



**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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	<i>Page</i>
Corporate information	2
Highlights	3
Chairman's statement	4
Business review and prospects	6
Directors and senior management	14
Report of the directors	17
Auditors' report	27
Consolidated profit and loss account	28
Consolidated balance sheet	29
Balance sheet	30
Consolidated statement of changes in equity	31
Consolidated cash flow statement	32
Notes to the accounts	33
Financial summary	63
Notice of annual general meeting	64

## DIRECTORS

### Executive directors

Mr. Li Weiruo  
Mr. Yuan Bai  
Mr. Tang Shiguo  
Ms. Chi Chuan  
Ms. Man Au Vivian

### Independent non-executive directors

Mr. Hu Xiaoping  
Mr. Woo Che-Wor, Alex

## COMPANY SECRETARY

Mr. Fung Wai Shing, *AHKSA, ACCA*

## QUALIFIED ACCOUNTANT

Mr. Fung Wai Shing, *AHKSA, ACCA*

## AUDIT COMMITTEE

Mr. Hu Xiaoping  
Mr. Woo Che-Wor, Alex

## AUTHORISED REPRESENTATIVES

Mr. Li Weiruo  
Ms. Man Au Vivian

## COMPLIANCE OFFICER

Ms. Chi Chuan

## REGISTERED OFFICE

Century Yard  
Cricket Square  
Hutchins Drive  
P.O. Box 2681 GT  
George Town  
Grand Cayman  
British West Indies

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite No. 02, 31st Floor, Sino Plaza  
255-257 Gloucester Road  
Causeway Bay  
Hong Kong

## SHARE REGISTRAR

Standard Registrars Limited  
G/F., Bank of East Asia Harbour View Centre  
No. 56, Gloucester Road  
Wanchai  
Hong Kong

## SPONSOR

Guotai Junan Capital Limited  
27th Floor, Low Block  
Grand Millennium Plaza  
181 Queen's Road Central  
Hong Kong

## AUDITORS

PricewaterhouseCoopers  
*Certified Public Accountants*  
22nd Floor  
Prince's Building  
Central  
Hong Kong

## PRINCIPAL BANKERS

Industrial and Commercial Bank of China  
-Chengdu City Xin Du Branch  
Agricultural Bank of China  
-Chengdu City Wuhou Branch  
Standard Chartered Bank  
-Hong Kong Causeway Branch

## GEM STOCK CODE

8042

## WEBSITE

[www.koyochem.com](http://www.koyochem.com)

- The Company was successfully listed on GEM of the Stock Exchange on 10 July 2003.
- For the year ended 31 December 2003, audited turnover increased to approximately RMB282 million, which represents an approximate 2% growth as compared to last year.
- The sales quantities increased approximately 2% as compared to last year.
- Earnings per share of the Group was approximately RMB6.6 cents for the year ended 31 December 2003.
- The Directors have proposed to pay a final dividend of HK0.73 cent per share for the year ended 31 December 2003.

## DEAR SHAREHOLDERS,

On behalf of the Board of Directors (the "Board") of Ko Yo Ecological Agrotech (Group) Limited (the "Company") and its subsidiaries (collectively the "Group"), I am pleased to present the annual report for the year ended 31 December 2003. This is the Group's first annual report as a listed company following its successful listing on 10 July 2003.

During the year under review, the Group adhered to its development strategy by enhancing the productivity of urea, sodium carbonate and ammonium chloride and expanding the sales channels of BB Fertilisers. To accommodate the implementation of strategy, the Group has reallocated its resources effectively to improve the existing production capabilities and input more efforts on the marketing of BB Fertilisers.

## BUSINESS REVIEW

For the year ended 31 December 2003, the total turnover and sales quantities of the Group increased to approximately RMB282 million and 307,405 tonnes, which represents a 2% growth as compared to the previous year. Such growth represented a remarkable performance and contribution of the Group's employees under various unfavourable market conditions in 2003.

Tight electricity and natural gas supply adversely affected the Group's daily production volume and cost of production. In the first half of the year, the outbreak of the Severe Acute Respiratory Syndrome ("SARS") caused serious disruption to the sales channels development of BB Fertilisers, which in turn affected the sales pattern of such product. In addition, the market demand of chemical fertilisers was further suppressed by the extensive droughts in the northeastern China and the severe floods in southern China. Furthermore, cyclical drop in selling price of sodium carbonate suppressed the growth of the gross profit margin of the Group.

In face of such difficult circumstances, the production team has spared no efforts in improving the consumption efficiency of electricity and natural gas through equipments modification. The marketing team worked hard to catch up the sales target after SARS and natural disasters. The management reallocated resources to enhance production output of urea to cover the effect of market price drop of sodium carbonate. The concerted efforts of every employee of the Group were reflected in the stable gross profit margin as compared to the previous year.

## PROSPECTS

Looking forward to 2004, the State has announced several policies to support chemical fertilisers manufacturers, including, inter alia, the regular supply of electricity and natural gas with stable pricing policy for chemical fertilisers manufacturers; the resumption of the 50% refund of value added tax of urea, the consistent provision of freight concession on railway transport of chemical fertilisers, and the waiver on the contribution to the railway construction fund. Besides, the State regarded the raising of farmers' income of foremost importance in 2004. The Group believes the increase in income provides farmers with incentives which in turn will bring positive impacts on the domestic consumption of chemical fertilisers.

In respect of sodium carbonate, urea and ammonium chloride, the sales focus will remain on the existing regular customers of the Group. Following the establishment of Dezhou Ko Yo Compound Fertiliser Co., Ltd. ("Dezhou Ko Yo Compound") in Shandong province, the production capacity of BB Fertilisers of the Group has increased, which also strengthens the competitiveness of the BB Fertilisers in the northeastern China. The Group is optimistic about the future growth of BB Fertilisers.

In order to better implement the expansionary strategy of the Group, the Group will start looking into acquiring suitable State-owned chemical or fertilisers factories regarding matters of mergers and acquisitions.

### APPRECIATION

On behalf of the board of Ko Yo Ecological Agrotech (Group) Limited, I wish to express my gratitude to all shareholders for their trust and support for the Company, and my sincere thanks to all staff for their dedication, efforts and valuable contribution throughout the year. I also thank the sponsor, auditor, lawyers within and outside the PRC and valuer of the Group for their cooperation and support. The Board, the management and all staff will continue to work diligently to achieve greater success for the Group.

**Li Weiruo**

*Chairman*

25 March 2004

## BUSINESS REVIEW

The Group is principally engaged in the manufacture and distribution of chemical fertilisers and chemical products, including sodium carbonate, urea, ammonium chloride, liquid ammonia and BB Fertilisers. For the year ended 31 December 2003, the Group achieved a turnover of approximately RMB282 million and total sales quantities of approximately 307,405 tonnes, both representing a growth of 2% as compared to last year. The profit attributable to shareholders of the Group, however, recorded a decrease of approximately 23% as compared to last year.

During the year under review, despite that the market price of sodium carbonate has cyclically dropped, turnover of the Group maintained a growth as the effect of price drop was offset by the increase in overall output and the rise of market price of urea. The decrease in net profit of the Group was mainly attributable to the increase in distribution costs and administrative expenses.

The Group originally planned to sustain a significant growth trend of sales quantities of BB Fertilisers in 2003. However, the promotional activities of BB Fertilisers had been adversely affected by the extensive outbreak of SARS in Mainland China during the first half of 2003. Furthermore, the droughts in northeastern China affected approximately 0.25 billion acre of land and the floods in southern China covered approximately 13 million acre of land, which reduced approximately 2% agricultural land throughout the country. The average income of farmers was reduced and the utilisation of chemical fertilisers was lessened accordingly, which suppressed the growth trend of BB Fertilisers sales.

Electricity and natural gas supply were the major components of cost of sales of the Group. The Group suffered from tight electricity and natural gas supply with significant cost rise for the year ended 31 December 2003. 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 Mainland China suffered from severe droughts. As such, the relevant authority of the government of Sichuan province introduced a policy of upward adjustment to electricity cost.

The increase in 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 including Mainland China. Price of natural gas used to be controlled by the government. Following the flotation of few major State-owned suppliers of natural gas in the oversea exchange, price of natural gas changed in line with the market condition and was adjusted upwards accordingly.

The average unit cost of electricity and natural gas supply increased by 21% and 5% as compared to last year. In view of such unfavourable situations, the Group improved the electricity and natural gas consumption efficiency during the annual overhaul of the production facilities. The production facilities modification diminished the adverse effect of the cost of electricity and natural gas supply rise.

During the period under review, the price increment of the principal raw materials of BB Fertilisers, including ammonium phosphate, large granule of urea and ammonium potassium was comparatively significant. The market prices of ammonium phosphate, large granule of urea and ammonium potassium at the end of the year increased by 9.2%, 6.5% and 10.1% respectively as compared to the beginning of the year. To compensate the raw materials cost increase, selling prices of BB Fertilisers have been adjusted upwards to achieve the gross profit margin of BB Fertilisers at 20%.



The Group's overall gross profit margin was approximately 21% for the year ended 31 December 2003, which represents a slight decrease from 22% last year. Gross profit ratio of urea for the year ended 31 December 2003 increased to 21% from 15% last year, which offset the effect of gross profit margin decrease of sodium carbonate during the year to 17% from 29% last year.

During the period under review, distribution costs and administrative expenses of the Group experienced relatively substantial increase as compared to the same period last year. Distribution costs increased by 28% compared with last year as the growth in sales quantities of urea increased the transportation costs. Other than BB Fertilisers, most of the Group's customers outside Sichuan province mainly purchased urea from the Group, which required higher transportation costs for delivery as the sales quantities growth.

As the first half of the year 2003 was a crucial period for the listing of the Company's shares in Hong Kong, the travelling expenses of senior management and the expenses on receiving personnel from intermediary bodies increased as well. It led to the increase in management expenses for the first half of the year. After listing on 10 July 2003, the Group incurred more professional expenses, which caused the overall administrative expenses increase by 27% as compared to that of last year.

For the year ended 31 December 2003, the Group achieved a profit attributable to shareholders of approximately RMB24 million and earnings per share amounted to approximately RMB6.6 cents.

### PRODUCTION CAPACITY

Despite the difficulties arising from the shortage of electricity and natural gas, the Group has made every effort in controlling the production costs, improving production efficiency and boosting the productivity. During the period under review, the facilities modification during the annual overhaul was completed in May 2003, which maximised the Group's production capacity of urea, sodium carbonate and ammonium chloride. Production volume of all three products for the year ended 31 December 2003 reached the historic height in the track record of the Group.

In order to expand the nation-wide production network of BB Fertilisers, the Group established Dezhou Ko Yo Compound, a joint venture incorporated in Dezhou city of Shandong province on 7 November 2003, in which the Group has an 80% equity interest. The remaining 20% is held by a local agricultural resources company in Shandong. The new factory is engaged in the production and distribution of BB Fertilisers, with a capacity of 100,000 tonnes per annum for the first phase of development. The Group believes that through localised production and marketing forces in northern China, the profitability of BB Fertilisers will increase as transportation costs reduce. In addition, with the support of strategic shareholder of Dezhou Ko Yo Compound, the marketing performance and recoverability of trade receivables will improve. The Shandong factory commenced production in January 2004.

## SALES NETWORK AND MARKETING

Urea, sodium carbonate and ammonium chloride are cash-generating products of the Group, which generate stable profit for the Group. During the year under review, the sales of sodium carbonate, urea and ammonium chloride mainly attributable to the existing regular customers of the Group. It demonstrated that the Group's high quality products and marketing efforts were awarded with customers' loyalty.

For the year ended 31 December 2003, the Group's sales network coverage increased to 20 provinces and 2 autonomous regions from 16 provinces and 1 autonomous region in 2002. BB Fertilisers of the Group had entered into the markets of Liaoning, Jilin and Heilongjiang provinces. The second annual national three days conference with distributors of BB Fertilisers was held in December 2003. Moreover, the Group's nation-wide agricultural information database is currently under construction, which will provide value-added information to distributors and farmers through the Group's agricultural supporting team.

