhaul of the production facilities of the Group started on 15 May 2003 and was completed by the end of May. All these had a direct effect on the production volume of all products of the Group for the first half of the year and thus sales revenue was lowered.



In comparison with the same period in the previous year, there was a relatively substantial increase in the selling expenses of the Group in the first half of this year, this was mainly due to the expenses on publicity and marketing with a view to bringing about rapid growth in the business of BB Fertilisers from the second half of the year to next year. As the first half of the year is a crucial period for the listing of the Company's shares in Hong Kong, the traveling expenses of senior management and the expenses on receiving personnel from intermediary bodies increased accordingly, resulting in an increase in management expenses in the first half of the year. The factors mentioned above were the causes for the increase in production cost and decrease in profit of the Group in the first half of the year.

As an industrial enterprise, the Group pays special attention to control its production costs and strives to maintain its profit level in the first half of the year by reducing the increase in costs caused by the increase in prices of electricity and natural gas. From January to June 2003, the Group's production costs of sodium carbonate, ammonium chloride and urea decreased gradually, as a result of the Group's cost control policy. In June, the production costs of these three products were at the lowest levels in the history of the Group, and were decreased by approximately 1%, 7% and 4% respectively compared with that of the same period in the previous year.

As at 30 June 2003, the products of the Group recorded growth in both overall sales volume and overall revenue. The sales revenue from sodium carbonate, ammonium chloride, urea and ammonia increased by approximately 12% in aggregate compared with that of the same period in the previous year. The sales of sodium carbonate, ammonium chloride and urea remained relatively stable mainly due to the stable customer base, with approximately 90% of the sales attributable to regular customers who have long-standing relationships with the Group. This indicated that the brandname and reputation of the Group served as a quality guarantee and customers are loyal to the Group. The sales volume of sodium carbonate, ammonium chloride and urea grew steadily and reached the Group's target set at the beginning of the year.



There was substantial growth in the sales revenue from BB Fertilisers in the first half of this year, representing an increase of approximately 21% compared with that of the same period in the previous year. The gross profit of the Group attributable to the sales of BB Fertilisers rose from approximately 22% of the previous year to approximately 35% this year. The gross profit margin of BB Fertilisers also increased from approximately 14% of the previous year to approximately 21% this year. The immediate impact of the extensive outbreak of the severe acute respiratory syndrome ("SARS") in mainland China during the first half of this year was felt by the enterprises engaged in agricultural and chemical fertilizer business mainly in the following ways: the areas available for spring plantation throughout China were reduced approximately by 2%; fewer sources of income for farmers; and the utilization of chemical fertilisers decreased accordingly. The outbreak of SARS caused severe impact on the sales of BB Fertilisers of the Group. The sales representatives were unable to approach the clients in their respective sales regions for marketing purposes, the sales network was therefore interrupted. Nonetheless, the results of the first half of this year showed that the increase in sales of BB Fertilisers were mainly attributed to the following aspects. Firstly, the quality of BB Fertilisers of the Group was relatively high and their efficacy was generally recognised by farmers and distributors. Secondly, the agricultural services drove the increase in sales of BB Fertilisers. The Group made a breakthrough in its scope of agricultural services by extending beyond the traditional instructive approach for fertilization and increasingly instilling the concepts of scientific farming and balanced fertilisation to farmers and distributors, which were well received. During the first half of this year, the Group required the distributors of some of sales regions who had potential for growth and considerable sales capacity to employ agricultural services staff. This has been practiced in some regions with improvements made and will be adopted by other sales regions stage by stage. The Group aims at establishing an agricultural services system covering its whole distribution network, with a view to add value to BB Fertilisers and boost sales with the quality and specialisation of agricultural services. Besides, through educating and training distributors and point-of-sale retailers, the sales philosophy of the Group has been developed to its fullest extent and greatest benefits. Lastly, the sales teams of the Group demonstrated a high level of dedication. During the outbreak of SARS, sales representatives made every effort to perform their duties by overcoming all difficulties and took measures to prevent themselves from being infected by SARS. The input of more resources in product promotion, market exploration and generation of new customers in the first half of this year also drove the sales of BB Fertilisers directly.



To maintain the growth of sales volume for the period from the second half of this year until next year, the Group has made special efforts to modify and expand its distribution network during the first half of this year. The Group, through retaining long-term customers and strengthening its local market share for products such as sodium carbonate, ammonium chloride and urea, has strategically maintained the business relationship with potential customers in the peripheral provinces of Sichuan. In addition, as a means to explore new customers, the Group carefully selected 8 new distributors from 8 different cities in the first half of the year who have potential for growth and shared the same marketing vision with the Group. Besides, the Group made partial adjustments to some of the selected sales networks of BB Fertilizers. Such adjustment include the reduction of the coverage of the Group's authorized agents, so that the authorized agents may be able to focus on the sales in that region so as to achieve a larger market share.

