



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)



First Quarterly Results Report
For the three months ended 31 March 2004



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)

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors of Ko Yo Ecological Agrotech (Group) Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange for the purpose of giving information with regard to Ko Yo Ecological Agrotech (Group) Limited. The directors of Ko Yo Ecological Agrotech (Group) Limited, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.



HIGHLIGHTS

- For the three months ended 31 March 2004, unaudited turnover increased to approximately RMB114 million, which represents an approximate 56% growth as compared to that of the same period last year.
- The Group exported approximately 19,000 tonnes of urea to Vietnam during the three months ended 31 March 2004.
- Profit attributable to shareholders of the Group was approximately RMB7.6 million for the three months ended 31 March 2004, which represents an approximately 18% growth as compared to that of the same period last year.



UNAUDITED CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the three months ended 31 March 2004

The board of directors (the "Board" or the "Directors") of Ko Yo Ecological Agrotech (Group) Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the three months ended 31 March 2004, together with the unaudited comparative figures for the corresponding period in 2003 as follows:

	Notes	Three months ended 31 March 2004 RMB'000	Three months ended 31 March 2003 RMB'000
Turnover	2	113,969	73,273
Cost of sales		(91,533)	(58,032)
Gross profit		22,436	15,241
Interest income		42	32
Distribution and selling expenses		(7,848)	(3,546)
General and administrative expenses		(5,895)	(4,582)
Other income		562	546
Profit from operations		9,297	7,691
Finance cost		(1,618)	(1,322)
Profit before taxation		7,679	6,369
Taxation	3	(90)	75
Profit after taxation		7,589	6,444
Minority interest		7	—
Profit attributable to shareholders		7,596	6,444
Earnings per share-basic (RMB cents)	4	1.81	2.06



Notes:

(Amounts expressed in Renminbi unless otherwise stated)

1. Basis of preparation

The unaudited results are prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies used in the preparation of the unaudited results are consistent with those used in the preparation of the Company's annual financial statements for the year ended 31 December 2003.

The Group reorganized its structure for listing of the Company on GEM of the Stock Exchange on 10 June 2003. In accordance with the Statement of Standard Accounting Practice 27 "Accounting for Group Reconstructions", the results of the Group for the three months ended 31 March 2003 have been prepared on the merger accounting basis, as if the current structure of the Group had been in existence throughout the period.

2. Turnover

Turnover represents the net amounts received and receivable for chemical products and chemical fertilizers sold, less returns and allowances and value-added taxes, if applicable, during the three-month period. The Group's revenues are primarily generated in the People's Republic of China (the "PRC") and Vietnam.

Turnover consisted of the following products:

	(unaudited)		(unaudited)	
	For the three months ended 31 March 2004		For the three months ended 31 March 2003	
	RMB'000	%	RMB'000	%
BB Fertilizers	38,515	34	22,624	31
Sodium carbonate	18,230	16	19,289	26
Ammonium chloride	9,771	8	11,721	16
Urea	45,344	40	17,778	24
Ammonia	2,109	2	1,861	3
	<u>113,969</u>		<u>73,273</u>	



3. Taxation

No provision for profits tax in the Cayman Islands, the British Virgin Islands or Hong Kong has been provided for, as the Group had no assessable profit arising in or derived from those jurisdictions during the three months ended 31 March 2004.

Chengdu Ko Yo Chemical Industry Co., Ltd. ("Chengdu Ko Yo Chemical"), Chengdu Ko Yo Compound Fertilizers Co., Ltd. ("Chengdu Ko Yo Compound") and Dezhou Ko Yo Compound Fertilizer Co., Ltd. ("Dezhou Ko Yo Compound") are established as foreign investment enterprises in the PRC, which are subject to full exemption from Enterprise Income Tax ("EIT") at the 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% from 1 January 2002. The preferential EIT rate applicable to Chengdu Ko Yo Chemical in 2004 is 7.5%. Pursuant to the relevant taxation regulations of the PRC and as approved by the local taxation bureau, Chengdu Ko Yo Chemical was entitled to deduct from its EIT expenses for an amount of 40% of the cost of certain machinery acquired from the PRC enterprises, which are local machinery suppliers and unrelated to the Group. Accordingly, no EIT provision was made for the three months ended 31 March 2004 for Chengdu Ko Yo Chemical.