## RESEARCH AND DEVELOPMENT

The Group commenced the production of BB Fertilisers in 2001. All existing formulae of BB Fertilisers were derived from the research jointly conducted by the Soil and Fertilisers Institute of Sichuan Academy of Agricultural Science (四川省農業科學院土壤肥料研究所) and the Group. During the year under review, the Group launched two new types of BB Fertilisers specifically designed for mulberry trees and Chinese medicine, increasing the total number of BB Fertilisers with different nutrient ingredients to 18.

Through feedback from farmers and after-sales evaluation of the effectiveness of BB Fertilisers by the Group's agricultural service team, modification research had been carried out to fine tune the existing formulae of BB Fertilisers, which is expected to complete before the end of first half of 2004. On the other hand, further new types of BB Fertilisers will be launched within the first half of 2004.

## RECOGNITIONS AND AWARDS

During the period under review, the Group received major awards and recognitions as follows: In February, Chengdu Ko Yo Compound Fertilizer Co., Ltd. ("Chengdu Ko Yo Compound") was awarded the "Certificate of No Public Harm Fertilisers 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). In April, Chengdu Ko Yo Chemical Industry Co., Ltd. ("Chengdu Ko Yo Chemical") and Chengdu Ko Yo Compound were accredited as the "National Model Enterprise of Industrial in Terms of Quality" (全國行業質量示範企業) and "National Model Enterprise of the Industry in Terms of Quality, Services and Trustworthiness" (全國質量服務誠信示範企業) respectively. In June, BB Fertilisers under brand name "玖源" (Ko Yo) were recognised as the "2003 Key Products for Marketing" (重點推廣產品) in the "Project of New Practical Agricultural Technology and Product of the State" (全國農業實用新技術新產品精品項目) jointly organised by the China Association of Agricultural Science Societies (中國農學會) and the China Agronet (中國農業網). In December, the Company received an award of "Advanced Enterprise on Safety Production in Chengdu City" (成都市安全生產規範化建設先進企業) by Chengdu Municipal People's Government.

## LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2003, the Group had net current assets of approximately RMB13,263,000. Current assets as at 31 December 2003 comprised cash and bank deposits of approximately RMB34,517,000, pledged bank deposits of approximately RMB13,032,000, inventories of approximately RMB24,679,000, trade receivables of approximately RMB15,899,000 and prepayments and other current assets of approximately RMB30,790,000. Current liabilities as at 31 December 2003 comprised short-term loans and current portion of long-term bank loans of approximately RMB67,430,000, trade and notes payables of approximately RMB19,996,000, deposits from customers of approximately RMB5,216,000, accruals and other payables of approximately RMB10,520,000 and amounts due to related parties of approximately RMB2,492,000.

## CAPITAL COMMITMENT

As at 31 December 2003, the Group had outstanding capital commitments of approximately RMB3,945,000.

## FINANCIAL RESOURCES

As at 31 December 2003, the Group had bank balances including pledged bank deposits of approximately RMB47,549,000. 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 54% and 73% as at 31 December 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.

## CONTINGENT LIABILITIES

The Group had no significant contingent liabilities as at 31 December 2003.

## MATERIAL ACQUISITION/DISPOSALS

The Group had no material acquisitions or disposals during the year ended 31 December 2003.

## SEGMENTAL INFORMATION

All the Group's activities are primarily conducted in Mainland China and are within the same business segment. Accordingly, neither analysis by geographical segments nor analysis by business segments is presented.

## 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.

## EXPOSURE ON EXCHANGE RATE FLUCTUATION

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

## CHARGES ON THE GROUP'S ASSETS

As at 31 December 2003, certain land use rights and buildings with a total net book value of approximately RMB43,029,000 (2002: RMB71,072,000), plant and machinery with a total net book value of approximately RMB29,248,000 (2002: RMB8,818,000) and bank deposit of approximately RMB13,032,000 (2002: RMB9,500,000) were pledged as collateral for the Group's bank loans and notes payable.

## DIVIDEND

The Directors recommend the payment of a final dividend of HK0.73 cent per share to the shareholders whose names appear on the register of members of the Company as at the close of business on 29 April 2004. The dividend will be payable on 27 May 2004. The register of members of the Company will be closed from 26 April 2004 to 29 April 2004, both days inclusive, during which period no share transfer shall be effected. In order to qualify for the final 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 23 April 2004.

## NUMBER OF EMPLOYEES AND REMUNERATION

As at 31 December 2003, the Group had 1,368 (2002: 1,510) employees, comprising 11 (2002: 9) in management, 70 (2002: 66) in finance and administration, 1,212 (2002: 1,346) in production, 68 (2002: 81) in sales and marketing and 7 (2002: 8) in research and development. 1,362 (2002: 1,504) of these employees were located in the PRC and 6 (2002: 6) were located in Hong Kong.

Pension schemes of the Group are set out in Note 2(k)(ii) to the accounts.

## BUSINESS PROSPECTS

Looking forward to the year of 2004, on 2 January 2004, the committee of six ministries of the State jointly issued the "Emergency Notice on Optimizing Chemical Fertilisers Supply and Production and Stabilization" (《關於做好化肥生產供應工作穩定化肥價格的緊急通知》), which announced several policies to support chemical fertilisers manufacturers, including inter alia, the regular supply of electricity and natural gas with stable pricing policy for chemical fertilisers manufacturers, the resumption of the 50% refund of value added tax of urea, the consistent provision of freight concession on railway transport of chemical fertilisers, and the waiver on the contribution to the railway construction fund. The Directors believe that, such policy will be beneficial to the profitability of the Group in future.

In 2004, the State regarded the raising of farmers' income of foremost importance. The increase in farmers' income provides incentives for them to increase consumption of high quality chemical fertilisers and in turn would bring positive impacts to chemical fertilisers enterprises.

Despite the support by the government of Mainland China, the Board is aware that the stringent supply of electricity and natural gas in Mainland China would continue for a period of time before any alleviation would be seen. The Group will emphasize on sustaining the electricity and natural gas supply and make every effort in preventing any severe power shortage for the year.

The establishment of Dezhou Ko Yo Compound in Shandong province is the Group's first step to the localisation of BB Fertilisers production and marketing functions in different regions of Mainland China. The Board believes that the production of BB Fertilisers will be the direction of future development of China's chemical fertilisers industry and the Group's production and marketing localisation strategy provides a long-term growth trend on sales of BB Fertilisers.

In respect of sodium carbonate, urea and ammonium chloride, the sales focus will remain on the existing regular customers of the Group. Through annual overhaul to modify the existing production facilities, the Board expects that productivity of sodium carbonate, urea and ammonium chloride will continue to improve in future. On the other hand, regarding long-term expansionary strategy of production capacity for these products, the Group will start looking into acquiring suitable State-owned chemical or fertilisers factories. The Board believes that through suitable mergers and acquisitions, the Group will be able to expand much quicker at lower cost. The Board's belief is supported by the previous successful acquisition of Xin Du Fertilisers Company in 1999.

In order to facilitate the long-term expansionary strategy of production capacity, the Group is currently exploring more overseas and domestic customers for the Group's products. In the first two months of 2004, the Group successfully exported urea to Vietnam through merchandising from other urea manufacturers as the Group has had no spare production capacity to satisfy the export orders. The ultimate goal of the Group is to develop new market for its products and establish long-term relationship with overseas customers. The Board expects that the export sector in 2004 will generate small portion of revenue and operating profits for the Group.

## COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

On 10 July 2003, the Company obtained net proceeds, after deducting all relevant share issue expenses, of approximately HKD28.4 million from the new issue of shares by way of public offer and placing. Up to 31 December 2003, the Group has applied the net proceeds as follows:

	<b>Use of proceeds extracted from the prospectus</b>	<b>Actual amount used up to 31 December 2003</b>	<b>Remaining net Proceeds</b>
	<i>HKD Million</i>	<i>HKD Million</i>	<i>HKD Million</i>
Establishment of additional production facilities and purchase of equipment for BB Fertilisers	18	2.3	15.7
Development of new products, product research and assessment	5	0.2	4.8
Advertising and promotion of new products and expansion of the Group's sales force	5	0.8	4.2
Total	<u>28</u>	<u>3.3</u>	<u>24.7</u>

The remaining net proceeds as at 31 December 2003 was approximately HKD24.7 million, which have been placed as interest bearing deposits in banks in the PRC.

Comparisons of the business objectives set out in the prospectus of the Company dated 30 June 2003 (the “Prospectus”) with the actual business progress for the period from 10 July 2003 to 31 December 2003 are as follows:

## **Business objectives as stated in Prospectus**

## **Actual business progress**

### ***Expansion of production capacity/upgrading of its production facilities***

To increase the production volume of new production plant to 400,000 tonnes per annum by purchasing additional granulators, mixers, driers and blending machines

The Group established Dezhou Ko Yo Compound on 7 November 2003, with a first stage production capacity of 100,000 tonnes per annum, which increases the total production volume capacity of BB Fertilisers of the Group to 300,000 tonnes per annum. The blending machines installation started in December and production commenced in January 2004.

To look for opportunities to acquire a suitable State-owned chemical fertiliser manufacturer

The Group has started looking into acquiring suitable State-owned chemical or fertilisers factories.

### ***Research and development of new products***

To develop and launch a new series of BB Fertilisers

New series of BB Fertilisers for flowers are under development. Expected completion date is the end of first half of 2004.

To cooperate with research team of Soil and Fertilisers Institute of Sichuan Academy of Agricultural Science

Evaluation of existing types of BB Fertilisers completed and modification research of formulae of BB Fertilisers is under progress.

### ***Marketing and brand building of the Group’s products***

To expand the Group’s distribution network

The Group distribution network expanded to Heilongjiang province.

To establish a database on nation-wide information on soil texture and crops distributions, supply of raw materials, product formulae and customer information

The database on nation-wide information is under construction. The database is expected to be completed during the first half of 2004.

### ***Human resources***

To recruit approximately 100 production staff for BB Fertilisers, 12 production staff for ammonium chloride, 16 production staff for urea, 15 sales and marketing staff, 5 technical staff and 4 agricultural services staff

34 production staff were recruited in December 2003.

### EXECUTIVE DIRECTORS

Mr. Li Weiruo, aged 50, is the Chairman of the Board, Executive President and the founder of the Group. He graduated from Sichuan Institute of Finance and Economics with a certificate in economics in 1985. Mr. Li has over 20 years' experience in corporate management in the PRC. He was awarded a certificate for "Chief Economists of Large-to-Medium Sized Enterprises in the PRC" after completing "The Study Course for Chief Economists of Large-to-Medium Sized Enterprises" commissioned by the State Economics Commission at the Southwest University of Finance and Economics in 1986. He is one of the authors of "Modern Corporate Management" which was published by the Sichuan Education Publisher. Mr. Li was the former Vice-director of China Nonferrous Metal Corporation in Chengdu. Mr. Li moved to Hong Kong in 1994 and became a permanent resident of Hong Kong in 2001. He was appointed as a member of the Chinese People's Political Consultative Conference of Sichuan Province in 2003. Mr. Li is responsible for the overall management, strategic planning and business development of the Group.

Mr. Yuan Bai, aged 45, is the Executive Vice President of the Group. Mr. Yuan is responsible for the cost management and general operations and research and development of the Group. Mr. Yuan graduated from Northeast Institute of Technology with a bachelor degree in engineering in 1982 and obtained a certificate as Senior Engineer in 1992. Mr. Yuan studied economy management in Qinghua University from September 1995 to March 1996. Prior to joining the Group in August 1999, Mr. Yuan was the Deputy General Manager of Chongqing Sanjiu Industrial Co., Ltd., which focused on the manufacture and trading of non-ferrous metal. Mr. Yuan was elected as a people's delegate of the first session of the People's Congress of Chongqing in 1997.

Mr. Tang Shiguo, aged 51, is a Director of the Company and joined the Group in July 1999. He obtained a certificate in economics from Sichuan Institute of Finance and Economics in 1985. Mr. Tang was formerly the Deputy General Manager of Sichuan Shihua Group. Prior to joining the Group, Mr. Tang was the general manager of Chengdu Yuanda Petrochemical Company, which focused on the manufacture and sales of petro-chemical products in Sichuan province, the PRC. Mr. Tang has over 10 years' experience in corporate management and marketing and is responsible for the daily operation and sales and marketing activities of Chengdu Ko Yo Chemical.