To conform to the Group's strategic development policy, the Group started to focus on assessing the efficacy of the selected BB Fertilizers instead of introducing new types of fertilisers in the first half of this year. The purpose of this exercise is to improve the efficacy of the BB Fertilizers with better formulae to make them more suitable for the crop, and soil of different regions.

The overall management and service quality of the Group have been recognized with awards given by the authorities of the state government, Sichuan Province and Chengdu City in the first half of this year. In February this year, Chengdu Ko Yo Compound was awarded the Certificate of No Public Harm Fertilizers for the Growth of Agricultural Products of Sichuan Province (四川省無公害農產品生產施用肥料證書) by Sichuan Provincial Department of Agriculture. In April this year, Chengdu Ko Yo Chemical and Chengdu Ko Yo Compound were awarded the Certificate of Model Enterprise of Product Quality and Reliable Services of the State (全國質量服務誠信示範企業) and Certificate of Model Enterprise of Industrial Quality of the State (全國行業質量示範企業) by China Association for Quality Inspection. Meanwhile, Chengdu Ko Yo Chemical was also selected as one of the "Top 50 Industrial Enterprises in Chengdu in 2002" (2002年度成都工業企業五十強) by the Chengdu Municipal Committee of the China Communist Party and the Chengdu Municipal People's Government in April 2003. All of these were new additions to the list of certificates and honorable awards received by the Group.



Prospects

In the second half of the year, the existing regular customers will still be the prime target for the sales of the Group's products such as sodium carbonate, ammonium chloride and urea. With reliable distribution channels and stable clientele, the Directors believe that the sales of such products will continue to play an important role in generating profits for the Group.

We began to assess the efficacy of BB Fertilisers in the first half of the year. On the basis of such assessment, the Group will conduct a comprehensive analysis and selection process on the types of the existing BB Fertilisers in the second half of the year with a view to identifying the product types which may each contribute 20-30% of the sales of BB Fertilisers. The products so selected will be the Group's major products for development. Besides, the Group will consider the feasibility of developing new types of fertilisers based on the results of market research and survey to be conducted in the second half of the year.

The Group will enhance its agricultural services in the second half of the year, which mainly include the use of more experimental fields to demonstrate the efficacy of different types of BB Fertilisers, enlarging the working teams of the agricultural services and promoting the Group's experience in agricultural services in key sales areas. By doing so, the Group hopes to increase the value of BB Fertilisers by making use of agricultural services provided by the Group, to increase the popularity of the Group's BB Fertilisers and to maintain the loyalty of its existing customers. The Directors expect that with the increase in the expenses on marketing in the first half of the year and the adoption of the above measures, there will be certain growth in revenue from the sales of BB Fertilisers in the second half of the year compared with that of the same period in the previous year.

The funds raised from the listing of the Group will be used for such purposes as disclosed under the section headed "Use of proceeds" in the Company's prospectus dated 30 June 2003 (the "Prospectus").

Regarding the long-term business prospects, the Directors believe that the demand for agricultural products will likely increase with the further growth of the economy of China, thus the demand for chemical fertilisers will potentially be great. The Group will use its best endeavours to capitalize on this excellent opportunity to realize its overall targets of future business as discussed below.

The existing production facilities of the Group are almost operating at their maximum capacity. The Directors expect that the sales volume of the products of the Group, in particular BB Fertilisers, will continue to increase. Therefore, the Group plans to upgrade its existing production facilities and increase production lines to meet the demands for the existing and new products.



The Group will continue to emphasize on the research and development of products in order to enhance the quality of the existing chemical fertilizers. Also, the Group will continue to cooperate with the Soil and Fertilisers Institute of Sichuan Academy of Agricultural Science (四川省農科院土壤肥料研究所) to develop new chemical fertilisers for gradual introduction into the market.

To facilitate the sales, the Group plans to enlarge its sales teams and conduct more marketing activities, including launching publicity campaigns in the media, participating in large scale exhibitions, trade fairs or similar activities with a view to extending the sales network and enhance the reputation of the brandnames of our products.

