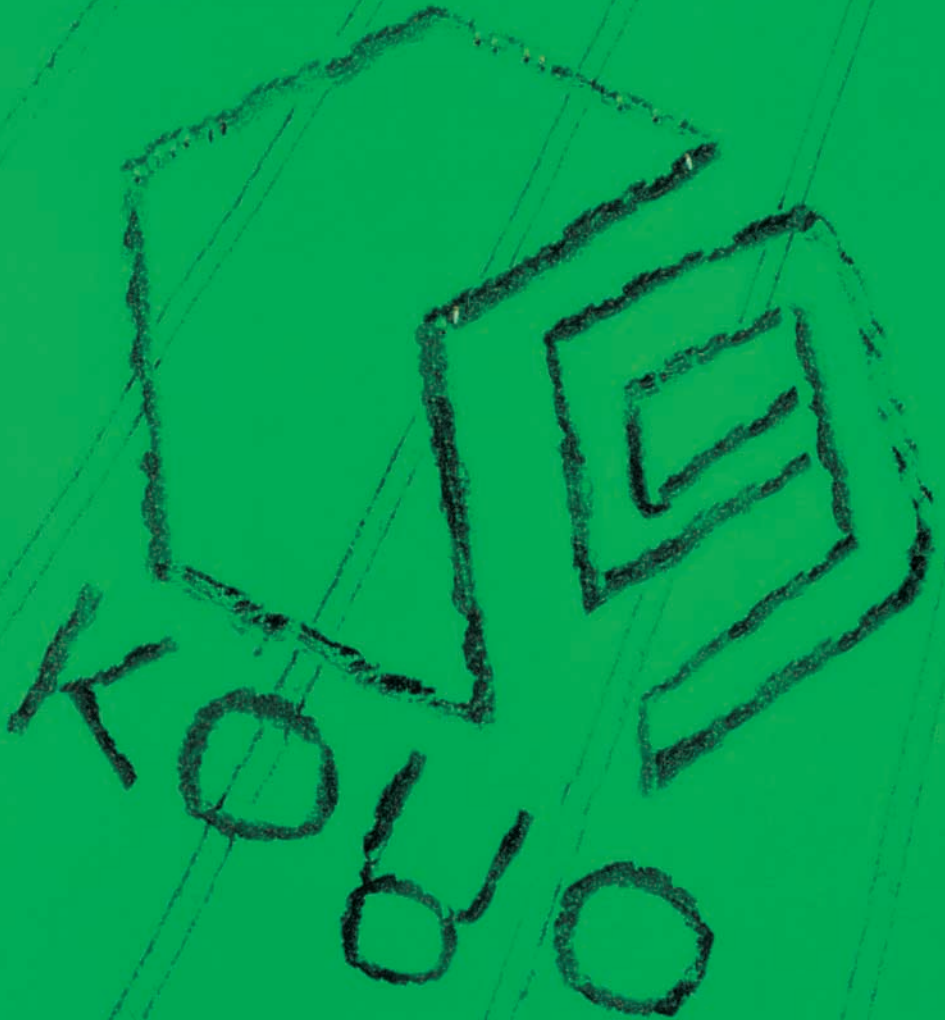




玖源生態農業科技（集團）有限公司

Ko Yo Ecological Agrotech (Group) Limited

(Incorporated in the Cayman Islands with limited liability)



Third Quarterly Report
For the nine months ended 30 September 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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The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

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 nine months ended 30 September 2003, unaudited turnover increased to approximately RMB214 million, which represents an approximate 6% growth as compared to that of the same period last year.
- Earnings per share of the Group was approximately RMB5.28 cents for the nine months ended 30 September 2003.