Ms. Chi Chuan, aged 48, is the Compliance Officer and Executive Vice President of the Group. She graduated from Sichuan Normal College with a bachelor degree in science in 1982. Ms. Chi has over 10 years' experience in finance and accounting. Prior to joining the Group in July 1999, Ms. Chi was the finance manager of Leshan Economic and Trade General Company, a trading company in the PRC. Ms. Chi is primarily responsible for the financial management and general operations of the Group since she joined the Group in July 1999.

Ms. Man Au Vivian, aged 40, is responsible for business development and investment activities of the Group. Ms. Man graduated from the University of International Business and Economics with a bachelor degree in economics in 1986. Ms. Man has over 15 years' experience in international trade. She formerly worked for China National Light Industrial Products Import and Export Corporation of MOFTEC. She joined the Group in January 1997.



### INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Hu Xiaoping, aged 53, is an independent non-executive Director. He obtained a bachelor degree in Economics from Sichuan Institute of Finance and Economics in 1982 and a master degree in Economics from Southwest University of Finance and Economics in 1987. Mr. Hu is currently the deputy head of the Economics Research Centre of the Southwest University of Finance and Economics. Mr. Hu has been involved in various research projects at both the provincial and state level and has published numerous articles in financial and economics publications in the PRC. He was appointed as an independent non-executive Director in June 2003.

Mr. Woo Che-Wor, Alex, aged 52, is an independent non-executive Director. Mr. Woo has been the Chairman and CEO of STI Certified Products Inc., a private company in California, U.S.A. since February 1988. From January 1986 to December 1987, Mr. Woo was the corporate treasurer of Fairchild Semiconductor Corporation, a multi-national semiconductor company with its headquarters in California, U.S.A.. Mr. Woo is qualified as a Certified Management Accountant from Chartered Institute of Management Accountants of England and obtained an M.B.A. from San Jose State University of the U.S.A. in 1987. He was appointed as an independent non-executive Director in June 2003.

### SENIOR MANAGEMENT

Mr. Li Shengti, aged 52, is a Director of the Chengdu Ko Yo Chemical and Chengdu Ko Yo Compound respectively. He graduated from Chinese Communist Party School with a degree majoring economics and was entitled as an economist. Prior to joining the Group, he was a deputy manager of China Nonferrous Huludao Zinc Corporation, from 1971 to 1993, the general manager of Hainan Hui Yuantang Medicine Co., Ltd. from 1996 to 1999 and the general manager of Shanghai Haos Water Rectified Co., Ltd., a Sino-US joint venture from 2002 to 2003. Mr. Li joined the Group in October 2003 and is currently responsible for the administration and production operations of the Group.

Mr. Zhu Changhou, aged 65, is a deputy general manager and chief engineer of Chengdu Ko Yo Chemical. He obtained a certificate of chemistry in Luzhou Chemical College and has over 18 years' experience in developing and analyzing chemical products. Mr. Zhu is also a director of Sichuan Chemical Association and the PRC Chemical Association. Prior to joining the Group, Mr. Zhu was the deputy chief engineer of Luzhou Natural Gas Chemical Corporation, which focused on the manufacture of chemical products. Mr. Zhu is primarily responsible for Chengdu Ko Yo Chemical's production and product research and development. He joined the Group in 1999.

Mr. Mai Zixun, aged 56, is the general manager of Chengdu Ko Yo Compound. He graduated from Sichuan Broadcasting and Television University. Mr. Mai was formerly the General Manager of Zhuhai Gree Magneto-Electronic Co., Ltd., which focused on the manufacture of electronics products. He joined the Group in June 2001 and is responsible for the sales and marketing activities of Chengdu Ko Yo Compound.

Mr. Ju Dao Yuan, aged 37, is the Director and General Manager of Dezhou Ko Yo Compound and is responsible for the production and daily operations. He is also the assistant to the General Manager of Chengdu Ko Yo Compound, and is responsible the marketing functions of the Company in Northern China region. He graduated from Institute of Tianjin Bohai and Chengdu Broadcasting and Television University and was awarded professional diplomas in production of Sodium Carbonate and legal studies. He was also awarded MBA post-graduate certificate from Chengdu Economic and Management Institute and Certificate of Sichuan Scientific Achievements by Science and Technology Committee of Sichuan. Before joining the Group in July 1999, Mr. Ju worked in Xin Du Fertilisers Company.

### SENIOR MANAGEMENT *(Continued)*

Mr. Li Feng, aged 46, is a deputy general manager of Chengdu Ko Yo Compound and is responsible for Chengdu Ko Yo Compound's sales and marketing activities. He graduated from Chongqing Steel Corporation Profession University. Prior to joining the Group in February 2000, Mr. Li was the manager of a branch office of an import and export company in Sichuan province which concentrated on the production materials trading business.

Mr. Fung Wai Shing, aged 34, is the financial controller of the Group and is responsible for financial management of the Group. He graduated from University of London with bachelor degree in banking and finance. He is an associate member of each of the Hong Kong Society of Accountants and Association of Chartered Certified Accountants. Prior to joining the Group in February 2002, he was a manager of B&M Consultants Limited in Hong Kong.



The Directors have the pleasure of presenting their report together with the audited accounts of the Company and its subsidiaries for the year ended 31 December 2003.

## GROUP REORGANISATION

The Company was incorporated in the Cayman Islands on 11 February 2002 as an exempted company with limited liability under the Companies Law Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

The Group reorganised its structure on 10 June 2003 in preparation for the listing of the Company's shares on Growth Enterprise Market ("GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company became the holding company of the companies now comprising the Group. Details of the reorganization are set out in the Prospectus of the Company dated 30 June 2003. The shares of the Company were listed on GEM of the Stock Exchange on 10 July 2003.

In accordance with the Statement of Standard Accounting Practice 27 "Accounting for the Group Reconstructions", the results of the Group for the year ended 31 December 2003 have been prepared on the basis of merger accounting under which the consolidated accounts have been prepared as if the Company had been the holding company of the other companies comprising the Group throughout the years ended 31 December 2002 and 2003, or since the date of incorporation of the individual companies, when this is a shorter period. The basis of presentation of these accounts is set out in Note 1 to the accounts.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Its subsidiaries are principally engaged in the research and development, manufacture, marketing and distribution of chemical products, chemical fertilisers and BB Fertilisers.

## RESULTS AND APPROPRIATIONS

Details of the Group's profits for the year ended 31 December 2003 are set out in the consolidated profit and loss account.

The Directors recommend the payment of a final dividend of HK0.73 cent per share, totaling RMB3,250,000 for the year ended 31 December 2003 (2002: Nil).

## SHARE CAPITAL

Details of movements in share capital of the Company are set out in Note 26 to the accounts.

## RESERVES

Movements in the reserves of the Group and of the Company during the year are set out in Note 27 to the accounts.

## **DISTRIBUTABLE RESERVES**

Distributable reserves of the Company as at 31 December 2003 amounted to approximately RMB60,519,000.

## **RIGHTS OF DIRECTORS AND EMPLOYEES TO ACQUIRE SHARES OR DEBENTURES**

During the year, certain options were granted to certain Directors and employees of the Company under the share option scheme adopted by the Company on 10 June 2003 (the “Share Option Scheme”). A summary of the principle terms and conditions of the Share Option Scheme is set out under the section headed “Share Option Scheme” in Appendix IV of the Prospectus.

## **PRE-EMPTIVE RIGHTS**

There is no provision for pre-emptive rights under the Company’s articles of association and there is no restriction against such rights under the Companies Law (as consolidated and revised) of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

## **FOUR YEAR FINANCIAL SUMMARY**

A summary of the results and of the assets and liabilities of the Group for the last four financial years is set out in page 63.

## **FIXED ASSETS**

Details of movements in fixed assets of the Group during the year are set out in Note 14 to the accounts.

## **CONNECTED TRANSACTIONS**

During the year, there were no significant transactions which were required to be disclosed as connected transactions in accordance with requirements of the Rules Governing the Listing of Securities on GEM (the “GEM Listing Rules”) and accounting principles generally accepted in Hong Kong.



## DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The Directors who held office during the year ended 31 December 2003 and up to the date of this report are:

### Executive Directors

Mr. Li Weiruo	(appointed on 25 February 2002)
Mr. Yuan Bai	(appointed on 25 February 2002)
Mr. Tang Shiguo	(appointed on 25 February 2002)
Ms. Chi Chuan	(appointed on 25 February 2002)
Ms. Man Au Vivian	(appointed on 17 April 2002)

### Independent non-executive directors

Mr. Hu Xiaoping	(appointed on 10 June 2003)
Mr. Woo Che-Wor, Alex	(appointed on 10 June 2003)

In accordance with Article 87 of the article of association of the Company, at each annual general meeting, one-third of the directors for the time being shall retire from office by rotation and, will be eligible for re-election. The Chairman of the Board will not be subject to retirement by rotation. As 3 directors, namely Mr. Yuan Bai, Mr. Tang Shiguo and Ms. Chi Chuan, have been the longest in office, therefore lots were drawn to determine who shall retire by rotation. Mr. Yuan Bai and Mr. Tang Shiguo will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

Each of the executive directors has entered into a service contract with the Company for an initial fixed term of three years commencing from 10 June 2003, and will continue thereafter for successive terms of one year until terminated by not less than three months' notice in writing served by either party on the other. Each of the executive directors is entitled to a basic salary and director's fee subject to an annual review by the Board. In addition, the executive directors are also entitled to a discretionary bonus, which may not exceed 3% of the audited consolidated net profit of the Group attributable to the shareholders in respect of that financial year of the Company. The percentage rate of discretionary bonus is subject to annual review by the Board.

The independent non-executive directors of the Company are appointed for a term of two years with specific terms in the letter of appointment expiring on 9 June 2005.

None of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

## SHARE OPTIONS

Share options are granted to directors, employees and consultants of the Company or its subsidiaries under the Share Option Scheme approved by written resolutions of shareholders of the Company on 10 June 2003. The purpose of the Share Option Scheme is to recognise the contribution of employees and consultants to the Company and its subsidiaries, and to provide a performance related incentive to them. Currently under the Share Option Scheme the maximum number of shares which may fall to be issued pursuant to the exercise of all the share options granted and to be granted is 42,000,000 shares, representing 10% of the total number of issued shares as at 31 December 2003. Unless approved by shareholders, the total number of shares issued and which may fall to be issued upon the exercise of the options granted to each participant may not exceed 4,200,000, such options being exercisable for 10 years from the date of grant of such option. Participants are required to pay an option price of HK\$10 for each acceptance of option offer and are required to hold the option for a minimum of 1 year before exercising part of the option granted. The subscription price shall be at least the highest of (i) the closing price of a share on the option offer date, (ii) the average closing price of a share for the five business days immediately preceding the option offer date and (iii) the nominal value of a share. The Share Option Scheme will remain valid for a period of ten years commencing from 10 June 2003.

On 23 September 2003, the Company granted share options to two executive directors, two independent directors and six employees to subscribe for an aggregate of 25,200,000 shares of the Company at a subscription price of HK\$0.62. The details of option outstanding and movements are disclosed in the following table:

	Number of options				Held at 31 December 2003	Exercise price HK\$	Closing price of shares before date of grant HK\$	Grant date	Exercisable from	Exercisable until
	Held at 1 January 2003	Granted during the year	Vested during the year	Exercised during the year						
<b>Directors</b>										
Ms. Chi Chuan	—	4,200,000	—	—	4,200,000	0.62	0.58	23 September 2003	23 September 2004	22 September 2013
Ms. Man Au Vivian	—	3,800,000	—	—	3,800,000	0.62	0.58	23 September 2003	23 September 2004	22 September 2013
Mr. Hu Xiaoping	—	400,000	—	—	400,000	0.62	0.58	23 September 2003	23 September 2004	22 September 2013
Mr. Woo Che-Wor, Alex	—	400,000	—	—	400,000	0.62	0.58	23 September 2003	23 September 2004	22 September 2013
Employees	—	16,400,000	—	—	16,400,000	0.62	0.58	23 September 2003	23 September 2004	22 September 2013
Total	—	25,200,000	—	—	25,200,000					

No options were cancelled or lapsed during the year ended 31 December 2003.

