



玖源生態農業科技（集團）有限公司

Ko Yo Ecological Agrotech (Group) Limited

(Incorporated in the Cayman Islands with limited liability)



Interim Report

For the six months ended 30 June 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)

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



HIGHLIGHTS

For the six months ended 30 June 2004, unaudited turnover increased to approximately RMB199 million, which represents an approximate 34% growth as compared to that of the same period last year.

The sales quantities of the Group increased to approximately 180,000 tonnes, which represented a growth of 18% compared to six months ended 30 June 2003.

The net profit decreased by approximately 35% as compared to that of the same period last year.

Earnings per share of the Group was approximately RMB2.1 cents for the six months ended 30 June 2004.

The Directors have resolved to pay an interim dividend at HK0.3 cent per share for the six months ended 30 June 2004.

To all shareholders,

The board of directors (the "Directors" or the "Board") is pleased to present the unaudited condensed consolidated operating results of Ko Yo Ecological Agrotech (Group) Limited (the "Company") and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2004.

INTERIM DIVIDEND

The Board has resolved to pay an interim dividend of HK 0.3 cent per share for the six months ended 30 June 2004 to shareholders whose names appear on the register of members of the Company as at the close of business on 25 August 2004. The interim dividend will be paid to shareholders on 23 September 2004. The register of members of the Company will be closed from 23 August 2004 to 25 August 2004, both days inclusive, during which period no share transfer shall be effected. In order to qualify for the interim dividend, all instruments of transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar, Standard Registrars Limited, at G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration by no later than 4:00 p.m. on 20 August 2004.



UNAUDITED CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the three months and six months ended 30 June 2004

The unaudited results of the Group for the three months and six months ended 30 June 2004 together with the unaudited comparative figures for the corresponding periods in 2003 are as follows:

	Notes	Three months ended 30 June		Six months ended 30 June	
		2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Turnover	2	85,063	75,291	199,032	148,564
Cost of sales		(68,919)	(59,104)	(160,452)	(117,136)
Gross profit		16,144	16,187	38,580	31,428
Interest income		129	32	171	64
Distribution costs		(4,418)	(4,037)	(12,266)	(7,583)
Administrative expenses		(7,849)	(5,265)	(13,744)	(9,847)
Other income		150	1,688	712	2,234
Profit from operations		4,156	8,605	13,453	16,296
Finance costs		(1,940)	(1,542)	(3,558)	(2,864)
Profit before taxation	3	2,216	7,063	9,895	13,432
Taxation	4	994	(13)	1,084	(88)
Profit after taxation		1,222	7,076	8,811	13,520
Minority interest		(4)	—	(11)	—
Profit attributable to shareholders		1,226	7,076	8,822	13,520
Earnings per share					
basic (RMB cents)	5	0.29	2.26	2.10	4.32
Proposed dividends per share (HK cent)	6	Nil	Nil	0.3	0.6



CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2004 and 31 December 2003

		(Unaudited) As at 30 June 2004	(Audited) As at 31 December 2003
	Notes	RMB'000	RMB'000
NON-CURRENT ASSETS			
Fixed assets		166,090	159,170
Deposits for purchase of fixed assets		966	—
Long-term investment		1,000	1,000
Negative goodwill		(12,616)	(12,866)
Deposits for leased assets		4,548	—
		159,988	147,304
CURRENT ASSETS			
Inventories		19,333	24,679
Trade and other receivables	7	64,725	46,689
Pledged bank deposits		2,200	13,032
Cash and bank deposits		25,378	34,517
		111,636	118,917
CURRENT LIABILITIES			
Trade and other payables	8	37,156	38,224
Current portion of long-term loans	9	5,000	21,000
Short-term bank loans, secured	9	63,430	46,430
		105,586	105,654
NET CURRENT ASSETS		6,050	13,263
TOTAL ASSETS LESS CURRENT LIABILITIES		166,038	160,567



		(Unaudited) As at 30 June 2004 RMB'000	(Audited) As at 31 December 2003 RMB'000
	Notes		
NON-CURRENT LIABILITIES			
Long-term bank loans, secured	9	29,800	29,800
Provision for staff compensation		7,411	7,449
Deferred tax liabilities	10	334	387
		37,545	37,636
MINORITY INTERESTS			
		589	600
NET ASSETS			
		127,904	122,331
CAPITAL AND RESERVES			
Share capital		44,520	44,520
Reserves			
Proposed dividend		1,336	3,250
Others		82,048	74,561
		127,904	122,331



UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2004 and 30 June 2003

	Six months ended 30 June	
	2004 RMB'000	2003 RMB'000
NET CASH GENERATED FROM OPERATING ACTIVITIES	2,156	17,401
Interest paid	<u>(3,558)</u>	<u>(2,864)</u>
NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES	<u>(1,402)</u>	<u>14,537</u>
INVESTING ACTIVITIES		
Purchases of fixed assets and payments for construction-in-progress	(10,976)	(2,848)
Proceeds from disposal of fixed assets	—	52
Payment of deposits for leased assets	(4,548)	—
Deposits for purchase of fixed assets	(966)	(461)
Purchase of marketable securities	—	(5,000)
Interest received	171	64
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	<u>(16,319)</u>	<u>(8,193)</u>
NET CASH (OUTFLOW)/INFLOW BEFORE FINANCING ACTIVITIES	<u>(17,721)</u>	<u>6,344</u>
FINANCING ACTIVITIES		
Decrease in pledged bank deposits	10,832	2,000
New loans payable	44,130	4,000
Repayment of bank loans	(43,130)	(3,000)
Dividends paid	(3,250)	—
Payment for listing expenses	—	(112)
Repayment of other long-term payables	—	(10,900)
NET CASH INFLOW FROM FINANCING ACTIVITIES	<u>8,582</u>	<u>1,988</u>
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	<u>(9,139)</u>	<u>8,332</u>
CASH AND CASH EQUIVALENTS AT 1 JANUARY	<u>34,517</u>	<u>14,510</u>
CASH AND CASH EQUIVALENTS AT 30 JUNE	<u><u>25,378</u></u>	<u><u>22,842</u></u>



UNAUDITED CONSOLIDATED STATEMENT OF MOVEMENT IN EQUITY

For the six months ended 30 June 2004 and 30 June 2003

	Share capital	Share premium	Merger reserve	Reserve fund	Enterprise expansion fund	Exchange reserve	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance as at 1 January 2003 (audited)	3,181	7,977	(6,227)	4,356	412	61	54,807	64,567
Net profit for the six months ended 30 June 2003	—	—	—	—	—	—	13,520	13,520
Share issuance cost	—	—	(112)	—	—	—	—	(112)
Reorganisation on 10 June 2003*	30,018	(30,018)	—	—	—	—	—	—
Balance as at 30 June 2003	<u>33,199</u>	<u>(22,041)</u>	<u>(6,339)</u>	<u>4,356</u>	<u>412</u>	<u>61</u>	<u>68,327</u>	<u>77,975</u>
Balance as at 1 January 2003 (audited)	44,520	18,760	(22,041)	7,974	412	115	72,591	122,331
Net profit for the six months ended 30 June 2004	—	—	—	—	—	—	8,822	8,822
2003 Final dividend paid	—	—	—	—	—	—	(3,250)	(3,250)
Balance as at 30 June 2004	<u>44,520</u>	<u>18,760</u>	<u>(22,041)</u>	<u>7,974</u>	<u>412</u>	<u>115</u>	<u>78,163</u>	<u>127,904</u>

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



NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Amounts expressed in Renminbi unless otherwise stated)

1. Basis of preparation

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

The interim financial statements have been prepared in accordance with the Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants and the disclosure requirements set out in Chapter 18 of the Rules Governing the Listing of the Securities on GEM of the Stock Exchange. 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. The results of the Group for the six months ended 30 June 2003 have been prepared on a 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 months' and six months' period. The Group's revenues are primarily generated in the People's Republic of China (the "PRC").

Turnover consisted of the following products:

	(Unaudited)		(Unaudited)	
	Six months ended		Six months ended	
	30 June 2004		30 June 2003	
	RMB'000	%	RMB'000	%
BB Fertilizers	77,256	38.8%	52,918	35.6%
Sodium carbonate	34,459	17.3%	35,191	23.7%
Ammonium chloride	17,706	8.9%	19,227	12.9%
Urea	65,724	33.0%	37,797	25.4%
Ammonia	3,887	2.0%	3,431	2.4%
	199,032	100%	148,564	100%



3. Profit before taxation

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

	(Unaudited)	
	Six months ended 30 June	
	2004	2003
	RMB'000	RMB'000
Crediting:		
Gain on disposal of fixed assets	—	52
	<u> </u>	<u> </u>
Charging:		
Staff costs (including directors' emoluments)	12,646	8,523
Provision for doubtful receivables	130	400
Finance cost – interest expenses on loans wholly repayable within five years	3,558	2,864
Depreciation of fixed assets	4,056	4,630
Auditors' remuneration	—	—
	<u> </u>	<u> </u>

