



玖源生態農業科技（集團）有限公司

Ko Yo Ecological Agrotech (Group) Limited

(incorporated in the Cayman Islands with limited liability)



Third Quarterly Report

For the nine months ended 30 September 2004



玫源生態農業科技（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 three months ended 30 September 2004, unaudited turnover increased to approximately RMB110 million, which represents an approximate 67% growth as compared to that of the same period last year.

During the third quarter of this year, profit attributable to shareholders of the Group increased to approximately RMB11.5 million, representing a growth rate approximately 141% as compared to that of the same period last year.

Earnings per share of the Group were approximately RMB2.72 cents and RMB4.83 cents for the three months and nine months ended 30 September 2004.



UNAUDITED CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the nine months ended 30 September 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 and nine months ended 30 September 2004, together with the unaudited comparative figures for the corresponding periods in 2003 as follows:

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Turnover	2	109,853	65,895	308,885	214,459
Cost of sales		(86,437)	(53,031)	(246,889)	(170,167)
Gross profit		23,416	12,864	61,996	44,292
Interest income		45	22	216	86
Distribution costs		(4,974)	(3,479)	(17,240)	(11,062)
Administrative expenses		(5,881)	(5,467)	(19,625)	(15,314)
Other income		1,603	2,212	2,315	4,446
Operating profit		14,209	6,152	27,662	22,448
Finance costs		(1,727)	(1,373)	(5,285)	(4,237)
Profit before taxation		12,482	4,779	22,377	18,211
Taxation	3	(1,023)	(29)	(2,107)	59
Profit after taxation		11,459	4,750	20,270	18,270
Minority interest		3	—	14	—
Profit attributable to shareholders		11,462	4,750	20,284	18,270
Earnings per share					
-basic (RMB cents)	4	2.72	1.16	4.83	5.28
Dividends per share (HK cent)	5	Nil	Nil	0.30	0.60



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 nine months ended 30 September 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 nine-month period. The Group operates within one geographical segment as its revenues are mainly generated in the People's Republic of China (the "PRC") and its assets are located there. Accordingly, no segmental information is presented.

Turnover consisted the following products:

	(unaudited)				(unaudited)			
	For the three months ended 30 September				For the nine months ended 30 September			
	2004		2003		2004		2003	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
BB Fertilizers	49,564	45	15,483	23	126,820	41	68,401	32
Sodium carbonate	23,054	21	18,315	28	57,513	19	53,506	25
Ammonium chloride	11,592	11	9,880	15	29,298	9	29,107	14
Urea	23,049	21	20,621	31	88,773	29	58,419	27
Ammonia	2,594	2	1,596	3	6,481	2	5,026	2
	109,853		65,895		308,885		214,459	



3. Taxation

No provision for profits tax in the Cayman Islands, the British Virgin Islands or Hong Kong has been provided for, as the Group had no assessable profit arising in or derived from those jurisdictions during the nine months ended 30 September 2004.

Chengdu Ko Yo Chemical Industry Co., Ltd. ("Chengdu Ko Yo Chemical") and Chengdu Ko Yo Compound Fertilizer Co., Ltd. ("Chengdu Ko Yo Compound") are established as foreign investment enterprises in the PRC, which are entitled to a 50% reduction for Enterprise Income Tax ("EIT") during the year of 2004. The EIT rate applicable to Chengdu Ko Yo Chemical and Chengdu Ko Yo Compound in 2004 is 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 EIT from its 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 Chengdu Ko Yo Chemical in 2003.

Dezhou Ko Yo Compound Fertilizer Co., Ltd. ("Dezhou Ko Yo Compound") did not have taxable profit during the nine months ended 30 September 2004.

Taxation in income statements represents the provision for EIT and net movement of deferred tax liabilities.

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 approximately 420,264,000 ordinary shares (30 September 2003: 345,700,000) for nine months ended 30 September 2004 and 420,791,000 ordinary shares (30 September 2003: 409,600,000) for three months ended 30 September 2004. Diluted earning per share is not presented as the Company has no potential dilutive share during the said periods.