**VALUATION OF THE SHARE OPTIONS**

The estimated valuations of the share options calculated with the Black-Scholes option pricing model (the “Model”) as at the date of the grant of the options:

<b>Grantee</b>	<b>Number of share options granted during the year</b>	<b>Theoretical value of share options HK\$</b>
Directors	8,800,000	2,340,800
Employees	16,400,000	4,362,400

The Model is one commonly used model for estimating the value of share options granted. The major assumptions in the calculation of the estimated value of the share options granted are as follows:

- (i) the expected volatility over the life of the share options is assumed to be equal to the historical volatility of the Company’s shares for the period from 10 July 2003 (date of listing) to 23 September 2003, which is approximately 20.63%;
- (ii) risk free interest rate is assumed to be 4.303%, which is the approximate yield of 10-year Hong Kong Exchange Fund Notes traded on 23 September 2003; and
- (iii) expected life of the share options is assumed to be 10 years.

The theoretical value of share options calculated using the Model may not be reliable and certain as the value calculated is subject to all subjective assumptions and limitations of the Model.

## DIRECTORS' INTERESTS IN SHARES

As at 31 December 2003, the interests and short positions of the Directors and chief executives of the Company 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 GEM Listing Rules were as follows:

### (i) Aggregate long positions in the shares of the Company

Name of Director	Type of shares	Capacity	Aggregate long position in shares and underlying shares	Approximate percentage of interests in the issued share capital
Mr. Li Weiruo	Personal	Beneficial owner	206,440,000	49.15
Mr. Yuan Bai	Personal	Beneficial owner	35,448,000	8.44
Mr. Tang Shiguo	Personal	Beneficial owner	31,320,000	7.46
Ms. Chi Chuan	Personal	Beneficial owner	16,728,000	3.98
			<i>(Note)</i>	
Ms. Man Au Vivian	Personal	Beneficial owner	10,064,000	2.40
			<i>(Note)</i>	
Mr. Hu Xiaoping	Personal	Beneficial owner	400,000	0.10
			<i>(Note)</i>	
Mr. Woo Che-Wor, Alex	Personal	Beneficial owner	400,000	0.10
			<i>(Note)</i>	



**DIRECTORS' INTERESTS IN SHARES** *(Continued)*

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

Note:

During the year under review, certain options were granted to certain Directors of the Company under the Share Option Scheme. A summary of the principal terms and conditions of the Share Option Scheme is set out under the section headed "Share Option Scheme" in Appendix IV of the Prospectus. Details of the options granted to Directors during the year under review are as follows:

Name of Director	Date of Grant	Outstanding	Granted during the period	Vested during the period	Exercised during the period	Cancelled during the period	Outstanding	Exercise period	Exercise price HK\$
		as at 1 January 2003					as at 31 December 2003		
Ms. Chi Chuan	23 September 2003	—	4,200,000	—	—	—	4,200,000	23 September 2004 - 22 September 2013	0.62
Ms. Man Au Vivian	23 September 2003	—	3,800,000	—	—	—	3,800,000	23 September 2004 - 22 September 2013	0.62
Mr. Hu Xiaoping	23 September 2003	—	400,000	—	—	—	400,000	23 September 2004 - 22 September 2013	0.62
Mr. Woo Che-Wor, Alex	23 September 2003	—	400,000	—	—	—	400,000	23 September 2004 - 22 September 2013	0.62

## DIRECTORS' INTERESTS IN SHARES *(Continued)*

### (ii) Interests in shares of an associated corporation of the Company

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

## 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.

## SUBSTANTIAL SHAREHOLDERS

As at 31 December 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 the Company.

## SPONSOR'S INTEREST

Pursuant to a sponsor agreement dated 9 July 2003 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 financial year of the Company ending 31 December 2003 and for a period of two years thereafter expiring on 31 December 2005.

As confirmed by Guotai Junan, as at 31 December 2003, save for 14,300,000 shares of the Company, representing approximately 3.4% of the issued share capital of the Company, which were held by certain associates of Guotai Junan, neither Guotai Junan, their directors, employees nor any of their respective associates (as defined under the GEM Listing Rules) had any interest in the share capital of the Company or any of its subsidiaries.

## DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company, its subsidiaries or its holding company was a party and in which any of the Company's Directors or members of its management had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

## 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 and they have met twice during the period under review.

The audit committee has reviewed with management the accounting principles and practices adopted by the Company and discussed internal controls and financial reporting matters including a review of the audited accounts of the Company for the year ended 31 December 2003.

## PURCHASE, SALE OR REDEMPTION OF SHARES

The Company's 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.

## CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2003, the five largest customers accounted for approximately 21% of the Group's total turnover and the five largest suppliers of the Group accounted for approximately 44% of the Group's total purchases. The largest customer of the Group accounted for approximately 7% of the Group's total turnover and the largest supplier accounted for approximately 20% of the Group's total purchases.

None of the Directors, their associates, or any shareholders (which, to the knowledge of the Directors, owned more than 5% of the Company's share capital) had a beneficial interest in the Group's five largest customers and suppliers.

## BOARD PRACTICES AND PROCEDURES

During the year, the Company was in compliance with the Board Practices and Procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules.

## AUDITORS

The accounts have been audited by PricewaterhouseCoopers who shall retire and, being eligible, will offer themselves for re-appointment at the forthcoming Annual General Meeting.

On behalf of the Board,

**Li Weiruo**

Chairman

25 March 2004





羅兵咸永道會計師事務所

**PricewaterhouseCoopers**  
22nd Floor Prince's Building  
Central Hong Kong

**AUDITORS' REPORT TO THE SHAREHOLDERS OF  
KO YO ECOLOGICAL AGROTECH (GROUP) LIMITED**  
(incorporated in the Cayman Islands with limited liability)

We have audited the accounts on pages 28 to 62 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

**RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

The Company's directors are responsible for the preparation of accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

**BASIS OF OPINION**

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the Company and of the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

**OPINION**

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2003 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**PricewaterhouseCoopers**  
*Certified Public Accountants*

Hong Kong, 25 March 2004

## CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2003

	Note	2003 RMB'000	2002 RMB'000
Turnover	3	281,810	277,572
Cost of sales		(221,242)	(216,421)
Gross profit		60,568	61,151
Interest income	3	148	125
Distribution costs		(15,142)	(11,790)
Administrative expenses		(21,766)	(17,174)
Other income	4	6,173	3,521
Operating profit	5	29,981	35,833
Finance costs	6	(5,877)	(4,634)
Profit before taxation		24,104	31,199
Taxation	7	(31)	427
Profit after taxation		24,073	31,626
Minority interests		—	(286)
Profit attributable to shareholders	8	24,073	31,340
Dividends	9	5,921	—
Basic earnings per share	10	RMB0.066	RMB0.100
Diluted earnings per share	10	N/A	N/A

# CONSOLIDATED BALANCE SHEET

As at 31 December 2003

	Note	2003 RMB'000	2002 RMB'000
<b>Non-current assets</b>			
Negative goodwill	13	(12,866)	(13,366)
Fixed assets	14	159,170	160,913
Long-term investment	16	1,000	1,000
		<u>147,304</u>	<u>148,547</u>
<b>Current assets</b>			
Inventories	17	24,679	17,319
Trade and other receivables	18	46,689	56,900
Pledged bank deposits	19(b), 20	13,032	9,500
Cash and bank deposits		34,517	7,010
		<u>118,917</u>	<u>90,729</u>
<b>Current liabilities</b>			
Trade and other payables	19	38,224	40,520
Current portion of long-term loans, secured	21	21,000	9,000
Short-term bank loans, secured	20	46,430	30,430
		<u>105,654</u>	<u>79,950</u>
Net current assets		<u>13,263</u>	<u>10,779</u>
Total assets less current liabilities		<u>160,567</u>	<u>159,326</u>
<b>Financed by:</b>			
<b>Share capital</b>			
Share capital	26	44,520	33,199
<b>Reserves</b>			
Proposed final dividend	27	3,250	—
Others	27	74,561	31,368
Shareholders' funds		<u>122,331</u>	<u>64,567</u>
Minority interests		<u>600</u>	<u>—</u>
<b>Non-current liabilities</b>			
Long-term loans, secured	21	29,800	36,800
Provision for staff compensation	22	7,449	7,632
Amounts due to related companies	30	—	2,171
Other long-term payables	24	—	42,500
Deferred tax liabilities	25	387	356
Convertible note payable	23	—	5,300
		<u>37,636</u>	<u>94,759</u>
		<u>160,567</u>	<u>159,326</u>

Li Weiruo  
Director

Yuan Bai  
Director

# BALANCE SHEET

As at 31 December 2003

	Note	2003 RMB'000	2002 RMB'000
<b>Non-current assets</b>			
Investments in subsidiaries	15	<u>96,657</u>	—
<b>Current assets</b>			
Trade and other receivables	18	<u>9,954</u>	—
Cash and bank deposits		<u>53</u>	—
		<u>10,007</u>	—
<b>Current liabilities</b>			
Accruals and other payables	19	<u>1,625</u>	—
Net current assets		<u>8,382</u>	—
Total assets less current liabilities		<u>105,039</u>	—
<b>Financed by:</b>			
Share capital	26	<u>44,520</u>	—
Reserves			
Proposed final dividend	27	<u>3,250</u>	—
Others	27	<u>57,269</u>	—
		<u>105,039</u>	—

**Li Weiruo**  
*Director*

**Yuan Bai**  
*Director*





# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2003

	Note	2003 RMB'000	2002 RMB'000
Total equity as at 1 January		64,567	39,454
Net gains not recognised in the profit and loss account			
— Exchange differences arising on translation of the accounts of foreign group companies	27	54	—
Profit for the year		24,073	31,340
Dividends	27	(2,671)	—
Issue of shares	26	45,283	—
Share issue expenses	27	(8,975)	(6,227)
Total equity as at 31 December		<u>122,331</u>	<u>64,567</u>

## CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2003

	Note	2003 RMB'000	2002 RMB'000
Net cash (used in)/generated from operating activities	28(a)	(3,614)	3,488
Interest paid		(5,877)	(4,634)
Net cash outflow from operating activities		(9,491)	(1,146)
Investing activities			
Purchases of fixed assets and payments for construction-in-progress		(10,492)	(14,921)
Proceeds from disposal of fixed assets		807	335
Acquisition of additional equity interest in a subsidiary		—	(300)
Purchase of long-term investment		—	(1,000)
Dividend received from long-term investment		130	—
Interest received		148	125
Net cash outflow from investing activities		(9,407)	(15,761)
Net cash outflow before financing activities		(18,898)	(16,907)
Financing activities	28(b)		
Increase in pledged bank deposits		(3,532)	(9,500)
Issue of ordinary shares		45,283	—
Contribution from a minority shareholder		600	—
New loans payable		64,891	46,430
Repayment of amounts borrowed		(43,891)	(23,480)
Dividends paid		(2,671)	—
(Repayment of)/proceed from the convertible note		(5,300)	5,300
Payments for listing expenses		(8,975)	(6,227)
Net cash inflow from financing activities		46,405	12,523
Increase/(decrease) in cash and cash equivalents		27,507	(4,384)
Cash and cash equivalents at 1 January		7,010	11,394
Cash and cash equivalents at 31 December		34,517	7,010
Analysis of balances of cash and cash equivalents			
Cash and bank deposits		34,517	7,010

## 1 GROUP REORGANISATION AND BASIS OF PRESENTATION

Ko Yo Ecological Agrotech (Group) Limited (the “Company”) was incorporated in the Cayman Islands on 11 February 2002 as an exempted company with limited liability under the Companies Law Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Its shares have been listed on the Growth Enterprise Market (the “GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) since 10 July 2003.