UNAUDITED CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the nine months ended 30 September 2003

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 and nine months ended 30 September 2003, together with the unaudited comparative figures for the corresponding periods in 2002 as follows:

	Note	Three months ended 30 September		Nine months ended 30 September	
		2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Turnover	2	65,895	73,705	214,459	203,100
Cost of sales		(53,031)	(57,560)	(170,167)	(158,298)
Gross profit		12,864	16,145	44,292	44,802
Interest income		22	27	86	88
Distribution and selling expenses		(3,479)	(3,080)	(11,062)	(7,611)
General and administrative expenses		(5,467)	(4,121)	(15,314)	(11,731)
Other income		2,212	889	4,446	2,194
Profit from operations		6,152	9,860	22,448	27,742
Finance cost		(1,373)	(1,161)	(4,237)	(3,390)
Profit before taxation		4,779	8,699	18,211	24,352
Taxation	3	(29)	2	59	441
Profit after taxation		4,750	8,701	18,270	24,793
Minority interest		—	—	—	(286)
Profit attributable to shareholders		4,750	8,701	18,270	24,507
Earnings per share — basic (RMB cents)	4	1.16	2.78	5.28	7.82
Dividends per share (HK cent)	5	Nil	Nil	0.60	Nil



Notes:

(Amounts expressed in Renminbi unless otherwise stated)

1. Basis of preparation

The unaudited results are prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies used in the preparation of the unaudited results are consistent with those used in the preparation of the Company's annual financial statements for the year ended 31 December 2002, except that, during the current period, the Group has adopted SSAP 12 (revised) on "Income Taxes".

The Group reorganized its structure on 10 June 2003 for listing of the Company's shares on GEM of the Stock Exchange. In accordance with the Statement of Standard Accounting Practice 27 "Accounting for Group Reconstructions", the results of the Group for the nine months ended 30 September 2002 have been prepared on the merger accounting basis as if the current structure of the Group had been in existence throughout the period.

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 nine-month period. The Group regards chemical products and chemical fertilisers as a single business segment. 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 consists the following products:

	(Unaudited)				(Unaudited)			
	Three months ended				Nine months ended			
	30 September				30 September			
	2003		2002		2003		2002	
RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	
BB Fertilisers	15,483	23	27,608	37	68,401	32	71,216	35
Sodium carbonate	18,315	28	19,567	27	53,506	25	56,572	28
Ammonium chloride	9,880	15	10,332	14	29,107	14	28,943	14
Urea	20,621	31	13,075	18	58,419	27	42,699	21
Ammonia	1,596	3	3,123	4	5,026	2	3,670	2
	<u>65,895</u>		<u>73,705</u>		<u>214,459</u>		<u>203,100</u>	

3. 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 nine months ended 30 September 2003.



Chengdu Ko Yo Compound Fertilisers 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 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 nine months ended 30 September 2003.

Taxation in income statements represents net movement of deferred tax liabilities.

4. Earnings per share

The calculation of earnings per share is based on the unaudited profit for the relevant periods and on the weighted average number of shares of approximately 345,700,000 ordinary shares (2002: 313,200,000) for the nine months ended 30 September 2003 and 409,600,000 (2002: 313,200,000) for the three months ended 30 September 2003. In determining the weighted average number of shares, a total of 313,200,000 shares issued in connection with the reorganization in preparation for the listing of the Company's shares on GEM of the Stock Exchange, were deemed to have been issued since 1 January 2002. There is no potential dilutive effect on earnings per share during the periods.

5. Dividend

The Board does not recommend the payment of an interim dividend for the three months ended 30 September 2003 (2002: Nil).



6. Reserve and capital

	Enterprise						
	Capital	Capital	Reserve	Expansion	Exchange	Retained	Total
	reserve	fund	fund	reserve	profits		
	RMB'000	RMB'000	RMB'000	RMB'000	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 SSAPI 2 (Revised)	—	—	—	—	—	(343)	(343)
As restated	3,180	7,977	4,356	412	61	23,124	39,110
Net profit for the nine months ended 30 September 2002	—	—	—	—	—	24,507	24,507
Share issuance cost	—	(5,435)	—	—	—	—	(5,435)
Balance as at 30 September 2002	<u>3,180</u>	<u>2,542</u>	<u>4,356</u>	<u>412</u>	<u>61</u>	<u>47,631</u>	<u>58,182</u>
Balance as at 1 January 2003 (audited)	3,181	1,750	4,356	412	61	54,807	64,567
Adjustment on adoption of SSAPI 2 (Revised)	—	—	—	—	—	(433)	(433)
As restated	3,181	1,750	4,356	412	61	54,374	64,134
Net profit for the nine months ended 30 September 2003	—	—	—	—	—	18,270	18,270
Reorganisation on 10 June 2003*	30,018	(30,018)	—	—	—	—	—
Share issuance on 10 July 2003**	11,321	33,962	—	—	—	—	45,283
Interim dividend	—	—	—	—	—	(2,671)	(2,671)
Share issuance cost	—	(7,935)	—	—	—	—	(7,935)
Balance as at 30 September 2003	<u>44,520</u>	<u>(2,241)</u>	<u>4,356</u>	<u>412</u>	<u>61</u>	<u>69,973</u>	<u>117,081</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 reorganization. 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 amounted to HK\$31,320,000.