5. Dividend

The Board does not recommend the payment of interim dividend for the three months ended 30 September 2004 (30 September 2003: Nil).



6. Reserve

	Capital RMB'000	Share premium RMB'000	Merger reserve RMB'000	Reserve fund RMB'000	Enterprise expansion RMB'000	Exchange reserve RMB'000	Retained earnings RMB'000	Total RMB'000
Balance as at 1 January 2003 (audited)	3,180	(6,227)	7,977	4,356	412	61	54,807	64,566
Net profit for the nine months ended 30 September 2003	—	—	—	—	—	—	18,270	18,270
Reorganisation on 10 June 2003*	30,018	—	(30,018)	—	—	—	—	—
Share issuance on 10 July 2003**	11,321	33,962	—	—	—	—	—	45,283
Share issuance cost	—	(8,975)	—	—	—	—	—	(8,975)
Dividends	—	—	—	—	—	—	(2,671)	(2,671)
Balance as at 30 September 2003	<u>44,519</u>	<u>18,760</u>	<u>(22,041)</u>	<u>4,356</u>	<u>412</u>	<u>61</u>	<u>70,406</u>	<u>116,473</u>
Balance as at 1 January 2004 (audited)	44,519	18,760	(22,041)	7,974	412	115	72,591	122,330
Net profit for the nine months ended 30 September 2004	—	—	—	—	—	—	20,284	20,284
Appropriation	—	—	—	2,272	—	—	(2,272)	—
Share issuance on 22 August 2004***	193	444	—	—	—	—	—	637
2003 Final dividend paid	—	—	—	—	—	—	(3,250)	(3,250)
2004 Interim dividend paid	—	—	—	—	—	—	(1,336)	(1,336)
Balance as at 30 September 2004	<u>44,712</u>	<u>19,204</u>	<u>(22,041)</u>	<u>10,246</u>	<u>412</u>	<u>115</u>	<u>86,017</u>	<u>138,665</u>

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

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

*** On 22 August 2004, 1,820,000 share options were exercised at HK\$ 0.33 per share.



MANAGEMENT DISCUSSION AND ANALYSIS

Financial and business review

For the nine months ended 30 September 2004, the products manufactured and distributed by the Group, including sodium carbonate, ammonium chloride, urea, ammonia and BB Fertilizers, achieved a turnover of approximately RMB309 million and total sales quantities of approximately 275,000 tonnes, which represented growth of approximately 44% and 19% respectively as compared with the same period last year.

During the third quarter of 2004, turnover and profit attributable to shareholders of the Group increased to approximately RMB110 million and RMB11.5 million respectively, which represented growth of approximately 67% and 141% as compared to the third quarter of 2003. The significant growth in the Group's turnover was mainly attributable to the increase in selling prices of the products of the Group and growth in sales quantities of BB Fertilizers of the Group.

During the period under review, transportation costs and market prices of coal, natural gas and oil increased dramatically, which were absorbed into the market selling prices of fertilizers and chemical products. For the three months ended 30 September 2004, the average selling prices of the Group's products increased by approximately 20% to 29% as compared to the same period last year. The average selling price and sale quantities of BB Fertilizers of the Group increased by approximately 18% and 57% for the nine months ended 30 September 2004 as compared to same period last year. Such increase was due to more marketing activities for promotion of BB Fertilizers of the Group.

During the period under review, the growth rate of cost of sales of the Group was almost in line with the growth rate of turnover of the Group. Excluding the sales of urea to Vietnam in the first quarter of 2004, the gross profit margin of the Group for the nine months ended 30 September 2004 increased to 21.6% from 20.7% during the same period last year. The growth in profit margin of the Group was attributable to the annual overhaul and improvement of the production facilities in May 2004.