On 10 June 2003, the Company became the holding company of the other companies now comprising the Group pursuant to a group reorganisation (the “Reorganisation”) which included exchange of shares of companies under common control, and the Company and its subsidiaries (the “Group”) resulting from the Reorganisation are regarded as a continuing group. Accordingly, the Reorganisation has been accounted for on the basis of merger accounting, under which the consolidated accounts have been prepared as if the Company had been the holding company of the other companies comprising the Group throughout the years ended 31 December 2002 and 2003, or since the date of incorporation of the individual companies, where this is a shorter period.

## 2 PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below:

### (a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants (“HKSA”). They have been prepared under the historical cost convention.

In the current year, the Group adopted Statement of Standard Accounting Practice (“SSAP”) 35 “Government Grants and Disclosure of Government Assistance” and SSAP 12 “Income Taxes” issued by the Hong Kong Society of Accountants which are effective for accounting periods commencing on or after 1 July 2002 and 1 January 2003, respectively.

The adoption of these new policies had no material effect on amounts reported in the prior year.

## 2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (b) Group accounting

#### (i) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31 December.

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

All significant inter-company transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or negative goodwill or goodwill/negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account and any related accumulated foreign currency translation reserve.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

#### (ii) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheet of subsidiaries, expressed in foreign currencies, are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss account is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

### (c) Negative goodwill

Negative goodwill represents the excess of the fair value of the Group's share of the net assets acquired over the cost of acquisition.

The amount of negative goodwill not exceeding the fair values of the non-monetary assets acquired, is recognised as income on a straight-line basis in the profit and loss account over the remaining weighted average useful life of these assets of 30 years.

## 2 PRINCIPAL ACCOUNTING POLICIES (Continued)

### (d) Fixed assets

#### (i) Construction-in-progress

Construction-in-progress represents plant and properties under construction and is stated at cost, which includes development and construction expenditure incurred and other direct costs attributable to the construction, less accumulated impairment losses. Construction-in-progress is not depreciated until such time as the assets are completed and put into operational use.

#### (ii) Other fixed assets

Other fixed assets, comprising land use rights, buildings, plant and machinery, motor vehicles, office equipment and others, are stated at cost less accumulated depreciation and accumulated impairment losses.

#### (iii) Depreciation

Land use rights are depreciated over the period of the rights while other fixed assets are depreciated at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Land use rights	over the period of the rights of 50 years
Buildings	2.6 %
Plant and machinery	6.4-7.5 %
Motor vehicles	9.0 %
Office equipment and others	12.9 %

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

#### (iv) Impairment and gain or loss on sale

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

### 2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

#### (e) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

#### (f) Long-term investments

Long-term investments are stated at cost less any provision for impairment losses. The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amounts of such investments will be reduced to their fair values. The impairment loss is recognised as an expense in the profit and loss account. This impairment loss is written back to the profit and loss account when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

#### (g) Inventories

Inventories comprise stocks and work in progress and are stated at the lower of cost and net realisable value. Cost, calculated on the weighted average basis, comprises materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

#### (h) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

#### (i) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from date of investment and bank overdrafts.

#### (j) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

## 2 PRINCIPAL ACCOUNTING POLICIES (Continued)

### (k) Employee benefits

#### (i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance sheet date.

#### (ii) Pension obligations

Pursuant to laws and regulations in the People's Republic of China ("Mainland China"), contributions to the basic old age insurance for the Group's Mainland China employees are made monthly to a government agency based on 25% of the standard salary set by the provincial government, of which 20% is borne by the Group and the remainder is borne by the employees. Except for the monthly contribution of 20% on standard salary to the government agency, the Group has no further obligation in connection with Mainland China employees' retirement benefits. The government agency is responsible for the pension liabilities relating to such employees on their retirement. The Group accounts for these contributions on an accrual basis.

The subsidiary in Hong Kong operates a defined contribution scheme which is available to qualified employees. The assets of the scheme are held separately from those of the subsidiary in independently administered funds. Monthly contributions made by the subsidiary are calculated based on certain percentages of the applicable payrolls costs or HKD1,000, whichever is lower.

Contributions to the above retirement schemes are charged to the profit and loss account as incurred.

### (l) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

In prior year, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was computed to be payable or recoverable in the foreseeable future. The adoption of the new SSAP 12 represents a change in accounting policy, which had no material effect on amounts reported in the prior year.

### 2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

#### **(m) Contingent liabilities**

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that the outflow becomes probable, it will then be recognised as a provision.

#### **(n) Revenue recognition**

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

Dividend income is recognised when the right to receive payment is established.

#### **(o) Borrowing costs**

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

#### **(p) Financial subsidies and tax fund**

Financial subsidies and tax refund are recognized in the profit and loss account when there is reasonable assurance that the Group will comply with the condition attaching with them and that the subsidies and refund will be received.



**2 PRINCIPAL ACCOUNTING POLICIES** *(Continued)*

**(q) Segment reporting**

The Group regards chemical products and chemical fertilisers as a single business segment. The Group also operates within one geographical segment as its revenues are primarily generated in Mainland China and its assets are located in Mainland China. Accordingly, no segmental information is presented.

**3 TURNOVER AND REVENUE**

The Company is an investment holding company. The Group is principally engaged in the manufacture and sale of chemical products and chemical fertilisers in Mainland China. Turnover represents invoiced value of sale of chemical products and chemical fertilisers to customers in Mainland China, net of goods returned and value-added tax (“VAT”), where applicable.

The Group’s sales made in Mainland China are subject to VAT on sales (“output VAT”). Such output VAT is payable after offsetting VAT paid by the Group on purchases. The applicable rates of output VAT range from 0% to 17%.

Revenues recognised during the year are as follows:

	<b>2003</b>	2002
	<b>RMB'000</b>	RMB'000
Turnover		
- Sale of chemical products and chemical fertilisers	<b>281,810</b>	277,572
Interest income	<b>148</b>	125
Total revenues	<b><u>281,958</u></b>	<u>277,697</u>

## 4 OTHER INCOME

	2003 RMB'000	2002 RMB'000
Financial subsidies ( <i>Note a</i> )	2,438	300
VAT refund ( <i>Note b</i> )	—	1,701
Write-back of provision for staff compensation ( <i>Note 22</i> )	—	60
Cash discounts on settlement of certain payables ( <i>Note c</i> )	2,771	705
Amortisation of negative goodwill ( <i>Note 13</i> )	500	500
Dividend income from unlisted investment	130	—
Others	334	255
	<u>6,173</u>	<u>3,521</u>

### (a) Financial subsidies

Pursuant to the document Xin Du Wei Fa (1998) No. 38 issued by the local government authority, Chengdu Ko Yo Chemical Industry Co., Ltd. (“Chengdu Ko Yo Chemical”), a subsidiary of the Company, is entitled to receive a financial subsidy equal to 68% of its payment of the tax liabilities assumed from its predecessor, Xin Du County Nitrogenous Fertilisers Company (“Xin Du Fertilisers Company”, a state-owned enterprise) upon its establishment in July 1999.

Pursuant to the document (1999) No. 33 issued by the local government authority, Chengdu Ko Yo Chemical is entitled to receive a financial subsidy equal to certain percentage of its net VAT paid to the local tax bureau. The applicable rates for the two years ended 30 June 2001 and the four years ending 30 June 2005 are 80% and 50% respectively. Such policy will be terminated on 1 July 2006.

### (b) VAT refund

Pursuant to the document Cai Shui (2001) No.113 issued by the Ministry of Finance and the National Tax Bureau of Mainland China, companies established in Mainland China are entitled to a refund of VAT paid on sale of certain qualified agricultural chemical fertilisers. Starting from 1 August 2001, Chengdu Ko Yo Chemical is entitled to receive a refund for its net VAT paid on its sales of urea. The tax refund rate for the year ended 31 December 2002 is 50%. Such policy was terminated on 1 January 2003.

**4 OTHER INCOME** *(Continued)*

**(c) Cash discounts on settlement of certain payables**

Upon its establishment, Chengdu Ko Yo Chemical assumed from Xin Du Fertilisers Company certain payables, which had no fixed repayment terms according to the agreements between the relevant creditors and Chengdu Ko Yo Chemical. Part of such payables were subsequently granted with maturity periods of over one year and were interest-free, and were recorded as other long-term payables as at 31 December 2002 (Note 24).

As a result of further negotiations with these creditors during the year ended 31 December 2003, some of the above payables were settled with cash discounts which were recognised as other income.

**5 OPERATING PROFIT**

Operating profit is stated after crediting and charging the following:

	<b>2003</b>	2002
	<b>RMB'000</b>	RMB'000
Crediting:		
Gain on disposal of fixed assets	—	332
Charging:		
Staff costs (including directors' emoluments) <i>(Note 11)</i>		
- Salaries, wages and other benefits	18,770	18,596
- Contributions to retirement schemes	1,617	1,685
	<b>20,387</b>	20,281
Cost of inventories	174,233	173,137
Provision for doubtful receivables	525	154
Provision for impairment loss on fixed assets	126	—
Loss on disposal of fixed assets	98	—
Depreciation	9,169	8,086
Auditors' remuneration	830	166

## 6 FINANCE COSTS

	2003 RMB'000	2002 RMB'000
Interest on loans wholly repayable within five years		
- Bank loans	5,308	4,231
- Other loans	569	403
	<u>5,877</u>	<u>4,634</u>

## 7 TAXATION

No provision for profits tax in the Cayman Islands, 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 years ended 31 December 2003 and 2002.

Chengdu Ko Yo Chemical, Chengdu Ko Yo Compound Fertiliser Co., Ltd. ("Chengdu Ko Yo Compound") and Dezhou Ko Yo Compound Fertiliser Co., Ltd. ("Dezhou Ko Yo Compound") are established as foreign investment enterprises in Mainland China. They are subject to Enterprise Income Tax ("EIT") at a rate of 24% 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 relevant tax regulations and as approved by the local tax bureau, the standard EIT rate for Chengdu Ko Yo Chemical was changed from 24% to 15% starting from 1 January 2002. The preferential EIT rate applicable to Chengdu Ko Yo Chemical in 2003 was 7.5% (2002: 7.5%). Pursuant to relevant taxation regulations of Mainland China 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 cost of certain machinery acquired from Mainland China enterprises, which are local machinery suppliers and unrelated to the Group. Accordingly, no EIT provision was made for the years ended 31 December 2003 and 2002.

Chengdu Ko Yo Compound was exempt from EIT for the years ended 31 December 2003 and 2002. Dezhou Ko Yo Compound did not have taxable profit for the period from 7 November 2003 (date of incorporation) to 31 December 2003.

The amount of taxation charged to the consolidated profit and loss account represents deferred taxation as set out in Note 25.

## 8 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of approximately RMB7,268,000 (2002: Nil).

**9 DIVIDENDS**

	2003 RMB'000	2002 RMB'000
Interim, paid, of HKD0.006 (2002:Nil) per ordinary share	2,671	—
Final, proposed, of HKD0.0073 (2002:Nil) per ordinary share	3,250	—
	<u>5,921</u>	<u>—</u>

At a meeting held on 13 August 2003, the directors declared an interim dividend of HKD0.006 (equivalent to RMB0.0064) per ordinary share, totalling approximately RMB2,671,000 which was paid during the year ended 31 December 2003.

At a meeting held on 25 March 2004, the directors proposed a final dividend of HKD0.0073 (equivalent to RMB0.0077) per ordinary share, totalling approximately RMB3,250,000. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2004.

**10 EARNINGS PER SHARE**

The calculations of basic earnings per share for the year ended 31 December 2003 are based on the consolidated profit attributable to the shareholders of approximately RMB24,073,000 (2002: 31,340,000) and on the weighted average number of approximately 364,113,000 (2002: 313,200,000) ordinary shares in issue during the year. In determining the number of shares in issue, a total of 313,200,000 shares issue on the incorporation of the Company and on the Reorganisation of the Group were deemed to have been in issue since 1 January 2002.

Diluted earnings per share is not presented as there were no dilutive potential ordinary shares.