4. Taxation

No provision for profits tax in the Cayman Islands, the British Virgin Islands or Hong Kong has been provided for, as the Group had no assessable profit arising in or derived from those jurisdictions during the six months ended 30 June 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 Fertilizers Co., Ltd. ("Dezhou Ko Yo Compound") were established as foreign investment enterprises in the PRC, which are subject to Enterprise Income Tax ("EIT") at rates of 24%, 24% and 33%, respectively 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 regulation and as approved by the local tax bureau, the standard EIT rates for Chengdu Ko Yo Chemical and Chengdu Ko Yo Compound were changed from 24% to 15% starting from 1 January 2002.



The preferential EIT rate applicable to Chengdu Ko Yo Chemical in 2002 and 2003 was 7.5%. Pursuant to relevant taxation regulations of the PRC and as approved by the local taxation bureau, Chengdu Ko Yo Chemical was entitled to deduct from its EIT expenses an amount of 40% of the cost of certain machinery acquired from the PRC enterprises, which are local machinery suppliers and independent with the Group. Accordingly, no EIT provision was made for the year ended 31 December 2002 and 2003. The preferential EIT rate applicable to Chengdu Ko Yo Chemical for the six months ended 30 June 2004 was 7.5%.

Chengdu Ko Yo Compound did not have taxable profit for the period from 27 September 2001 (date of incorporation) to 31 December 2001, and was exempt from EIT for the two years ended 31 December 2003. The preferential EIT rate applicable to Chengdu Ko Yo Compound for the six months ended 30 June 2004 was 7.5%.

Dezhou Ko Yo Compound did not have taxable profit for the period from 7 November 2003 (date of incorporation) to 30 June 2004.

The amount of taxation charged to the unaudited condensed consolidated profit and loss account represents:

	(Unaudited)	
	Six months ended 30 June	
	2004	2003
	RMB'000	RMB'000
EIT in the PRC	1,137	—
Deferred tax (Note 10)	(53)	(88)
	<u>1,084</u>	<u>(88)</u>

5. Earnings per share

The calculation of earnings per share for the three months and the six months ended 30 June 2004 and 30 June 2003 is based on the unaudited profit for the relevant periods and on the 420,000,000 (2003: 313,200,000) ordinary shares in issue during the said periods. Diluted earning per share is not presented as the Company has no potential dilutive share during the said periods.



6. Dividend

The Board has resolved the payment of an interim dividend at HK 0.3 cent per share for the six months ended 30 June 2004 (2003: HK 0.6 cent), amounting to HK\$1,260,000 in total, which will be payable to shareholders whose names appear on the register of members of the Company as at 25 August 2004. The payment date will be on 23 September 2004. The dividend as declared should not be taken as an indication of the level of profit or dividend for the full year.

7. Trade and other receivables

	(Unaudited)	(Audited)
	As at	As at 31
	30 June 2004	December 2003
	RMB'000	RMB'000
Trade receivables	33,503	15,899
Notes receivable	1,815	3,052
Prepayment and other receivables	29,407	27,333
Amounts due from shareholders	—	405
	<u>64,725</u>	<u>46,689</u>

Trade receivables

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

	(Unaudited)	(Audited)
	As at	As at 31
	30 June 2004	December 2003
	RMB'000	RMB'000
Aged:		
Less than 3 months	25,054	6,481
More than 3 months but not exceeding 1 year	6,763	9,626
More than 1 year but not exceeding 2 years	2,682	658
More than 2 years but not exceeding 3 years	—	—
More than 3 years	366	366
	<u>34,865</u>	<u>17,131</u>
Less: Provision for doubtful receivables	<u>(1,362)</u>	<u>(1,232)</u>
	<u>33,503</u>	<u>15,899</u>



8. Trade and other payables

	(Unaudited)	(Audited)
	As at	As at 31
	30 June 2004	December 2003
	RMB'000	RMB'000
Trade payables	12,687	11,360
Note payables	4,000	8,636
Accruals and other payables	14,646	10,520
Deposits from customers	5,678	5,216
Amount due to related companies	145	2,492
	<u>37,156</u>	<u>38,224</u>

Trade payables

The aging analysis of trade payables is as follows:

	(Unaudited)	(Audited)
	As at	As at 31
	30 June 2004	December 2003
	RMB'000	RMB'000
Aged:		
Less than 1 years	11,625	10,849
More than 1 year but not exceeding 2 years	651	65
More than 2 years but not exceeding 3 years	—	—
More than 3 years	411	446
	<u>12,687</u>	<u>11,360</u>



9. Bank Loans

	(Unaudited) As at 30 June 2004 RMB'000	(Audited) As at 31 December 2003 RMB'000
Short-term bank loans, secured	<u>63,430</u>	<u>46,430</u>
Long-term bank loans, secured:		
Less than 1 year	5,000	21,000
More than 1 year but not exceeding 2 years	14,000	4,000
More than 2 years but not exceeding 5 years	<u>15,800</u>	<u>25,800</u>
	34,800	50,800
Less: current portion	<u>(5,000)</u>	<u>(21,000)</u>
Long-term portion	<u><u>29,800</u></u>	<u><u>29,800</u></u>

As at 30 June 2004, bank loans of the Group were generally secured by certain fixed assets of the Group. These bank loans bear interest at the rate ranging from 4.53% to 7.14% (2003: 6.21% to 6.372%) per annum. As at 30 June 2004, all bank loans facilities of the Group were fully utilized.

10. Deferred Taxation

Deferred taxation is calculated in full on temporary differences under the liability method using the taxation rates applicable to the respective companies. The movement in deferred tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction during the relevant periods) is as follows:

	Deferred tax liabilities difference		Deferred tax assets		Total	
	in tax depreciation 30 June 2004 RMB'000	31 December 2003 RMB'000	impairment of assets 30 June 2004 RMB'000	31 December 2003 RMB'000	(Unaudited) 30 June 2004 RMB'000	(Audited) 31 December 2003 RMB'000
Beginning of the year/period	624	624	(237)	(268)	387	356
Charged/(credited) to profit and loss account	<u>—</u>	<u>—</u>	<u>(53)</u>	<u>31</u>	<u>(53)</u>	<u>31</u>
End of the year/period	<u><u>624</u></u>	<u><u>624</u></u>	<u><u>(290)</u></u>	<u><u>(237)</u></u>	<u><u>334</u></u>	<u><u>387</u></u>



MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For the six months ended 30 June 2004, the products manufactured and distributed by the Group, including sodium carbonate, ammonium chloride, urea, ammonia and BB Fertilizers, achieved a turnover of approximately RMB199,032,000, representing a growth of approximately 34% compared with that of the same period last year. Excluding the sales of urea to Vietnam, the Group's turnover increased by approximately 16%. The net profit of the Group, however, recorded a decrease of approximately 35% compared with that of the same period last year. The profit attributable to shareholders was approximately RMB8,822,000 for the six months ended 30 June 2004.

For the six months ended 30 June 2004, the total sales quantities of the Group increased to approximately 180,000 tonnes, representing a growth of approximately 18% compared with that of the same period last year. The total sales quantities of the Group in the first half of 2004 included exporting urea to Vietnam at approximately 18,000 tonnes. The growth in sales quantities of the Group was attributable to increase in sales of BB Fertilizers as compared to the same period last year. During the period under review, except the selling price of ammonium chloride, the average selling price of the products of the Group increased by around 3% to 13% as compared to the six months ended 30 June 2003. The reason of the growth in market prices of the Group's products was the market price absorbed the effect of increase in transportation cost as well as unit cost of electricity and natural gas supply.

In April 2004, the National Development and Reform Commission (中華人民共和國國家發展和改革委員會) implemented the national price control on the market retailing price of the chemical fertilizers. Effective on 26 April 2004, the Government of Sichuan Province required all urea manufacturers to sell urea at an ex-factory price below RMB1,400 per tonne. The policy suppressed the growth of selling price of urea during the period under review.

During the second quarter of 2004, the Group stopped production for approximately 20 working days to undertake an annual overhaul of the production facilities and environmental inspection in order to ensure the compliance with Sewage Discharge Standard formulated by the PRC government. The Directors believe that such arrangement benefits the Group's long term development. However, it suppressed the growth rate of production quantities of the Group for the six months ended 30 June 2004.

