




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)

A photograph of an industrial facility at night, featuring several tall, cylindrical towers with multiple levels of platforms and walkways. The scene is illuminated by warm yellow lights, creating a contrast with the dark blue sky. A large, stylized blue graphic element, resembling a compass rose or a circular grid, is overlaid on the right side of the image.

First Quarterly Results Report
For the three months ended 31 March 2005



The Group's production facility in Chengdu, Sichuan Province, the PRC

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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 31 March 2005, unaudited turnover increased to approximately RMB143 million, which represents an approximate 25% growth as compared to that of the same period 2004.
- The sale quantities of BB Fertilizers of the Group increased to 41,399 tonnes, which represents a growth of 40% as compared with the first quarter of 2004.
- Profit attributable to shareholders of the Group was approximately RMB 12 million for the three months ended 31 March 2005, which represents an approximately 58% growth as compared to that of the same period last year.
- Basic earnings per share of the Group was approximately RMB 2.85 cents for the three months ended 31 March 2005.

UNAUDITED CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the three months ended 31 March 2005

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 2005, together with the unaudited comparative figures for the corresponding periods in 2004 as follows:

	Notes	Three months ended 31 March 2005 RMB'000	Three months ended 31 March 2004 RMB'000
Turnover	2	142,924	113,969
Cost of sales		<u>(113,354)</u>	<u>(91,533)</u>
Gross profit		29,570	22,436
Interest income		154	42
Distribution costs		(7,763)	(7,848)
Administrative expenses		(7,610)	(5,895)
Other income		<u>1,442</u>	<u>562</u>
Operating profit		15,793	9,297
Finance costs		<u>(1,745)</u>	<u>(1,618)</u>
Profit before taxation		14,048	7,679
Taxation	3	<u>(2,026)</u>	<u>(90)</u>
Profit after taxation		12,022	7,589
Minority interests		<u>(11)</u>	<u>7</u>
Profit attributable to shareholders		<u>12,011</u>	<u>7,596</u>
Basic earnings per share (RMB cents)	4	<u>2.85</u>	<u>1.81</u>
Diluted earnings per share	4	<u>N/A</u>	<u>N/A</u>

Notes:

1. Basis of preparation

The Hong Kong Institute of Certified Public Accountant (“HKICPA”) has undertaken to converge by 1 January 2005 all Hong Kong Financial Reporting Standards (“HKFRSs”) with International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board. As a result, the HKICPA had aligned HKFRSs with the requirements of IFRSs in all materials respects as at 31 December 2004. The accounts have been prepared under the historical cost convention.

The adoption of HKFRS 2 has resulted in a change in accounting policy for employee share options. Prior to this, the provision of share options to employees did not result in a charge to the profit and loss account. Following the adoption of HKFRS 2, the fair value of share options at grant date is amortised over the relevant vesting periods to the profit and loss account. The Company has not applied this HKFRS retrospectively as share options of the Company granted after 7 November 2002 had vested at 1 January 2005.

The adoption of HKFRS 3 has resulted in a change in the accounting policy for negative goodwill. Prior to this, negative goodwill was recognized as income on a straight-line basis in the profit and loss account over the remaining weighted average useful life of assets acquired of 30 years. In accordance with the provision of HKFRS 3, the carrying amount of negative goodwill as at 1 January 2005 shall be derecognized with a corresponding adjustment to the opening balance of retained earnings, which increased the retained earnings by approximately RMB12,366,000.

The adoption of other new HKFRS does not result in substantial changes to the Group’s accounting policies except certain presentation and disclosure of the accounts will be affected on the 2005 half year and annual reports.

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").

Turnover consisted the following products:

	(unaudited) For the three months ended 31 March 2005		(unaudited) For the three months ended 31 March 2004	
	RMB'000	%	RMB'000	%
BB Fertilizers	73,954	52	38,515	34
Sodium carbonate	26,788	19	18,230	16
Ammonium chloride	13,399	9	9,771	8
Urea	20,901	14	45,344	40
Ammonia	3,909	3	2,109	2
Ammonium bicarbonate	3,973	3	—	—
	<u>142,924</u>	<u>100</u>	<u>113,969</u>	<u>100</u>

3. Taxation

No provision for profits tax in the Cayman Islands, the British Virgin Islands or Hong Kong has been made, as the Group had no assessable profit arising in or derived from those jurisdictions during the three months ended 31 March 2005.

Chengdu Ko Yo Chemical Industry Co., Ltd. ("Chengdu Ko Yo Chemical"), Chengdu Ko Yo Compound Fertilisers Co., Ltd. ("Chengdu Ko Yo Compound"), Dezhou Ko Yo Compound Fertiliser Co., Ltd. ("Dezhou Ko Yo Compound") and Dazhou City Dazhu Ko Yo Chemical Industry Co., Ltd. ("Dazhu Ko Yo Chemical") were established as foreign investment enterprises in the PRC. They are subject to Enterprise Income Tax ("EIT") at the rate of 15%, 15%, 33% and 15% 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.