**11 STAFF COSTS**

	2003 RMB'000	2002 RMB'000
Wages and salaries	17,482	17,383
Pension costs - defined contribution plans	1,617	1,685
Social security costs	1,288	1,213
	<u>20,387</u>	<u>20,281</u>

**12 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS**

**(a) Directors' emoluments**

The aggregate amounts of emoluments paid/payable to directors of the Company during the year are as follows:

	<b>2003</b>	2002
	<b>RMB'000</b>	RMB'000
Fees	<b>585</b>	—
Other emoluments		
- Basic salaries, housing allowance, other allowances and benefits in kind	<b>915</b>	901
- Bonuses	<b>530</b>	—
- Contributions to pension schemes	<b>31</b>	19
	<b><u>2,061</u></b>	<u>920</u>

The directors' fees disclosed above include approximately RMB71,000 (2002: Nil) paid to the independent non-executive directors.

The emoluments of the directors fell within the following bands:

	<b>Number of directors</b>	
	<b>2003</b>	2002
Emolument bands		
Nil to RMB1,060,000 (equivalent to HKD1,000,000)	<b><u>7</u></b>	<u>7</u>

The executive directors received individual emoluments for the year ended 31 December 2003 of approximately RMB255,000 (2002: RMB200,000), RMB180,000 (2002: RMB239,000), RMB160,000 (2002: RMB162,000), RMB160,000 (2002: RMB150,000) and RMB160,000 (2002: RMB150,000) respectively.

No director waived any emoluments during the year.

**12 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS** (Continued)

**(b) Five highest paid individuals**

The five individuals whose emoluments were the highest in the Group for both years include four directors (2002: four) whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one individual (2002: one) during the year are as follows:

	<b>2003</b>	2002
	<b>RMB'000</b>	RMB'000
Basic salaries, housing allowances, other allowances and benefits in kind	<b>413</b>	318
Bonuses	—	—
Contributions to pension schemes	<b>11</b>	10
	<u><b>424</b></u>	<u>328</u>

The emoluments fell within the following bands:

	<b>Number of individuals</b>	
	<b>2003</b>	2002
Emolument bands		
Nil to RMB1,060,000 (equivalent to HKD1,000,000)	<u><b>1</b></u>	<u>1</u>

During the year, the Group did not pay any amount to the five highest paid individuals (including directors and employees) nor any other directors of the Company as an inducement to join or upon joining the Group or as compensation for loss of office.

## 13 NEGATIVE GOODWILL

	Group	
	2003 RMB'000	2002 RMB'000
Cost		
At 1 January	14,634	12,438
Addition	—	2,196
At 31 December	<u>14,634</u>	<u>14,634</u>
Accumulated amortisation		
At 1 January	1,268	768
Charge for the year	500	500
At 31 December	<u>1,768</u>	<u>1,268</u>
Net book amount		
At 31 December	<u>12,866</u>	<u>13,366</u>
At 1 January	<u>13,366</u>	<u>11,670</u>

Upon the establishment of Chengdu Ko Yo Chemical, the fair value of the assets and liabilities taken over from Xin Du Fertilisers Company, its predecessor, was reviewed by the directors using replacement cost approach, open market value approach and present value approach, whichever is applicable. The negative goodwill represented the excess of the Group's interest of the fair value of the identifiable assets and liabilities acquired over the cost of the acquisition.

The addition in the year ended 31 December 2002 was related to the acquisition of the 6% minority interests in Chengdu Ko Yo Chemical.

Negative goodwill is amortised over the remaining weighted average useful lives of the identifiable acquired depreciable/amortisable assets of 30 years on a straight-line basis.



14 FIXED ASSETS

	Group						Total RMB'000
	Land use rights	Buildings	Plant and machinery	Motor vehicles	Office equipment and others	Construction- in-progress	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Cost:							
At 1 January 2003	41,423	49,740	79,437	1,923	6,152	1,025	179,700
Additions	—	128	1,464	2,212	289	4,364	8,457
Transfers	—	116	2,430	—	—	(2,546)	—
Disposals	—	(336)	(822)	—	—	—	(1,158)
At 31 December 2003	<u>41,423</u>	<u>49,648</u>	<u>82,509</u>	<u>4,135</u>	<u>6,441</u>	<u>2,843</u>	<u>186,999</u>
Accumulated depreciation and impairment:							
At 1 January 2003	2,929	4,194	9,310	200	2,154	—	18,787
Charge for the year	826	1,356	5,971	222	794	—	9,169
Impairment charge	—	—	126	—	—	—	126
Disposals	—	(4)	(249)	—	—	—	(253)
At 31 December 2003	<u>3,755</u>	<u>5,546</u>	<u>15,158</u>	<u>422</u>	<u>2,948</u>	<u>—</u>	<u>27,829</u>
Net book value:							
At 31 December 2003	<u>37,668</u>	<u>44,102</u>	<u>67,351</u>	<u>3,713</u>	<u>3,493</u>	<u>2,843</u>	<u>159,170</u>
At 31 December 2002	<u>38,494</u>	<u>45,546</u>	<u>70,127</u>	<u>1,723</u>	<u>3,998</u>	<u>1,025</u>	<u>160,913</u>

All the Group's land use rights and buildings were located in Mainland China. As at 31 December 2003, certain land use rights and buildings with a total net book value of approximately RMB43,029,000 (2002: RMB71,072,000) and plant and machinery with a total net book value of approximately RMB29,248,000 (2002: RMB8,818,000) were pledged as collateral for the Group's short-term bank loans and long-term bank loans (Notes 20 and 21).

15 INVESTMENTS IN SUBSIDIARIES

	Company	
	2003 RMB'000	2002 RMB'000
Unlisted investments at cost	70,361	—
Amounts due from subsidiaries	30,130	—
Amounts due to subsidiaries	(3,834)	—
	<u>96,657</u>	<u>—</u>

The amounts due from/to subsidiaries are unsecured, non-interest bearing and have no fixed repayment term.

The following is a list of the subsidiaries as at 31 December 2003:

Name	Place of incorporation/ establishment and kind of legal entity	Principal activities and place of operation	Particulars of issued, registered and fully paid up capital	Interest held
Ko Yo Ecological Agrotech (BVI) Limited (“Ko Yo BVI”) *	British Virgin Islands, (“BVI”) limited liability company	Investment holding in BVI	100 ordinary shares of USD1 each	100%
Ko Yo Development Company Limited (“Ko Yo Hong Kong”)	Hong Kong, limited liability company	Investment holding in Hong Kong	3,000,000 non-voting deferred shares and 100 ordinary shares of HKD1 each	100%
Chengdu Ko Yo Chemical	Mainland China, wholly foreign owned enterprise	Manufacture and sale of chemical products including sodium carbonate, ammonia, and chemical fertilisers including urea and ammonium chloride in Mainland China	RMB13,000,000	100%

**15 INVESTMENTS IN SUBSIDIARIES** (Continued)

Name	Place of incorporation/ establishment and kind of legal entity	Principal activities and place of operation	Particulars of issued, registered and fully paid up capital	Interest held
Chengdu Ko Yo Compound	Mainland China, wholly foreign owned enterprise	Manufacture, research, development and sale of bulk blended fertilisers in Mainland China	RMB15,000,000	100%
Dezhou Ko Yo Compound	Mainland China, sino-foreign equity joint venture	Manufacture, research, development and sale of bulk blended fertilisers in Mainland China	RMB3,000,000	80%

\* Shares held directly by the Company

**16 LONG-TERM INVESTMENT**

	Group	
	2003 RMB'000	2002 RMB'000
Unlisted investment, at cost	<u>1,000</u>	<u>1,000</u>

Long-term investment represented the Group's 1.2% equity interest in Sichuan Jiuda Industrial Salt Co. Ltd. ("Sichuan Jiuda"). The largest investor of Sichuan Jiuda, which has approximately 86% interest in Sichuan Jiuda, is the Group's largest supplier, selling industrial salt to the Group.

**17 INVENTORIES**

	Group	
	2003 RMB'000	2002 RMB'000
Finished goods	10,503	3,135
Raw materials	11,775	13,254
Work in progress	2,401	930
	<u>24,679</u>	<u>17,319</u>

At 31 December 2003, there were no inventories stated at net realisable value (2002: Nil).

## 18 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Trade receivables ( <i>Note a</i> )	15,899	29,929	—	—
Prepayments, purchase deposits and other deposits	19,711	13,618	96	—
Notes receivable ( <i>Note b</i> )	3,052	1,742	—	—
Other receivables ( <i>Note c</i> )	8,027	11,611	—	—
Due from a subsidiary	—	—	9,858	—
	<u>46,689</u>	<u>56,900</u>	<u>9,954</u>	<u>—</u>

### (a) Trade receivables

In general, the credit terms granted by the Group ranged from 0 to 3 months. The ageing analysis of trade receivables is as follows:

	Group	
	2003 RMB'000	2002 RMB'000
Aged:		
Less than 3 months	6,481	27,436
More than 3 months but not exceeding 1 year	9,626	2,791
More than 1 year but not exceeding 2 years	658	—
More than 2 years but not exceeding 3 years	—	—
More than 3 years	366	409
	<u>17,131</u>	<u>30,636</u>
Less: provision for doubtful receivables	(1,232)	(707)
	<u>15,899</u>	<u>29,929</u>

### (b) Notes receivable

The balance represents bank acceptance notes with periods within six months.

**18 TRADE AND OTHER RECEIVABLES** (Continued)

(c) Other receivables

Included in other receivables are amounts due from officers as follows:

Name	Maximum outstanding during the year RMB'000	Amount outstanding at 31 December 2003 RMB'000	Amount outstanding at 31 December 2002 RMB'000
Li Weiruo (director)	389	389	317
Tang Shiguo (director)	6	6	—
Chi Chuan (director)	541	—	—
Yuan Bai (director)	100	7	—
Man Au Vivian (director)	128	3	—
Fung Wai Shing	100	—	100
	<u>1,264</u>	<u>405</u>	<u>417</u>

The above balances represent advances to officers and are unsecured, repayable on demand and bear an interest rate of 7% per annum.

**19 TRADE AND OTHER PAYABLES**

	Group		Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Due to related companies (Note 30)	2,492	108	—	—
Trade payables (Note a)	11,360	9,666	—	—
Notes payable (Note b)	8,636	11,500	—	—
Deposits from customers	5,216	3,070	—	—
Accruals and other payables	10,520	16,176	1,625	—
	<u>38,224</u>	<u>40,520</u>	<u>1,625</u>	<u>—</u>

## 19 TRADE AND OTHER PAYABLES (Continued)

### (a) Trade payables

The ageing analysis of trade payables of the Group is as follows:

	Group	
	2003 RMB'000	2002 RMB'000
Aged:		
Less than 1 year	10,849	8,369
More than 1 year but not exceeding 2 years	65	46
More than 2 years but not exceeding 3 years	—	31
More than 3 years	446	1,220
	<u>11,360</u>	<u>9,666</u>

### (b) Notes payable

Notes payable represented bank acceptance notes issued by the Group and were interest-free and with maturity periods of less than one year. As at 31 December 2003, notes payable of approximately RMB8,636,000 (2002: RMB11,500,000) were pledged by bank deposits of RMB6,636,000 (2002: RMB9,500,000).

## 20 SHORT-TERM BANK LOANS, SECURED

The bank loans bear interest with rates ranging from 5.31% to 6.63% (2002: 5.04% to 7.02%) per annum and are secured by a bank deposit of RMB6,396,000 (2002: Nil) and certain fixed assets of the Group (Note 14).

**21 LONG-TERM LOANS, SECURED**

	Group	
	2003 RMB'000	2002 RMB'000
Amounts due:		
Less than 1 year	21,000	9,000
More than 1 year but not exceeding 2 years	4,000	11,000
More than 2 years but not exceeding 5 years	25,800	25,800
More than 5 years	—	—
	<u>50,800</u>	<u>45,800</u>
Amounts due within 1 year included in current liabilities	<u>(21,000)</u>	<u>(9,000)</u>
	<u><u>29,800</u></u>	<u><u>36,800</u></u>

The bank loans bear interest with rates ranging from 6.21% to 6.372% (2002: 6.12% to 7.14%) per annum and are secured by certain fixed assets of the Group (Note 14).