For the six months ended 30 June 2004, the cost of sales of the Group increased by approximately 37% as compared with that of the same period in the previous year. Excluding the subcontracting cost of export of urea to Vietnam, the cost of sales of the



Group increased by approximately 16%. The main reason for the rise in the production costs was the increase in transportation cost as well as unit cost of electricity and natural gas. The Road Safety and Traffic Act of the PRC became effective on 1 May 2004, which imposed strict control on overloading vehicles. Under this Act, transportation cost of raw materials dramatically increased, which increased the overall unit cost of industrial salts and coal purchased by the Group. Unit cost of electricity and natural gas increased mainly due to tight domestic supplies.

During the period under review, the gross profit margin of the Group decreased to approximately 19%. Excluding the gross profit portion of the urea export business, the gross profit margin of the Group was approximately 21%, which was at similar level during the same period last year. For the six months ended 30 June 2004, the Group achieved gross profit of approximately RMB38,580,000, which represents a growth of approximately 23% as compared to that of same period in the previous year.

There was substantial increase in the distribution costs in the first half of 2004, representing an increase of approximately 62% compared with that of the same period last year. The main reason for the increase in distribution costs was the increase in transportation costs for sales of BB Fertilizers and also the allocation of more resources to marketing activities of BB Fertilizers. In the first half of last year, the extensive outbreak of the severe acute respiratory syndrome in the PRC suppressed the promotion and sales activities of BB Fertilizers. Therefore, the comparison of the figures for this year and last year reflected a substantial increase in distribution costs.

In comparison with the same period last year, there was a substantial increase in the administrative expenses of the Group for the six months ended 30 June 2004. This was mainly due to the professional fees of approximately RMB3.5 million incurred by the Company in connection with its application for listing by way of introduction on the Main Board of the Stock Exchange of Hong Kong Limited. Excluding these professional fees, the administrative expenses increased by approximately 4% as compared with that of same period in the previous year.

Starting from the period under review, Chengdu Ko Yo Chemical accrued a provision of EIT amounting to approximately RMB1.1 million, which was charged at 7.5% of its assessable profits.

For the six months ended 30 June 2004, the profit attributable to shareholders the Company amounted to approximately RMB8.8 million and earnings per share amounted to approximately RMB2.1 cents.



Business Review

The existing regular customers were the prime target for the sales of the Group's products such as sodium carbonate, ammonium chloride and urea. The sales of such products continued to play an important role in generating profits for the Group. In order to maintain the profitability of such products, the Group carried out an annual overhaul of its production facilities in May 2004. The Directors believe that the benefit of this annual overhaul will be reflected in the performance of the Group in the second half of 2004.

BB Fertilizers is a growing product of the Group, sales of which for the period ended 30 June 2004 increased by approximately 29% as compared to that of the same period last year. The sales network of BB Fertilizers has been expanded to Ningxia Autonomous Region during the period under review.

Dezhou Ko Yo Compound started production in the first half of 2004, which generated sales of BB Fertilizers of approximately RMB10 million. Dezhou Ko Yo Compound sold BB Fertilizers in Shandong and its peripheral provinces. It demonstrated a temporary success of localizing the production and marketing of BB Fertilizers in Shandong. The policy of localization of BB Fertilizers will be evaluated in the second half of 2004.

During the period under review, the Group and the Soil and Fertilizers Institute of Sichuan Academy of Agricultural Science ("Soil and Fertilizers Institute") (四川省農科院土壤肥料研究所) have developed the formulae of two new types of BB Fertilizers, which are currently under evaluation before launching to the market. Apart from the development of new types of BB Fertilizers, the continuous improvement and modification of the existing formulae of BB Fertilizers is under progress. During the first half of 2004, agricultural supporting team of the Group had organized several seminars for the research personnel of the Soil and Fertilizers Institute and the Group. These seminars provided information to the research and development centre jointly established by the Group and the Soil and Fertilizers Institute with regard to the efficacy of BB Fertilizers gathered from the market.

The existing ammonia production facilities of the Group are almost operating at its maximum capacity. In order to accommodate future expansion of ammonia production volume, the Group entered into a leasing agreement with Sichuan Dazhu Hongsen Chemical Industry Co., Limited (四川省大竹縣宏森化工有限責任公司) on 2 April 2004 in relation to the leasing of an ammonia and ammonium carbonate production factory in Dazhu District, Sichuan Province. The term of the lease is 10 years at an annual rent of approximately RMB1.1 million. Chengdu Ko Yo Chemical established a branch office to operate this leased production line. As the tax registration of this branch office will only be completed in July 2004, this leased plant will start operation in the second half of 2004.