Chengdu Ko Yo Compound was subject to 50% reduction of EIT for the three months ended 31 March 2004. Dezhou Ko Yo Compound did not have taxable profit for the three-month period ended 31 March 2004.

Taxation in income statements represents the provision of EIT of Chengdu Ko Yo Compound for the three months ended 31 March 2004. EIT rate for provision of EIT of Chengdu Ko Yo Compound bases on the applicable rate of Chengdu Ko Yo Chemical at 7.5%, which is subject to approval of the local taxation bureau.

4. Earnings per share

The calculation of the earnings per share is based on the unaudited profit for the relevant periods and on the weighted average number of shares 420,000,000 ordinary shares (31 March 2003: 313,200,000) for three months ended 31 March 2004. Diluted earnings per share is not presented as the Company has no potential dilutive shares.

5. Dividend

The Board does not recommend the payment of any interim dividend for the three months ended 31 March 2004 (31 March 2003: Nil).



6. Reserve

Movements of the Group's reserves were as follows:

	Share premium	Merger reserve	Reserve fund	Enterprise expansion fund	Exchange differences	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance as at							
1 January 2003 (audited)	(6,227)	(22,041)	4,356	412	61	54,807	31,368
Net profit for the three months ended							
31 March 2003	—	—	—	—	—	6,444	6,444
Share issuance cost	(159)	—	—	—	—	—	(159)
Balance as at							
31 March 2003	<u>(6,386)</u>	<u>(22,041)</u>	<u>4,356</u>	<u>412</u>	<u>61</u>	<u>61,251</u>	<u>37,653</u>
Balance as at							
1 January 2004 (audited)	18,760	(22,041)	7,974	412	115	72,591	77,811
Proposed final dividend for the year ended							
31 December 2003	—	—	—	—	—	(3,250)	(3,250)
Net profit for the three months ended							
31 March 2004	—	—	—	—	—	7,596	7,596
Balance as at							
31 March 2004	<u>18,760</u>	<u>(22,041)</u>	<u>7,974</u>	<u>412</u>	<u>115</u>	<u>76,937</u>	<u>82,157</u>



MANAGEMENT DISCUSSION AND ANALYSIS

Financial and Business Review

For the three months ended 31 March 2004, the products manufactured and distributed by the Group, including sodium carbonate, ammonium chloride, urea, ammonia and BB Fertilizers, achieved a turnover of approximately RMB114 million and total sales quantities of approximately 101,000 tonnes, which represented a growth of approximately 56% and 29% respectively compared with that of the same period last year. The growth in turnover and sales quantities was due to an increase in sales of BB Fertilizers and the exporting of urea to Vietnam.

The establishment of Dezhou Ko Yo Compound in November 2003 strengthened the marketing and distribution network in northern China, which increased the sales of BB Fertilizers. Exporting urea to Vietnam was the Group's trial sale to overseas market. As the Group had no spare production capacity for export business, the production process of exporting urea to Vietnam was subcontracted to other independent urea manufacturers.

For the three months ended 31 March 2004, the selling price of sodium carbonate decreased by approximately 2% compared with that of the same period last year. During the same period, the average selling prices of other products of the Group increased by around 3% to 13% compared to the three months ended 31 March 2003. Particularly, the domestic selling price of urea increased from approximately RMB1,171 per ton in the first quarter of 2003 to approximately RMB1,323 per ton, excluding value-added tax.

The overall gross profit margin decreased as compared with that of the same period in the previous year due to small gross profit margin of exporting urea. Excluding the sales and gross profit portion of export business, the Group's gross profit margin was approximately 25% for the three months ended 31 March 2004.