**22 PROVISION FOR STAFF COMPENSATION**

	Group	
	2003 RMB'000	2002 RMB'000
At 1 January	7,632	7,834
Payments	(183)	(142)
Reversal of provision upon retirement of employees	—	(60)
	<u>7,449</u>	<u>7,632</u>
At 31 December	<u><u>7,449</u></u>	<u><u>7,632</u></u>

Upon the establishment of Chengdu Ko Yo Chemical, certain government loans made to Xin Du Fertilisers Company and certain payables related to staff benefits were conditionally assigned to the former employees of Xin Du Fertilisers Company as provision for staff compensation. Under the arrangement, Chengdu Ko Yo Chemical is required to pay an amount of compensation predetermined at the date of its establishment to these employees if they are laid off by Chengdu Ko Yo Chemical or if they resign before their retirement.

## 22 PROVISION FOR STAFF COMPENSATION *(Continued)*

Upon retirement, these employees will be covered by the defined contribution retirement schemes organised by the relevant local government authorities in Mainland China (Note 2(k)), and will not be entitled to the repayment of the provision for staff compensation assigned to them. The unpaid balances of the provision for staff compensation are included in non-current liabilities in the balance sheet and were recognised as income upon the retirement of the employees as Chengdu Ko Yo Chemical no longer had any obligations to make repayment to them.

## 23 CONVERTIBLE NOTE PAYABLE

Pursuant to a subscription agreement dated 27 March 2002 entered into between Ko Yo Hong Kong, Info Kingdom Assets Limited (“Info Kingdom”) and Mr. Li Weiruo (as guarantor), Ko Yo Hong Kong issued a guaranteed convertible note with principal amount of HKD5,000,000 to Info Kingdom at an interest rate of 6% per annum from the date of issuance of the convertible note to 26 September 2003. As amended by an agreement dated 17 January 2003 to amend the terms and conditions of the convertible note, the maturity date was extended to 31 March 2004 with an interest rate of 8% per annum starting from 1 January 2003.

Ko Yo Hong Kong repaid Info Kingdom all the principal amount outstanding together with the interest accrued on 23 December 2003.

## 24 OTHER LONG-TERM PAYABLES

Pursuant to agreements between Chengdu Ko Yo Chemical and certain of its major suppliers and customers, certain payables were granted with maturity periods of over one year and were interest-free as at 31 December 2002. During the year ended 31 December 2003, certain long-term payables have been settled in advance by Chengdu Ko Yo Chemical with cash discounts (Note 4(c)). The remaining was included in trade and other payables as at 31 December 2003.

## 25 DEFERRED TAX LIABILITIES

Deferred taxation is calculated in full on temporary differences under the liability method using the taxation rates applicable to the respective companies.

The movement on the deferred tax liabilities/(assets) account is as follows:

	<b>Group</b>	
	<b>2003</b>	2002
	<b>RMB'000</b>	RMB'000
At 1 January	<b>356</b>	783
Deferred taxation charged/(credited) to profit and loss account	<b>31</b>	(427)
At 31 December	<b>387</b>	356



**25 DEFERRED TAX LIABILITIES** *(Continued)*

The movement in deferred tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the year is as follows:

	Deferred tax liabilities		Deferred tax assets		Total	
	Difference in		Impairment of assets			
	2003	2002	2003	2002	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January	624	996	(268)	(213)	356	783
Charged/(credited) to profit and loss account	—	(372)	31	(55)	31	(427)
At 31 December	<u>624</u>	<u>624</u>	<u>(237)</u>	<u>(268)</u>	<u>387</u>	<u>356</u>

Deferred assets and liabilities are offset and shown in the consolidated balance sheet as there is a legally enforceable right to set off current tax assets against current tax liabilities, and the deferred income taxes related to the same fiscal authority.

**26 SHARE CAPITAL**

		Authorised	
		Number of shares	RMB'000
Upon incorporation of the Company on 11 February 2002	(a)	50,000	413
Subdivision of shares	(b)	3,850,000	—
At 31 December 2002		3,900,000	413
Increase in authorised ordinary share capital	(c)	996,100,000	105,587
At 31 December 2003		<u>1,000,000,000</u>	<u>106,000</u>
		Issued and fully paid	
		Number of shares	RMB'000
Upon incorporation of the Company and on 31 December 2002	(b)	7,800	—
Issue of shares	(d), (e)	419,992,200	44,520
At 31 December 2003		<u>420,000,000</u>	<u>44,520</u>

### 26 SHARE CAPITAL (Continued)

- (a) Upon incorporation, the Company had an authorised share capital of USD50,000 (approximately RMB413,000), divided into 50,000 shares of USD1.00 each. On 25 February 2002, 100 shares were allotted and issued as nil paid.
- (b) On 14 May 2002, the authorised share capital of the Company was re-denominated into HKD at an amount of HKD390,000 (approximately RMB413,000) and was sub-divided into 3,900,000 shares of HKD0.10 each. The issued share capital of the Company was HKD780, divided into 7,800 nil-paid shares.
- (c) On 10 June 2003, the authorised share capital of the Company was increased from HKD390,000 to HKD100,000,000 (approximately RMB106,000,000), by the creation of an additional 996,100,000 shares of HKD0.10 each.
- (d) On 10 June 2003, the Company acquired the entire issued share capital of Ko Yo BVI by issuing 313,192,200 shares of HKD0.10 each, credited as fully paid, and credited as fully paid the 7,800 nil paid shares previously issued as mentioned in Note (b) above, totalling 313,200,000 shares with an amount of HKD31,320,000 (approximately RMB33,199,000).
- (e) On 10 July 2003, 106,800,000 shares of HKD0.10 each were issued at HKD0.40 per share through a placing and public offer (the “New Issue”), resulting in net proceeds of approximately RMB30,081,000. Immediately after the New Issue, the issued and fully-paid share capital of the Company was HKD42,000,000 (approximately RMB44,520,000), divided into 420,000,000 shares of HKD0.10 each.
- (f) The share capital presented in the consolidated balance sheet as at 31 December 2002 represents the share capital of the Company, arising on incorporation and from the share exchange transactions described in (a) and (d) above, which is deemed to have been in issue throughout the accounting periods presented in these accounts in accordance with the basis of presentation referred to in Note 1. The differences between the nominal value of these shares and aggregate of the nominal value of shares and share premium of a subsidiary acquired pursuant to the Reorganisation is accounted for as merger reserve as at 1 January 2002 (Note 27).
- (g) The Company has a share option scheme adopted on 10 June 2003 (the “Share Option Scheme”). The purpose of the Share Option Scheme is to recognise the contribution of the eligible participants, and to provide a performance related incentive to them. The eligible participants include the employees (including executive and non-executive directors) and consultants of the Group.

**26 SHARE CAPITAL** (Continued)

The number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other schemes must not exceed 30% of the shares in issue from time to time. The total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes must not exceed 42,000,000 shares, 10% of the shares of the Company at the date of commencement of dealings of the Company's share on GEM. As at 31 December 2003, the Company had outstanding 25,200,000 share options, which represented 6% of the Company's shares in issue as at that date.

Each participant is entitled to a maximum of 4,200,000 share options, which are valid for a period of 10 years from the date of grant. Participants need to pay option price at HKD10 per option for each acceptance of option offer and are required to hold the option for a minimum of one year before exercising part of the options. The subscription price will be determined by the Company's board of directors, and will not be less than the highest of (a) the closing price of the shares quoted on the GEM of the Stock Exchange on the date of the offer; (b) the average closing price of the shares quoted on the GEM of the Stock Exchange for the five business days immediately preceding the date of the offer and (c) the nominal value of the shares.

Movements in the number of share options outstanding during the year are as follows:

	<b>Number of options '000</b>
At 1st January 2003	—
Granted	25,200
	<hr/>
At 31st December 2003	25,200
	<hr/> <hr/>

Share options outstanding at the end of the year were granted on 23 September 2003 with an exercise price of HKD0.62 (equivalent to RMB0.67), and have the following terms:

<b>Directors</b>	<b>Number of options '000</b>	<b>Exercise period of share options</b>
Chi Chuan	4,200	23 September 2004 to 22 September 2013
Man Au Vivian	3,800	23 September 2004 to 22 September 2013
Hu Xiaoping	400	23 September 2004 to 22 September 2013
Woo Che-Wor, Alex	400	23 September 2004 to 22 September 2013
	<hr/>	
	8,800	
Other employees	16,400	23 September 2004 to 22 September 2013
	<hr/>	
At 31 December 2003	25,200	
	<hr/> <hr/>	

## 27 RESERVES

Movements of the Group's reserves were as follows:

	Share premium	Merger reserve	Reserve fund	Enterprise expansion fund	Exchange difference	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2002	—	(22,041)	4,356	412	61	23,467	6,255
Profit for the year	—	—	—	—	—	31,340	31,340
Share issuance expenses	(6,227)	—	—	—	—	—	(6,227)
At 31 December 2002	(6,227)	(22,041)	4,356	412	61	54,807	31,368
Profit for the year	—	—	—	—	—	24,073	24,073
Issue of shares (Note 26 (d) and (e))	33,962	—	—	—	—	—	33,962
Appropriation	—	—	3,618	—	—	(3,618)	—
Share issue expenses	(8,975)	—	—	—	—	—	(8,975)
Exchange difference	—	—	—	—	54	—	54
Dividends	—	—	—	—	—	(2,671)	(2,671)
At 31 December 2003	<u>18,760</u>	<u>(22,041)</u>	<u>7,974</u>	<u>412</u>	<u>115</u>	<u>72,591</u>	<u>77,811</u>
Representing:							
2003 final dividend proposed						3,250	3,250
Others						69,341	74,561
						<u>72,591</u>	<u>77,811</u>

**27 RESERVES** (Continued)

Movements of the Company's reserves were as follows:

	<b>Share premium</b> RMB'000	<b>Retained earnings</b> RMB'000	<b>Total</b> RMB'000
At 1 January 2003	—	—	—
Profit attributable to shareholders	—	7,268	7,268
Issue of shares	33,962	—	33,962
Share issue expenses	(15,202)	—	(15,202)
Effect of the Reorganisation	37,162	—	37,162
Dividends	—	(2,671)	(2,671)
	<u>—</u>	<u>—</u>	<u>—</u>
At 31 December 2003	<u>55,922</u>	<u>4,597</u>	<u>60,519</u>
Representing:			
2003 final dividend proposed		3,250	3,250
Others		1,347	57,269
		<u>4,597</u>	<u>60,519</u>

**(a) Statutory reserves**

The Company's subsidiaries established in Mainland China are governed by the laws and regulations of Mainland China and their articles of association. They are required to provide for certain statutory funds, namely, reserve fund, enterprise expansion fund and staff and workers' bonus and welfare fund which are appropriated from net profit after taxation but before dividend distribution based on the local statutory accounts prepared in accordance with accounting principles and relevant financial regulations applicable to enterprises established in Mainland China. They are required to allocate at least 10% of their net profit to the reserve fund until the balance of such fund has reached 50% of its registered capital. Appropriations of enterprise expansion fund and staff and workers' bonus and welfare fund are determined at the discretion of its directors. Appropriation to staff and workers' bonus and welfare fund is charged to expenses. The reserve fund can only be used, upon approval by the relevant authorities, to offset accumulated losses or increase capital. The enterprise expansion fund can only be used to increase capital upon approval by the relevant authorities. The staff and workers' bonus and welfare fund can only be used for special bonus or collective welfare of their employees, and assets acquired through this fund shall not be treated as assets of the Group. Accordingly, the balance of staff and workers' bonus and welfare fund is recorded as a liability of the Group.

## 27 RESERVES (Continued)

### (b) Merger reserve

Merger reserve of the Group represents the difference between the nominal value of the share capital issued by the Company and share capital and share premium of a subsidiary acquired through an exchange of shares.