On 11 April 2004, the Group acquired a urea production plant located at Dazhu District, Sichuan Province at a consideration of RMB7.19 million by way of public auction. This plant was pledged as collateral by a debtor for loans and was put under bidding at an auction organized by an auction company upon the request of the relevant creditors approved by the court. Due to prolonged suspension of this plant, the Group was improving its production facilities and planned to resume production of this plant in the fourth quarter of 2004.

During the period under review, BB Fertilizers of the Group were awarded the Green Product Award (中華環境保護基金會綠色產品獎) by China Environmental Protection Foundation in March 2004. Chengdu Ko Yo Compound had also passed the ISO9001:2000 accreditation on 14 June 2004.

Prospects

In the second half of 2004, the Group will concentrate on production and sale of sodium carbonate, ammonium chloride and urea, which are its major profit-generating products. The Directors believe that these major products will continue to generate steady income from regular customers of the Group. With the annual overhaul of production facilities completed in May 2004, the Directors expect that larger quantities of major products will be produced in the second half of 2004.

It is expected that the supply of electricity and natural gas will remain tight during the second half of 2004. However, under the market retailing price control policy of chemical fertilizers issued by the National Development and Reform Commission (中華人民共和國國家發展和改革委員會), the Commission assured that chemical fertilizers manufacturers will receive sufficient supplies of electricity and natural gas for production purposes.

The Road Safety and Traffic Act of the PRC effective on 1 May 2004 imposed strict control over overloading vehicles, resulting in high transportation costs of the Group in the first half of 2004. The Directors believe that such increase on transportation costs will gradually be reflected in the selling prices of the Group's products, which may only have short term effect on the Group's performance.



Having completed the tax registration of branch office of Chengdu Ko Yo Chemical in Dazhu District, Sichuan Province, the Group will start the production of ammonia and ammonium carbonate by the factory leased in Dazhu District in August 2004. Ammonium carbonate is a low-value chemical fertilizer, which has been popular among the farmers in the PRC over the past few decades. The Group will market its ammonium carbonate products under the brand name of “湖光” (Hu Guang). Through continuous improvement on the production facilities of ammonia and ammonium carbonate, the Directors expect that the monthly production capacity of ammonium carbonate will reach approximately 6,000 to 8,000 tonnes in the second half of 2004. The customers of ammonium carbonate of the Group will be agricultural resources companies in Sichuan Province, which will directly sell the products of the Group to farmers. The current market price of ammonium carbonate is approximately RMB460 per tonne and ammonium carbonate is classified as low-value chemical fertilizer which is not directly competing with the Group's urea in the chemical fertilizer market.

The Group recently acquired a urea production plant located at Dazhu District, Sichuan Province by way of public auction. Due to prolonged suspension of this plant, the Group arranged a large scale improvement in its production facilities. The Directors believe that this production plant will resume production in the fourth quarter of 2004, the expected production capacity of which will increase to approximately 4,000 tonnes per month. The Group will market urea produced by this new production plant through the same sales network of Chengdu Ko Yo Chemical.

In the second half of 2004, the Group will continue to enhance its efforts in marketing BB Fertilizers. Meanwhile, the Group will expand its agricultural service team, recruit new staff and increase its efforts in providing and upgrading agricultural services in every sales region. The development plan of BB Fertilizers still follows the section headed “Use of proceeds” in the Company's prospectus dated 30 June 2003 (the “Prospectus”).



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 HK\$28.4 million from the new issue of shares by way of public offer and placing. Up to 30 June 2004, the Group has applied the net proceeds as follows:

	Use of proceeds extracted from the Prospectus HK\$ million	Actual amount used up to	
		30 June 2004 HK\$ million	Remaining net Proceeds HK\$ million
Establishment of additional production facilities and purchase of equipment for BB Fertilisers	18	5.8	12.2
Development of new products, product research and assessment	5	0.6	4.4
Advertising and promotion of new products and expansion of the Group's sales force	5	3.0	2
Total	<u>28</u>	<u>9.4</u>	<u>18.6</u>

The remaining net proceeds as at 30 June 2004 was approximately HK\$18.6 million, which have been placed as interest bearing deposits in banks in the PRC.