The preferential EIT rate applicable for Chengdu Ko Yo Chemical in 2005 is 15%. Pursuant to relevant taxation regulations of the PRC and as approved by the local taxation bureau, Chengdu Ko Yo Chemical was entitled to deduct from its EIT expenses for an amount of 40% of cost of certain machinery acquired from the PRC enterprises, which are local machinery suppliers and unrelated to the Group. Accordingly, EIT provision made for Chengdu Ko Yo Chemical for the three months ended 31 March 2005 was RMB1,739,000.

The EIT provision made for and preferential EIT rate applicable to Chengdu Ko Yo Compound for the three months ended 31 March 2005 are approximately RMB287,000 and 7.5%.

Dezhou Ko Yo Compound and Dazhu Ko Yo Chemical did not have EIT payable for the three months ended 31 March 2005.

4. Earnings per share

The calculation of basic earnings per share for the three months ended 31 March 2005 is based on the consolidated profit attributable to shareholders of approximately RMB12,011,000 (2004: RMB 7,596,000) and the weighted average number of approximately 421,820,000 (2004: 420,000,000) ordinary shares in issue during the periods. Diluted earnings per share is not presented as there were no dilutive potential ordinary shares.

5. Dividend

The Board does not recommend the payment of interim dividend for the three months ended 31 March 2005 (31 March 2004: Nil).

6. Reserve

Movements of the Group's reserves were as follows:

	Share Premium RMB'000	Merger reserve RMB'000	Reserve fund RMB'000	Enterprise expansion fund RMB'000	Exchange difference RMB'000	Retained earnings RMB'000	Total RMB'000
Balance as at							
1 January 2004 (audited)	18,760	(22,041)	7,974	412	115	72,591	77,811
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>80,187</u>	<u>85,407</u>
Balance as at							
1 January 2005 (audited)	19,204	(22,041)	10,537	558	115	98,008	106,381
HKFRS 3	—	—	—	—	—	12,366	12,366
Balance as at							
1 January 2005 (restated)	19,204	(22,041)	10,537	558	115	110,374	118,747
Net profit for the three months ended 31 March 2005	—	—	—	—	—	12,011	12,011
Balance as at							
31 March 2005	<u>19,204</u>	<u>(22,041)</u>	<u>10,537</u>	<u>558</u>	<u>115</u>	<u>122,385</u>	<u>130,758</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For the three months ended 31 March 2005, the Group recorded a turnover of approximately RMB143 million, representing an increase of 25% as compared with approximately RMB114 million for the same period last year. The total sale quantities reached 105,144 tonnes (2004:101,000 tonnes), which represented a growth of approximately 4%. Excluding the sale quantities of exporting urea in the first quarter of last year, the sale quantities of the Group increased by approximately 28%. The turnover derived from the sales of BB Fertilizers was RMB74 million, which achieved a growth of 92% as compared with the same period last year. During the period under review, the growth in turnover of BB Fertilizers of the Group was due to increase in selling price of BB Fertilizers and sale quantities, which represented by 38% and 40% respectively. Profit attributable to shareholders was approximately RMB12 million (2004: RMB7.6 million), which represented a growth of 58% compared with the same period last year, and earnings per share was RMB2.85 cents (2004: RMB1.81 cents).

During the period under review, the gross profit margin increased to 20.7% from 19.7% in the same period last year, which was attributable to the continuous increase in market selling prices of the Group's products. Distribution costs were stable at similar level as compared to same period last year. The Group's administrative expenses increased 29% to approximately RMB7.6 million as compared with RMB5.9 million last year, which was due to administrative expenses of Dazhu Ko Yo Chemical.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Business Review

The Group is principally engaged in the research and development, manufacture and sale of chemical fertilizers including BB Fertilizers, urea, ammonium chloride, and ammonium bicarbonate and chemical products such as sodium carbonate and ammonia.

During the period under review, the turnover and sales of BB Fertilizers achieved satisfactory growth as compared with last year. The sale quantities of BB Fertilizers were approximately 41,399 tonnes, which represented a 40% growth compared to the same period last year. Such increase was mainly attributable to the favorable agricultural policies such as tax concession from the State of the PRC, the enhancement of crops subsidies level and the increase of food price, the better recognition of the use of compound fertilizers by peasants, the inflation of the international oil price as well as the dedication of Group in expanding the sales market, in caring the needs of the customer in line with the market trend and in accomplishing the marketing network.