During the first quarter of this year, the Group's production ran smoothly without any suspension caused by the tight supply of electricity and natural gas. In March 2004, the utilisation rate of ammonia production plant was up to 99% of maximum production capacity.

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 the resumption of the 50% refund of value added tax of urea. Subject to the receipt of official approval from the local tax bureau, the Group did not book any other income for the refund of value-added tax of urea in the unaudited profit and loss account for the three months ended 31 March 2004.



In comparison with the same period last year, there was a relatively substantial increase in the selling expenses of the Group for the three months ended 31 March 2004. This was mainly due to the increase in marketing and transportation expenses from increased sales of BB Fertilizers. Administrative expenses increased substantially due to the inclusion of approximately RMB1 million of professional fees accrued by the Company in connection with its application of listing on the Main Board of the Stock Exchange of Hong Kong Limited.

For the three months ended 31 March 2004, the Group achieved profit attributable to shareholders of approximately RMB7.6 million and earnings per share amounted to approximately RMB1.81 cents.

Prospects

The existing ammonia production facilities of the Group are almost operating at its maximum capacity. In order to accommodate the future expansion of ammonia production volume, the Group entered into a lease agreement with Dazhu Hongsen Chemical Industry Co., Limited (四川省大竹縣宏森化工有限責任公司) ("Dazhu Hongsen") on 2 April 2004 in relation to the leasing of the ammonia production factory of Dazhu Hongsen for a term of 10 years, at an annual rent of approximately RMB1.1 million. Instead of consuming natural gas, this production factory employs coal as the major raw material for production of ammonia. The Directors believe that the production of ammonia with coal can reduce production cost of ammonium carbonate and urea, particularly during the time of continuous increase in unit cost of natural gas. The Group estimates the current production capacity of ammonia of Dazhu Hongsheng is approximately 25,000 tonnes per year, and its production capacity is expected to increase through the Group's production facilities upgrading.

Furthermore, the Group successfully acquired a urea production plant located at Dazhu District, Sichuan Province at a consideration of RMB7.19 million by way of public auction. This factory was collateral pledged for loans to be put under bidding at the auction organized by the auction company upon the request of creditor approved by the court. Due to prolonged suspension, the Group estimates the current production capacity of this urea plant is approximately 8,000 tonnes per year. It is expected that its production capacity of urea may be increased after the technology improvement.

The Group's management foresees the new production capacities for ammonia and urea will only account for a minor part of its sales and profit in 2004. The leasing and bidding of production facilities are in line with the objective to enhance production capacity as disclosed under the section headed in the "Future Plan" in the Company's prospectus dated 30 June 2003, which will be funded with internal resources of the Group.

Following the original development plan of BB Fertilizers, the Group expects that favorable growth in the sales of BB Fertilizers will continue in the coming quarters.



DISCLOSURE OF INTERESTS

(a) Interests of the Directors in the Company

As at 31 March 2004, the interests and short positions of the Directors and chief executives in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) to be recorded in the register required to be kept under section 352 of the SFO; or (c) to be notified to the Company and the Stock Exchange pursuant to the minimum standards of dealings by directors referred to in Rule 5.46 of the Rules Governing the Listing of Securities on GEM (the "GEM Listing Rules") were as follows:

(i) *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
Li Weiruo	Personal	Beneficial owner	206,440,000	49.15
Yuan Bai	Personal	Beneficial owner	35,448,000	8.44
Tang Shiguo (Note)	Personal	Beneficial owner	31,320,000	7.46
Chi Chuan	Personal	Beneficial owner	16,728,000	3.98
Man Au Vivian	Personal	Beneficial owner	10,064,000	2.40
Hu Xiaoping	Personal	Beneficial owner	400,000	0.10
Woo Che Wor, Alex	Personal	Beneficial owner	400,000	0.10

Note: Mr. Tang Shiguo ceased to be a director of the Company with effect from 29 April 2004.