## 28 CONSOLIDATED CASH FLOW STATEMENT

### (a) Reconciliation of profit before taxation to net cash (outflow)/inflow from operating activities

	2003 RMB'000	2002 RMB'000
Profit before taxation	24,104	31,199
Depreciation	9,169	8,086
Amortisation of negative goodwill	(500)	(500)
Loss/(gain) on disposal of fixed assets	98	(332)
Impairment of fixed assets	126	—
Interest income	(148)	(125)
Interest expenses	5,877	4,634
Dividend income	(130)	—
	<hr/>	<hr/>
Operating profit before working capital changes	38,596	42,962
Increase in inventories	(7,360)	(8,753)
Decrease/(increase) in trade and other receivables	10,514	(46,839)
Decrease in trade and other payables	(2,822)	(1,840)
(Decrease)/increase in other long-term payables	(42,500)	7,775
(Decrease)/increase in amount due to related companies	(42)	10,183
	<hr/>	<hr/>
Cash (used in)/generated from operating activities	<b>(3,614)</b>	<b>3,488</b>

**28 CONSOLIDATED CASH FLOW STATEMENT** (Continued)

**(b) Analysis of changes in financing during the year**

	Share capital including premium		Minority interests		Loans		Convertible note payable	
	2003	2002	2003	2002	2003	2002	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January	26,972	33,199	—	—	76,230	53,280	5,300	—
Proceeds from bank loans	—	—	—	—	64,891	46,430	—	—
Proceeds from convertible note	—	—	—	—	—	—	—	5,300
Repayment of bank loans	—	—	—	—	(43,891)	(23,480)	—	—
Repayment of convertible note	—	—	—	—	—	—	(5,300)	—
Contribution from a minority shareholder	—	—	600	—	—	—	—	—
Share offer and placement	36,308	(6,227)	—	—	—	—	—	—
At 31 December	<u>63,280</u>	<u>26,972</u>	<u>600</u>	<u>—</u>	<u>97,230</u>	<u>76,230</u>	<u>—</u>	<u>5,300</u>

**29 COMMITMENTS**

**(a) Capital commitments for property, plant and equipment**

	2003 RMB'000	2002 RMB'000
Contracted but not provided for	3,945	—
Authorised but not contracted for	—	—
	<u>3,945</u>	<u>—</u>

## 29 COMMITMENTS *(Continued)*

### (b) Commitments under operating leases

At 31 December 2003, the Group had future aggregate minimum lease payments under non-cancellable operating leases for land and buildings as follows:

	<b>2003</b>	2002
	<b>RMB'000</b>	RMB'000
Not later than one year	<b>460</b>	270
Later than one year and not later than five years	—	270
	<b>460</b>	540

## 30 BALANCES WITH RELATED COMPANIES

Balances with related companies, which are controlled by relatives of Mr. Li Weiruo, a shareholder and director, arose from advances to/from related companies and are unsecured and interest-free. The directors of the Company are of the opinion that the above balances arose in the ordinary course of the Group's business.

## 31 APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 25 March 2004.



The following table summarizes the results, assets and liabilities of the Group for the four years ended 31 December 2003.

	<b>2003</b>	2002	2001	2000
	<b>RMB'000</b>	RMB'000	RMB'000	RMB'000
Turnover	<b>281,810</b>	277,572	164,535	167,825
Profit attributable to shareholders	<b>24,073</b>	31,340	15,497	12,284
Total assets	<b>266,221</b>	239,276	185,363	168,920
Total liabilities	<b>(143,290)</b>	(174,709)	(143,400)	(151,478)
Minority interests	<b>(600)</b>	—	(2,510)	(1,463)
Shareholders' funds	<b>122,331</b>	64,567	39,453	15,979

## NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the annual general meeting of the members of Ko Yo Ecological Agrotech (Group) Limited (“the Company”) will be held at Suite 02, 31st Floor, Sino Plaza, 255-257 Gloucester Road, Causeway Bay, Hong Kong on 29 April 2004 at 11:00 a.m. for the following purposes:

1. To receive and consider the audited consolidated financial statements of the Company and its subsidiaries and the report of the Directors and the auditors for the year ended 31 December 2003;
2. To consider the re-election of the retiring Directors and the election of the proposed Director recommended by the board of Directors (the “Board”) the Company;
3. To consider and authorize the Board to fix the Directors’ remunerations;
4. To consider and approve the final dividend of the Company for the year ended 31 December 2003;
5. To consider the re-appointment of PricewaterhouseCoopers as auditors of the Company and to authorize the Board to fix their remuneration; and

As special business, to consider and if thought fit, pass the following resolutions as ordinary resolutions:

6. “THAT :
  - (a) subject to sub-paragraph (c) below, the exercise by the Directors during the Relevant Period (as defined below) of all the powers of the Company to allot, issue and deal with the ordinary shares of par value HK\$0.10 each (the “Shares”) in the capital of the Company and to make an offer or agreement or grant an option which would or might require such Shares to be allotted and issued be generally and unconditionally approved;
  - (b) the Directors be authorised to make an offer or agreement or grant an option during the Relevant Period which would or might require Shares in the capital of the Company to be allotted and issued either during or after the end of the Relevant Period pursuant to sub-paragraph (a) above;
  - (c) the aggregate nominal value of the Shares in the capital of the Company allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors pursuant to the approvals in sub-paragraphs (a) and (b) above, otherwise than pursuant to a rights issue (as defined below) or pursuant to the exercise of options which may be granted under the Share Option Scheme adopted by the Company on 10 June 2003 or an issue of Shares of the Company in lieu of the whole or part of a dividend on Shares of the Company in accordance with the articles of association of the Company, shall not exceed the aggregate of:
    - (i) 20% of the aggregate nominal value of the share capital of the Company in issue; and

(ii) conditional on the passing of Resolution 8 below, the aggregate nominal amount of the share capital of the Company purchased under the authority referred to in Resolution 7;

(d) for the purpose of this resolution:

“Relevant Period” means the period from the passing of this resolution until whichever is the earlier of:-

- (i) the conclusion of the next annual general meeting of the Company following the passing of this resolution; or
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the laws of the Cayman Islands or the articles of association of the Company to be held; or
- (iii) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the Directors by this resolution; and

“rights issue” means the allotment or issue of Shares in the Company or other securities which would or might require Shares to be allotted and issued pursuant to an offer made to all the shareholders of the Company (excluding for such purpose any shareholder who is resident in a place where such offer is not permitted under the laws of that place) and, where appropriate, the holders of other equity securities of the Company entitled to such offer, pro rata (apart from fractional entitlements) to their existing holdings of Shares or such other equity securities.”

7. “THAT :

- (a) the Directors be granted a general mandate to exercise all the powers of the Company to purchase its own securities on the Stock Exchange or on any other stock exchange on which shares in the capital of the Company may be listed and which is recognised by the Securities and Futures Commission and the Stock Exchange for this purpose, such number of securities as will represent up to 10% of the aggregate nominal value of the share capital of the Company in issue, during the Relevant Period (defined below) in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on the GEM (as amended from time to time) (or of such other stock exchange);



C. inserting in Article 66 the words “Subject to the rules prescribed by the Designated Stock Exchange,” in tenth line immediately after the word “hands”;

D. by deleting Article 76 and substituting thereof the following:

76.(1) No Member shall, unless the Board otherwise determines, be entitled to attend and vote and to be reckoned in a quorum at any general meeting unless he is duly registered and all calls or other sums presently payable by him in respect of shares in the Company have been paid.

(2) Where any Member is, under the rules of the Designated Stock Exchange, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such Member in contravention of such requirement or restriction shall not be counted.

E. by deleting Article 88 and substituting thereof the following:

88. No person other than a Director retiring at the meeting shall, unless recommended by the Director at any general meeting be eligible for election as a Director at any general meeting unless a Notice signed by a Member (other than the person to be proposed) duly qualified to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also a Notice signed by the person to be proposed of his willingness to be elected shall have been lodged at the head office or at the Registration Office provided that the minimum length of the period, during which such Notice(s) are given, shall be at least seven (7) days and that the period for lodgment of such Notice(s) shall commence no earlier than the day after the dispatch of the notice of the general meeting appointed for such election and end no later than seven (7) days prior to the date of such general meeting.

F. adding the following new Articles immediately after the existing Article 89(6):

(7) in the case of a Director who holds any executive office, his appointment as such is terminated or expires and the Directors resolve that his office be vacated;

(8) he is requested in writing by all the other Directors to resign; or

(9) he is convicted of an indictable offence.

G. by deleting Article 103 and substituting thereof the following:

103.(1) A Director shall not vote (nor be counted in the quorum) on any resolution of the Board approving any contract or arrangement or any other proposal in which he or any of his associates is materially interested, but this prohibition shall not apply to any of the following matters namely:

1. any contract or arrangement for the giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of the Company or any of its subsidiaries;
2. any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/ themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
3. any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
4. any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company or any of its subsidiaries by virtue only of his/their interest in shares of debentures or other securities of the Company;
5. any contract or arrangement concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a shareholder other than a company in which the Director and/or his associate(s) is/are in aggregate beneficially interested in five (5) per cent. or more of the issued shares or of the voting rights of any class of shares of such company (or any third company through which his interest or that of any of his associates is derived); or
6. any proposal concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death or disability benefits scheme or other arrangement which relates both to directors, his associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not accorded to the employees to which such scheme or fund relates.

(2) A company shall be deemed to be a company in which a Director and/or his associate(s) owns five (5) per cent. or more if and so long as (but only if so long as) he and/or his associates, (either directly or indirectly) are the holders of or beneficially interested in five (5) per cent. or more of any class of the equity share capital of such company or of the voting rights available to members of such company (or of any third company through which his/their interest or that of any of his associates is derived). For the purpose of this paragraph there shall be disregarded any shares held by a Director or his associate(s) as bare or custodian trustee and in which he or any of them has no beneficial interest, any shares comprised in a trust in which the interest of the Director or his associate(s) is/are in reversion or remainder if and so long as some other person is entitled to receive the income thereof, and any shares comprised in an authorized unit trust scheme in which the Director or his associate(s) is/are interested only as a unit holder and any shares which carry no voting right at general meetings and very restrictive dividend and return of capital right.

(3) Where a company in which a Director and/or his associate(s) holds five (5) per cent. or more is/are materially interested in a transaction, then that Director and/or his associate(s) shall also be deemed materially interested in such transaction.

(4) If any question shall arise at any meeting of the Board as to the materiality of the interest of a Director (other than the chairman of the meeting) or his associate(s) or as to the entitlement of any Director (other than such chairman) to vote and such question is not resolved by his voluntarily agreeing to abstain from voting, such question shall be referred to the chairman of the meeting and his ruling in relation to such other Director shall be final and conclusive except in a case where the nature or extent of the interest of the Director and/or his associate(s) concerned as known to such Director has not been fairly disclosed to the Board. If any question as aforesaid shall arise in respect of the chairman of the meeting such question shall be decided by a resolution of the Board (for which purpose such chairman shall not vote thereon) and such resolution shall be final and conclusive except in a case where the nature or extent of the interest of such chairman as known to such chairman has not been fairly disclosed to the Board.”

On behalf of the board

**Fung Wai Shing**  
*Company Secretary*

Hong Kong, 25 March 2004

## NOTICE OF ANNUAL GENERAL MEETING

### *Notes:*

- (1) A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and, in the event of, a poll, vote instead of him. A proxy need not be a member of the Company.
- (2) In order to be valid, the form of proxy must be deposited with the Company's share registrar in Hong Kong, Standard Registrars Limited, at G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, together with any power of attorney or other authority, under which it is signed, or a notarially certified copy of that power or authority, not less than 48 hours before the time for holding the meeting or any adjournment thereof.
- (3) Where there are joint holders of any shares in the Company, any one of such joint holders may vote, either in person or by proxy, in respect of such shares as if he were solely entitled thereto, but if more than one of such joint holders are present at the meeting, the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register in respect of the joint holding.
- (4) The register of members of the Company will be closed for the purpose of determining the entitlements of the proposed final dividend from 26 April 2004 to 29 April 2004, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend, all transfers, accompanied by the relevant share certificates, must be lodged for registration with the Company's share registrar, Standard Registrars Limited, at the above address no later than 4:00 p.m. on 23 April 2004.
- (5) Concerning Resolutions 6 and 7, the Board wishes to state that there is no immediate plans to issue any new shares or to repurchase any shares of the Company. The general mandates are being sought from shareholders in compliance with the Companies Law (as revised and consolidated) of the Cayman Islands and the Rules Governing the Listing of Securities on GEM of the Stock Exchange.
- (6) For the sake of good corporate governance practice, the Chairman intends to demand poll voting for all the resolutions set out in the notice of the annual general meeting.