The BB Fertilizers of the Group has already recorded an encouraging result after its launch around 4 years ago. It is mainly due to the Group's profound understanding of the conventional fertilizing practice of peasants. Peasants would select fertilizers that they usually use unless there is a product with high reputation and efficiency which is able to win their trust. As such, the Group penetrated into the market step by step and, in turn, obtained an affirmative result.

During the period under review, the technology renovation of the production facilities of Dazhu Ko Yo Chemical has basically completed. The production facilities of urea commenced operation on January 2005 with maximum daily production capacity approximately 150 tonnes. During the first quarter of 2005, Dazhu Ko Yo Chemical produced over 9,000 tonnes of urea.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Prospect

The utilization of the environmental protection fertilizers has become the development trend in Chinese agricultural fertilization. According to the anticipation of “Chemical Fertilizers Report” (化肥導報), the momentum of the global consumption of chemical fertilizers will remain at an average growth rate of approximately 2.1% from 2004 to 2007.

The surveys made by developed countries, such as the United States and Europe, show that the consumption of compound fertilizers represents a 70% to the total consumption of fertilizers. Meanwhile, the consumption of compound fertilizers in the PRC merely represents 22% to 25% to the total consumption of compound fertilizers, which has rooms for market growth. Therefore, the BB Fertilizers of the Group has a substantial potential for its future development.

The Group will allocate resources to the production and sales of BB Fertilizers to further consolidate and expand its marketing and sales network, as well as accomplish its agricultural service system to enhance its service provided to peasants.

In addition, the Group will strengthen its research and development of new products and better its existing BB Fertilizers recipe to suit the market demands and strive for the launch of one to two new products within this year. Meanwhile, the Group will integrate its research and development resources to upgrade its research and development standard.

In order to reduce costs and consumption for production, the Group will carry out technological modification and equipment renovation for its existing production lines, such as “Energy-saving modification project” and “Sodium carbonate equipment repair project”, with an aim to maximize the profitability of the Group.

With the solid foundation of development in 2005, the Directors anticipated that the production capacity, sales and profits of the Group’s BB Fertilizers will have a significant increase in the coming quarters, which, in turn, motivates a surge of the Group’s operating results and net profits and brings a fruitful return to our shareholders for the year.

DISCLOSURE OF INTERESTS

(a) Interests of the Directors in the Company

As at 31 March 2005, 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 of Hong Kong Limited (“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 the Growth Enterprise Market of Stock Exchange (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 (<i>Note</i>)	3.97
Man Au Vivian	Personal	Beneficial owner	10,064,000 (<i>Note</i>)	2.39
Li Shengdi	Personal	Beneficial owner	4,200,000 (<i>Note</i>)	1.00
Hu Xiaoping	Personal	Beneficial owner	400,000 (<i>Note</i>)	0.10
Woo Che-wor, Alex	Personal	Beneficial owner	400,000 (<i>Note</i>)	0.10

DISCLOSURE OF INTERESTS (Continued)

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

- (i) Long positions in the shares and the underlying shares of the Company (Continued)

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, 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 31 March 2005	Exercise period	Exercise price HK\$
		Outstanding as at 1 January 2005	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

DISCLOSURE OF INTERESTS (Continued)

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

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

Name of Director	Name of company	Number and description of shares	Capacity	Type of interest	Approximate percentage of holding
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 31 March 2005, 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.

DISCLOSURE OF INTERESTS *(Continued)*

(c) Interests of other persons in the Company

As at 31 March 2005, 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.

DIRECTORS' INTEREST IN COMPETING BUSINESS

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

COMPLIANCE ADVISER'S INTERESTS

Pursuant to a compliance adviser agreement dated 9 July 2003 between the Company and Guotai Junan Capital Limited ("Guotai Junan"), Guotai Junan has been appointed as the compliance adviser of 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 2005, save for 6,915,000 shares of the Company, representing 1.64% of the issued share capital of the Company, which were held by certain associates of Guotai Junan, neither Guotai Junan, their directors, employees nor any of their respective associates (as defined under the GEM Listing Rules) had any interest in the share capital of the Company or any of its 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 5.33 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 the Group 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 the Group and discussed internal controls and financial reporting matters including a review of the unaudited quarterly accounts of the Company and the Group for the three months ended 31 March 2005.

The Company confirmed that annual confirmations of independence were received from each of independent non-executive directors of the Company pursuant to Rule 5.09 of the GEM Listing Rules and all independent non-executive directors are considered independent.

BOARD PRACTICES AND PROCEDURES

The Company had complied throughout the period under review the minimum standards of good practice concerning the general management responsibilities of the Board as set out in Rules 5.34 to 5.45 of the GEM Listing Rules, which were replaced by the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules with effect from 1 January 2005. Appropriate actions have been taken by the Company for complying with the Code on Corporate Governance Practices.

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, 11 May 2005