Comparisons of the business objectives with the actual business progress set out in the Prospectus of the Company for the period from 1 January 2004 to 30 June 2004 are as follows:

Business objectives as stated in prospectus	Actual business progress
<i>Expansion of production capacity/upgrading of its production facilities</i>	
To increase the production volume of BB Fertilizers of new production plant with total production capacity of 600,000 tonnes per annum	The Group expanded its total production capacity of BB Fertilizers to 400,000 tonnes per annum
<i>Research and development of new products</i>	
To identify new research projects	New research projects are under negotiation with research institutes
To develop new BB Fertilizers series	Two new types of BB Fertilizers are developed and now under evaluation before launching to the market in the second half of 2004
<i>Marketing and brand building of the Group's products</i>	
To build up the market awareness of the "玖源"(Ko Yo) brand Fertilizers by placing advertisements in the media to promote the Group's products	Advertisements in the media were placed according to the original plan
To establish 4 to 5 representative offices in Shandong, Guangdong, Henan Provinces and Chongqing municipality	Shandong office has been set up and evaluation of the functions of other office will be performed in the second half of 2004
<i>Human resources</i>	
To recruit approximately 60 production staff for BB Fertilizers, 20 sales and marketing staff, 7 project design staff and 3 agricultural services staff	39 production staff have been recruited in the first half of 2004



LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Net current assets

As at 30 June 2004, the Group had net current assets of approximately RMB6,050,000. Current assets of the Group as at 30 June 2004 comprised cash and cash equivalent of approximately RMB27,578,000, inventories of approximately RMB19,333,000, trade receivables of approximately RMB33,503,000 and prepayments and other current assets approximately RMB31,222,000. Current liabilities of the Group as at 30 June 2004 comprised short-term loans and current portion of long-term bank loans of approximately RMB68,430,000, trade and notes payables of approximately RMB16,687,000, deposits from customers of approximately RMB5,678,000 and accrued charges and other payables of approximately RMB14,791,000.

CAPITAL COMMITMENTS

As at 30 June 2004, the Group had outstanding capital commitments of approximately RMB1,442,000.

FINANCIAL RESOURCES

As at 30 June 2004, the Group had bank balances of approximately RMB27,578,000. The Company intends to finance the Group's future operations, capital expenditure and other capital requirements with the existing bank balances.

GEARING RATIO

The Group's gearing ratios were 0.50 and 0.51 as at 30 June 2004 and 31 December 2003 respectively. These gearing ratios were calculated based on total liabilities over total assets as at the balance sheet dates.

MATERIAL ACQUISITIONS/DISPOSALS

The Group had no material acquisitions/disposals during the six months ended 30 June 2004 and it is the same for the comparative six months ended 30 June 2003.



SEGMENTAL INFORMATION

Except exporting urea to Vietnam, all the Group's activities are conducted in the PRC and are within the same business segment. Accordingly, neither analysis by geographical segments nor analysis by business segments is presented.

EMPLOYEE INFORMATION

As at 30 June 2004, the Group had 1,399 (2003: 1,368) employees, comprising 10 (2003: 9) in management, 73 (2003: 68) in finance and administration, 1,251 (2003: 1,212) in production, 58 (2003: 68) in sales and marketing and 7 (2003: 8) in research and development. 1,393 (2003: 1,362) of these employees were located in the PRC and 6 (2003: 6) in Hong Kong.

CHARGES ON THE GROUP'S ASSETS

As at 30 June 2004, certain land use rights and buildings with a total net book value of approximately RMB69,887,000 (2003: RMB70,962,000) and plant and machinery with a total net book value of approximately RMB29,523,000 (2003: RMB29,660,000) were pledged as collateral for the Group's bank loans.

DETAILS OF FUTURE PLANS FOR MATERIAL INVESTMENT OR CAPITAL ASSETS

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

FOREIGN EXCHANGE EXPOSURE

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

CONTINGENT LIABILITIES

The Group had no significant contingent liabilities as at 30 June 2004.



DISCLOSURE OF INTERESTS

(a) Interests of the Directors in the Company

As at 30 June 2004, 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 required standard 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 and the underlying 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
Chi Chuan	Personal	Beneficial owner	16,728,000 (Note)	3.98
Man Au Vivian	Personal	Beneficial owner	10,064,000 (Note)	2.40
Li Shengdi	Personal	Beneficial owner	4,200,000 (Note)	1.00
Hu Xiao Ping	Personal	Beneficial owner	400,000 (Note)	0.10
Woo Che Wor, Alex	Personal	Beneficial owner	400,000 (Note)	0.10



Note: Long position in the underlying shares of the Company

Share options were granted to directors, employees and consultant of the Company or its Subsidiaries under the Share Option Scheme approved by written resolutions of shareholders on 10 June 2003 (the "Scheme"), which was amended by an ordinary resolution duly passed at an extraordinary general meeting by the Company's shareholders on 28 July 2004. Details of the options granted to Directors outstanding as at 1 January 2004 and 30 June 2004 are as follows:

Name of Director	Date of Grant	Outstanding	Granted during the period	Exercised during the period	Cancelled during the period	Outstanding	Exercisable period	Exercise price HK\$
		as at 1 January 2004				as at 30 June 2004		
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
Li Shengdi	23 September 2003	4,200,000	—	—	—	4,200,000	23 September 2004 - 22 September 2013	0.62
Hu Xiao Ping	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



(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
Li Weiruo	Ko Yo Development Co., Limited ("Ko Yo Hong Kong") (Note)	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
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

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
Li Weiruo	Beneficial owner	Ko Yo Hong Kong	2,100,000 non-voting deferred shares	70
Yuan Bai	Beneficial owner	Ko Yo Hong Kong	420,000 non-voting deferred shares	14
Chi Chuan	Beneficial owner	Ko Yo Hong Kong	120,000 non-voting deferred shares	4
Man Au Vivian	Beneficial owner	Ko Yo Hong Kong	60,000 non-voting deferred shares	2



(b) Interests of the substantial shareholders in the Company

As at 30 June 2004, there was no substantial shareholder (not being a Director or chief executive of the Company and not being a person whose interest has been disclosed in part(c) of this section) 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 30 June 2004, the following person (not being a Director or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

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

Name	Type of shares	Capacity	Aggregate long position in shares and underlying shares	Approximate percentage of interests in the issued share capital
Tang Shiguo (Note)	Personal	Beneficial owner	31,320,000	7.46

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*

No long positions of other persons in the underlying shares of equity derivatives of the Company were recorded in the register.



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

Name	Name of company	Number and description of shares	Capacity	Type of interest	Approximate percentage of holding of such class
Tang Shiguo (Note 2)	Ko Yo Development Co., Limited (Note 1)	300,000 non-voting deferred shares	Beneficial owner	Personal	10

Note 1: a wholly-owned subsidiary of the Company

Note 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	Capacity	Name of company	Number and description of shares	Approximate percentage of holding of such class
Tang Shiguo (Note)	Beneficial owner	Ko Yo Hong Kong	300,000 non-voting deferred shares	10

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

Save as disclosed above, as at 30 June 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 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.

SHARE OPTION SCHEME

Share options were granted to directors, employees and consultants of the Company or its subsidiaries under the Scheme approved by written resolutions of shareholders on 10 June 2003. Certain provisions of the Scheme were amended pursuant to an ordinary resolution duly passed at an extraordinary general meeting by the Company



shareholders on 28 July 2004. A summary of the principle terms and conditions of the Scheme is set out in the section headed "Share Option Scheme" in Appendix IV of the Prospectus and a summary of amendments to the Scheme is set out in an announcement of the Company dated 12 July 2004.

Details of options granted by the Company pursuant to the Scheme and the options outstanding as at 30 June 2004 were disclosed in the following table:

	Held at 1 January 2004	Number of options		Held at 30 June 2004	Exercise price HK\$	Grant date	Exercisable from	Exercisable until
		Granted during the year	Exercised during the year					
<i>Directors</i>								
Chi Chuan	4,200,000	—	—	4,200,000	0.62	23 September 2003	23 September 2004	22 September 2013
Man Au Vivian	3,800,000	—	—	3,800,000	0.62	23 September 2003	23 September 2004	22 September 2013
Li Shengdi	4,200,000	—	—	4,200,000	0.62	23 September 2003	23 September 2004	22 September 2013
Hu Xiaoping	400,000	—	—	400,000	0.62	23 September 2003	23 September 2004	22 September 2013
Woo Che-Wor, Alex	400,000	—	—	400,000	0.62	23 September 2003	23 September 2004	22 September 2013
Employees	12,200,000	—	—	12,200,000	0.62	23 September 2003	23 September 2004	22 September 2013
Total	25,200,000	—	—	25,200,000				

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 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 30 June 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 pursuant to 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 interim accounts of the Company for the six months ended 30 June 2004.

COMPLIANCE WITH RULES 5.34 TO 5.45 OF THE GEM LISTING RULES

The Company had complied throughout the period under review the minimum standards of good practice concerning the general management responsibilities of the board of directors as set out in Rules 5.34 to 5.45 of the GEM Listing Rules.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the six months ended 30 June 2004, the Company had adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company also had made specific enquiry of all directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by directors.

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 29 July 2004