** The Company offered 94,000,000 placing shares and 12,800,000 public offer shares of par value HK\$0.1 each for subscription pursuant to the share offer at HK\$0.4 each, which were listed on GEM of the Stock Exchange on 10 July 2003.



MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For the nine months ended 30 September 2003, the products manufactured and distributed by the Group, including sodium carbonate, ammonium chloride, urea, ammonia and BB Fertilisers, achieved a turnover of approximately RMB214 million and total sales quantities of approximately 219,000 tonnes, which represented a growth of approximately 6% compared with that of the same period last year. The overall gross profit margin decreased as compared with that of the same period in the previous year, which was due to the decrease in selling price of sodium carbonate and the increase in prices of electricity and natural gas.

The decrease in market price of sodium carbonate was mainly attributable to the market cyclical effect. For the nine months ended 30 September 2003, the selling price of sodium carbonate decreased by approximately 13% compared with that of the same period last year. During the same period, selling prices of other products of the Group increased around 2% to 6% compared to the nine months ended 30 September 2002. The management reallocated more resources to the production of urea, which selling quantities increased by approximately 29% comparing with that of same period last year.

The increase in the price of natural gas was mainly attributable to the outbreak of war in Iraq, resulting in the increase in price of natural gas all over the world. Increase in electricity cost was the result of tight electricity supply, which was in turn affected by the lack of water for hydroelectric power stations as some of provinces in the PRC suffered from severe droughts during the first three quarters of this year. For the nine months ended 30 September 2003, the increase in the unit costs of natural gas and electricity were approximately 6% and 23% respectively as compared with that of the same period last year. The management estimated that the increases in the unit costs of natural gas and electricity led to the increment of approximately 5% to the cost of sales. However, it is believed that this situation will gradually cease when the PRC government takes measures to solve the scarcity problems in the near future.

The Group has started the annual overhaul and improvement of the production facilities in May 2003, which resulted in decreases in the consumptions of materials and electricity in the production process. Such decreases offset some of the unfavourable effects brought by the increases in the unit costs of natural gas and electricity. For the nine months ended 30 September 2003, the total costs of sales increased by approximately 7% when compared to that of the same period last year, such an increase was in line with the growth in sales quantities, which was approximately 6%.



In comparison with the same period last year, there was a relatively substantial increase in the selling expenses of the Group for the nine months ended 30 September 2003. This was mainly due to the increase in marketing of BB Fertilisers and transportation expenses from increased urea sales. Administrative expenses increased substantially, which was in line with the estimation that more professional fees will be incurred after the Company obtained its listing status. The frequent travelling by the management for the promotion of the Company and the increase in Directors' remunerations also led to the increase in administrative expenses. For the nine months ended 30 September 2003, the Group achieved a profit attributable to shareholders of approximately RMB18.3 million and earnings per share amounted to approximately RMB5.28 cents.

Business and operation review

During the nine months ended 30 September 2003, the business of the Company was affected by cyclical decrease in market price of sodium carbonate and temporary production cost increase as discussed in the paragraph headed "Financial Review" above. In particular, the business of BB Fertilisers was substantially affected by the outbreak of the severe acute respiratory syndrome in the first half of the year. Moreover, the consumption of fertilisers was affected by the disastrous floods and severe droughts in many provinces in the PRC, which caused the sales volume of BB Fertilisers to decrease. The sales of other products of the Group were mainly conducted in the Sichuan market, and were not affected by such disasters.