The distribution costs of the Group increased to approximately RMB17.2 million for the nine months ended 30 September 2004. During the period under review, the distribution costs to turnover ratio increased slightly from 0.052 in the same period last year to 0.056. Such increase was due to the Road Safety and Traffic Act of the PRC effective on 1 May 2004, which imposed strict control on transportation overload. However, such increase in transportation cost had been fully absorbed into the selling price of the Group's products.



In comparison with the same period last year, there was a substantial increase in the administrative expenses of the Group by approximately 27% for the nine months ended 30 September 2004. This was mainly attributable to the professional fee of approximately RMB4.1 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 1% as compared with that of same period in the previous year.

Starting from the period under review, Chengdu Ko Yo Chemical and Chengdu Ko Yo Compound accrued provisions of EIT amounting to approximately RMB2.1 million, which were charged at 7.5% of their assessable profits.

For the nine months ended 30 September 2004, the profit attributable to shareholders was approximately RMB20.3 million, which represented for a growth approximately 11% as compared to that of same period last year.

Prospects

For the fourth quarter of 2004, the Directors believe that the market price of the Group's products will continue to increase as the unit costs of electricity and natural gas will keep on rising. The Directors expect, with steady supply of electricity and natural gas, the Group will further benefit from the continuous increase in market prices of the Group's products.

During the period under review, Chengdu Ko Yo Compound and Dezhou Ko Yo Compound achieved significant growth in turnover of BB Fertilizers of the Group. The Directors expect that such growth of BB Fertilizers will continue in the fourth quarter of 2004.

On 2 April 2004, the Group entered into a leasing agreement with Sichuan Dazhu Hongsen Chemical Industry Co., Limited (四川省大竹宏縣宏森化工有限責任公司) in relation to the leasing of an ammonia and ammonium carbonate production factory in Dazhu District, Sichuan Province. The production of this factory starts in the fourth quarter of 2004, which is expected to generate small portion of revenue and profit for the Group.

On 11 April 2004, the Group 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 expect that this production plant will resume production in the fourth quarter of 2004.



As Chengdu Ko Yo Chemical is currently operating at its full production capacity, the Directors expect that the production plants in Dazhu District will support the business growth of the Group in future. For more effective and efficient management, the Group is considering to set up another wholly-owned subsidiary to operate the business in Dazhu District.

In order to enlarge the production capacity of the Group in future, the Group keeps on searching suitable production plants for acquisition. The Directors expect to locate some target in the fourth quarter of 2004.

DISCLOSURE OF INTERESTS

(a) Interests of the Directors in the Company

As at 30 September 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 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	48.94
Yuan Bai	Personal	Beneficial owner	35,448,000	8.40
Chi Chuan	Personal	Beneficial owner	16,728,000 (Note)	3.97
Man Au Vivian	Personal	Beneficial owner	10,064,000 (Note)	2.39
Li Shengdi	Personal	Beneficial owner	4,200,000 (Note)	1.00
Hu Xiaoping	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 certain directors, employees and consultant of the Company or its Subsidiaries under the share option scheme adopted 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 during the period are as follows:

Name of Director	Date of Grant	Number of share options				Outstanding as at 30 September 2004	Exercisable period	Exercise price HK\$
		Outstanding as at 1 January 2004	Granted during the period	Exercised during the period	Cancelled during the period			
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 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



(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
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 September 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

At 30 September 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	7.42

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
Tang Shiguo (Note)	Ko Yo Hong Kong	300,000 non-voting deferred shares	Beneficial owner	Personal	10

Note: 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
Tang Shiguo (Note)	Beneficial owner	Ko Yo Hong Kong	300,000 non-voting deferred shares

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 September 2004, there was no person or company (not being a Director of 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 30 September 2004, save for 20,400,000 shares of the Company, representing approximately 4.8% 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 in 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 three members comprising the three independent non-executive Directors, namely, Mr. Hu Xiaoping, Mr. Woo Che-wor, Alex and Mr. Qian Laizhong.

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 third quarterly accounts of the Company for the nine months ended 30 September 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 nine months ended 30 September 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, 12 November 2004