The Group will seek opportunities to form strategic alliances with major research institutes and manufacturers, distributors or suppliers of chemical fertilizers to enlarge the market shares of the Group's products and to strive for further development of the Group's business in China.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Net current assets

As at 30 June 2003, the Group had net current assets of approximately RMB7,990,000. Current assets as at 30 June 2003 comprised cash and cash equivalents of approximately RMB22,842,000, marketable securities of approximately RMB5,000,000, inventories of approximately RMB11,953,000, trade receivables of approximately RMB33,684,000 and prepayments and other current assets of approximately RMB35,616,000. Current liabilities as at 30 June 2003 comprised short-term loans and current portion of long-term bank loans of approximately RMB51,430,000, trade and notes payables of approximately RMB30,966,000, deposits from customers of approximately RMB2,820,000 and accrued charges and other payables of approximately RMB15,889,000.

CAPITAL COMMITMENTS

As at 30 June 2003, the Group had outstanding capital commitments of approximately RMB384,000.

FINANCIAL RESOURCES

As at 30 June 2003, the Group had bank balances of approximately RMB22,842,000. The Company intends to finance the Group's future operations, capital expenditure and other capital requirements with the existing bank balances and the listing proceeds.



GEARING RATIO

The Group's gearing ratios were approximately 0.70 and 0.73 as at 30 June 2003 and 31 December 2002 respectively. The gearing ratios were calculated based on total liabilities over total assets as at the respective balance sheet dates.

MATERIAL ACQUISITIONS/DISPOSALS

The Group had no material acquisitions/disposals during the six months ended 30 June 2003 and it is the same for the comparative six months ended 30 June 2002.

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.

EMPLOYEE INFORMATION

As at 30 June 2003, the Group had 1,344 (2002: 1,175) employees, comprising 9 (2002: 9) in management, 68 (2002: 64) in finance and administration, 1,176 (2002: 1,036) in production, 83 (2002: 58) in sales and marketing and 8 (2002: 8) in research and development. 1,338 (2002: 1,169) of these employees were located in the PRC and 6 (2002: 6) were located in Hong Kong.

CHARGES ON THE GROUP'S ASSETS

As at 30 June 2003, certain land use rights and buildings with a total net book value of approximately RMB69,849,000 (2002: RMB60,527,000) and plant and machinery with a total net book value of approximately RMB8,322,000 (2002: RMB17,745,000) were pledged as collateral for the Group's bank loans.

DETAILS OF FUTURE PLANS FOR MATERIAL INVESTMENT OR CAPITAL ASSETS

The Directors do not have any future plans for material investment or capital assets other than those stated in the Prospectus.

FOREIGN EXCHANGE EXPOSURE

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



CONTINGENT LIABILITIES

The Group had no significant contingent liabilities as at 30 June 2003 and it is the same for the comparative six months ended 30 June 2002.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

As this interim report covers activities up to 30 June 2003 only, no update is applicable for all business objectives stated in the section headed "Business Objectives" of the Prospectus which was issued on 30 June 2003 in connection with the listing of shares of the Company on GEM of the Stock Exchange.

USE OF PROCEEDS

The shares of the Company have been listed on GEM of the Stock Exchange since 10 July 2003. The Company currently has deposited the net proceeds raised in interest bearing accounts with licensed banks and will apply the proceeds in accordance with the schedule as mentioned under the section headed "Use of Proceeds" in the Prospectus.

DISCLOSURE OF INTERESTS

(a) Interests of the Directors in the Company and its associated corporations

As the shares of the Company were listed on GEM of the Stock Exchange on 10 July 2003, as at 30 June 2003, none of the Directors who had an interest and short position in shares, underlying shares or debenture of the Company and its associated corporation (with the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) was required (a) to notify 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 notify the Company and the Stock Exchange pursuant to the minimum standards of dealings by directors referred to in Rule 5.40 of the GEM Listing Rules.



As at 10 July 2003, the date of the listing of the Company's shares on GEM (the "Listing Date"), the interests and short positions of the Directors in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of 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 5.40 of the GEM Listing Rules were as follows:

(i) *Long positions in the shares of the Company*

Name of Director	Type of interest	Capacity	Number of shares	Approximate percentage of interests
Li Weiruo	Personal	Beneficial owner	206,440,000	49.15
Yuan Bai	Personal	Beneficial owner	35,448,000	8.44
Tang Shiguo	Personal	Beneficial owner	31,320,000	7.46
Chi Chuan	Personal	Beneficial owner	12,528,000	2.98
Man Au Vivian	Personal	Beneficial owner	6,264,000	1.79