Prospects

The Group will continue to develop more new types of BB Fertilisers and the focus for the coming quarters shall be the research and development of BB Fertilisers suitable for the cultivation of more valuable plants such as Chinese medicine and flowers. Further, in order to facilitate the future development of BB Fertilisers, the Group is considering increasing its production volume and expanding its sales network by establishing new production lines in the northern region of the PRC. The management believes the new production lines will help localizing the production and sales network for long-term development of BB Fertilisers.

The coming year, the management intends to cooperate with other fertilisers factories in the PRC to increase the production volume of the Group's chemical and other fertilisers products.



Disclosure of interests

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

As at 30 September 2003, 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 5.40 of the Rules Governing the Listing of Securities on GEM (the "GEM Listing Rules") were as follows:

(i) *Aggregate long positions in the shares and the underlying shares of the Company*

Name of Director	Type of interest	Capacity	Aggregate long position in shares and underlying shares	Approximate percentage of interests in the issued share capital
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	16,728,000	3.98
Man Au Vivian	Personal	Beneficial owner	10,064,000	2.40
Hu Xiaoping	Personal	Beneficial owner	400,000	0.10
Woo Che-wor, Alex	Personal	Beneficial owner	400,000	0.10



(ii) *Long positions in the underlying shares of the Company*

During the period under review, certain options were granted to certain Directors of the Company under the share option scheme adopted by the Company on 10 June 2003 (the "Scheme"). A summary of the principle terms and conditions of the Scheme is set out under the section headed "Share Option Scheme" in Appendix IV of the prospectus of the Company dated 30 June 2003. Details of the options granted to the Directors during the period were as follows:

Name of Director	Date of Grant	Number of share options		Exercisable period	Exercise price HK\$
		Granted	Outstanding as at 30 September 2003		
Chi Chuan	23 September 2003	4,200,000	4,200,000	23 September 2003– 22 September 2013	0.62
Man Au Vivian	23 September 2003	3,800,000	3,800,000	23 September 2003– 22 September 2013	0.62
Hu Xiaoping	23 September 2003	400,000	400,000	23 September 2003– 22 September 2013	0.62
Woo Che-wor, Alex	23 September 2003	400,000	400,000	23 September 2003– 22 September 2013	0.62



(iii) *Interests in the shares of an associated corporation of the Company*

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

Note: a wholly-owned subsidiary of the Company

(iv) *Short positions in the shares of an associated corporation of the Company*

Name of Director	Type of interest	Capacity	Name of company	Number and description of shares	Approximate percentage of interests in the issued share capital
Li Weiruo	Personal	Beneficial owner	Ko Yo Hong Kong	2,100,000 non-voting deferred shares	70
Yuan Bai	Personal	Beneficial owner	Ko Yo Hong Kong	420,000 non-voting deferred shares	14
Tang Shiguo	Personal	Beneficial owner	Ko Yo Hong Kong	300,000 non-voting deferred shares	10
Chi Chuan	Personal	Beneficial owner	Ko Yo Hong Kong	120,000 non-voting deferred shares	4
Man Au Vivian	Personal	Beneficial owner	Ko Yo Hong Kong	60,000 non-voting deferred shares	2



(b) *Interests of the substantial shareholders in the Company*

As at 30 September 2003, 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 any member of the Group (other than the Company).

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

As at 30 September 2003, there was no person or company (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 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.

COMPETING INTERESTS

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 Group during the period under review.

SPONSOR'S INTERESTS

Pursuant to a sponsor agreement dated 9 July 2003 which was entered into 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 remainder of the year ending 31 December 2003 and for a period of two years thereafter expiring on 31 December 2005.



As confirmed by Guotai Junan, as at 30 September 2003, 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 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 has two members comprising 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 including review of the unaudited accounts of the Company for the nine months ended 30 September 2003.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company' shares were listed on 10 July 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 under review.

By Order of the Board
Li Weiruo
Chairman

Sichuan, the PRC, 12 November 2003