(ii) Long position in the underlying shares of the Company

A summary of the principal terms and conditions of the Scheme is set out under the section headed "Share Option Scheme" in Appendix IV of the prospectus of the Company dated 30 June 2003. Details of the options granted to Directors during the period are as follows:

Name of Director	Date of Grant	Outstanding as at 1 January 2004	Number of share options			Outstanding as at 31 March 2004	Exercisable period	Exercise price HK\$
			Granted	Exercised	Cancelled			
Chi Chuan	23 September 2003	4,200,000	—	—	—	4,200,000	23 September 2004 - 22 September 2013	0.62
Man Au Vivian	23 September 2003	3,800,000	—	—	—	3,800,000	23 September 2004 - 22 September 2013	0.62
Hu Xiaoping	23 September 2003	400,000	—	—	—	400,000	23 September 2004 - 22 September 2013	0.62
Woo Che-Wor, Alex	23 September 2003	400,000	—	—	—	400,000	23 September 2004 - 22 September 2013	0.62

(iii) 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
Li Weiruo	Ko Yo Development Co., Limited ("Ko Yo Hong Kong") (Note 1)	2,100,000 non-voting deferred shares	Beneficial owner	Personal	70
Yuan Bai	Ko Yo Hong Kong	420,000 non-voting deferred shares	Beneficial owner	Personal	14



Name of Director	Name of company	Number and description of shares	Capacity	Type of interest	Approximate percentage of holding
Tang Shiguo (Note 2)	Ko Yo Hong Kong	300,000 non-voting deferred shares	Beneficial owner	Personal	10
Chi Chuan	Ko Yo Hong Kong	120,000 non-voting deferred shares	Beneficial owner	Personal	4
Man Au Vivian	Ko Yo Hong Kong	60,000 non-voting deferred shares	Beneficial owner	Personal	2

Notes 1: a wholly-owned subsidiary of the Company

2: Mr. Tang Shiguo ceased to be a director of the Company with effect from 29 April 2004.

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

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



Name of Director	Capacity	Name of company	Number and description of shares
Man Au Vivian	Beneficial owner	Ko Yo Hong Kong	60,000 non-voting deferred shares

Note: Mr. Tang Shiguo ceased to be a director of the Company with effect from 29 April 2004.

(b) Interests of the substantial shareholders in the Company

As at 31 March 2004, there was no substantial shareholder (not being a Director or a chief executive of the Company) who had any interests or short positions in the shares or underlying shares of the Company which are required to be notified to the Company and the Stock Exchange under Divisions 2 and 3 of Part XV of the SFO and recorded in the register required to be kept under section 336 of the SFO, and who were directly or indirectly deemed to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company.

(c) Interests of other persons in the Company

As at 31 March 2004, there was no person or company (not being a Director or a chief executive of the Company) who had any interests or short positions in the shares or underlying shares of the Company which are required to be notified to the Company and the Stock Exchange under Divisions 2 and 3 of Part XV of the SFO and recorded in the register required to be kept under section 336 of the SFO, and who were directly or indirectly deemed to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company.

COMPETING INTERESTS

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



SPONSOR'S INTERESTS

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 March 2004, save for 14,300,000 shares of the Company, representing approximately 3.4% of the issued 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) have any interest in any securities of the Company or any of its associates.

AUDIT COMMITTEE

The Company established an audit committee on 10 June 2003 with written terms of reference in compliance with Rules 5.28 to 5.30 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Company and provide advice and comments to the Directors. The audit committee has two members comprising the two independent non-executive Directors, namely, Mr. Hu Xiaoping and Mr. Woo Che-Wor, Alex.

The audit committee has reviewed with management the accounting principles and practices adopted by the Company and discussed internal controls and financial reporting matters including a review of the unaudited quarterly accounts of the Company for the three months ended 31 March 2004.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the period under review.

By Order of the Board

Li Weiruo

Chairman

Chengdu, the PRC, 13 May 2004