(ii) *Interests in the shares of associated corporations of the Company*

Name of Director	Name of company	Number and description of shares	Capacity	Type of interest	Approximate percentage of holding
Li Weiruo	Ko Yo Development Co., Limited ("Ko Yo Hong Kong")	2,100,000 non-voting deferred shares	Beneficial owner	Personal	70
Yuan Bai	Ko Yo Hong Kong	420,000 non-voting deferred shares	Beneficial owner	Personal	14
Tang Shiguo	Ko Yo Hong Kong	300,000 non-voting deferred shares	Beneficial owner	Personal	10
Chi Chuan	Ko Yo Hong Kong	120,000 non-voting deferred shares	Beneficial owner	Personal	4
Man Au Vivian	Ko Yo Hong Kong	60,000 non-voting deferred shares	Beneficial owner	Personal	2



(iii) *Short positions in the shares of associated corporations of the Company*

Name of Director	Capacity	Name of company	Number and description of shares
Li Weiruo	Beneficial owner	Ko Yo Hong Kong	2,100,000 non-voting deferred shares
Yuan Bai	Beneficial owner	Ko Yo Hong Kong	420,000 non-voting deferred shares
Tang Shiguo	Beneficial owner	Ko Yo Hong Kong	300,000 non-voting deferred shares
Chi Chuan	Beneficial owner	Ko Yo Hong Kong	120,000 non-voting deferred shares
Man Au Vivian	Beneficial owner	Ko Yo Hong Kong	60,000 non-voting deferred shares

(b) Interests of the substantial shareholders in the Company

As the shares of the Company were listed on GEM of the Stock Exchange on 10 July 2003, as at 30 June 2003, no person or company (not being a Director or chief executive of the Company) 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.

As at the Listing Date, there are no substantial shareholders (not being a Director or 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

As the shares of the Company were listed on GEM of the Stock Exchange on 10 July 2003, as at 30 June 2003, no person or company (not being a Director or chief executive of the Company) 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.

As at the Listing Date, there are no person or company (not being a Director or 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 5% or more of the nominal value of any class of share capital carrying the right to vote in all circumstances at general meetings of the Company.

SHARE OPTION SCHEME

The Company has adopted a share option scheme. A summary of the principle terms and conditions of the share option scheme are set out in the section headed "Share Option Scheme" in Appendix IV of the Prospectus. As at 30 June 2003, no option has been granted pursuant to the share option scheme. No option has been granted pursuant to the share option scheme as at the Listing Date as well.

DIRECTORS' RIGHT TO ACQUIRE SHARES

Save as disclosed in the Prospectus, none of the Directors was granted options to subscribe for the shares of the Company and none of the Directors nor their spouses or children under the age of 18 had any right to acquire the shares in the Company or had exercised such right for the period under review.

COMPETING INTERESTS

None of the Directors or the management shareholders of the Company or 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.



SPONSOR'S INTERESTS

Pursuant to a sponsor agreement dated 9 July 2003 made between the Company and Guotai Junan Capital Limited ("Guotai Junan"), Guotai Junan has been appointed as the sponsor to the Company as required under the GEM Listing Rules at a fee for the period from the Listing Date to 31 December 2005.

As at the Listing Date, save for 20,000,000 shares of the Company, representing approximately 4.76% of the issued share capital of the Company held by China B-Shares Investment Company Limited, a discretionary fund owned as to approximately 27.6% and managed by a fellow subsidiary of the Sponsor, neither Guotai Junan, their directors, employees nor any of their respective associates have any interest in any securities of the Company or any of its associates.

AUDIT COMMITTEE

The Company has established an audit committee on 10 June 2003 with written terms of reference in compliance with Rules 5.23 to 5.25 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 provide advice and comments to the Directors. The audit committee comprises the two independent non-executive Directors, namely, Mr. Hu Xiaoping and Mr. Woo Che-wor, Alex.

The audit committee has reviewed with the management the accounting principles and practices adopted by the Company and discussed internal controls and financial reporting matters. The audit committee has also reviewed the unaudited interim accounts of the Company for the six months ended 30 June 2003.

COMPLIANCE WITH RULES 5.28 TO 5.39 OF THE GEM LISTING RULES

As at 30 June 2003, the Company's shares were not yet listed. The Company will comply with minimum standards of good practice concerning the general management responsibilities of the board of directors as set out in Rules 5.28 to 5.39 of the GEM Listing Rules at all times.



PURCHASE, SALE OR REDEMPTION OF SHARES

The Company's shares were listed on 10 July 2003. Accordingly, no purchase, sale or redemption of the listed shares were made by the Company or any of its subsidiaries during the six months period ended on 30 June 2003.

Except for the placing and public offer of the shares of the Company on GEM of the Stock Exchange pursuant to the share offer, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the period from 30 June 2003 to the Listing Date.

By Order of the Board
Li Weiruo
Chairman

13 August 2003, Sichuan, the PRC