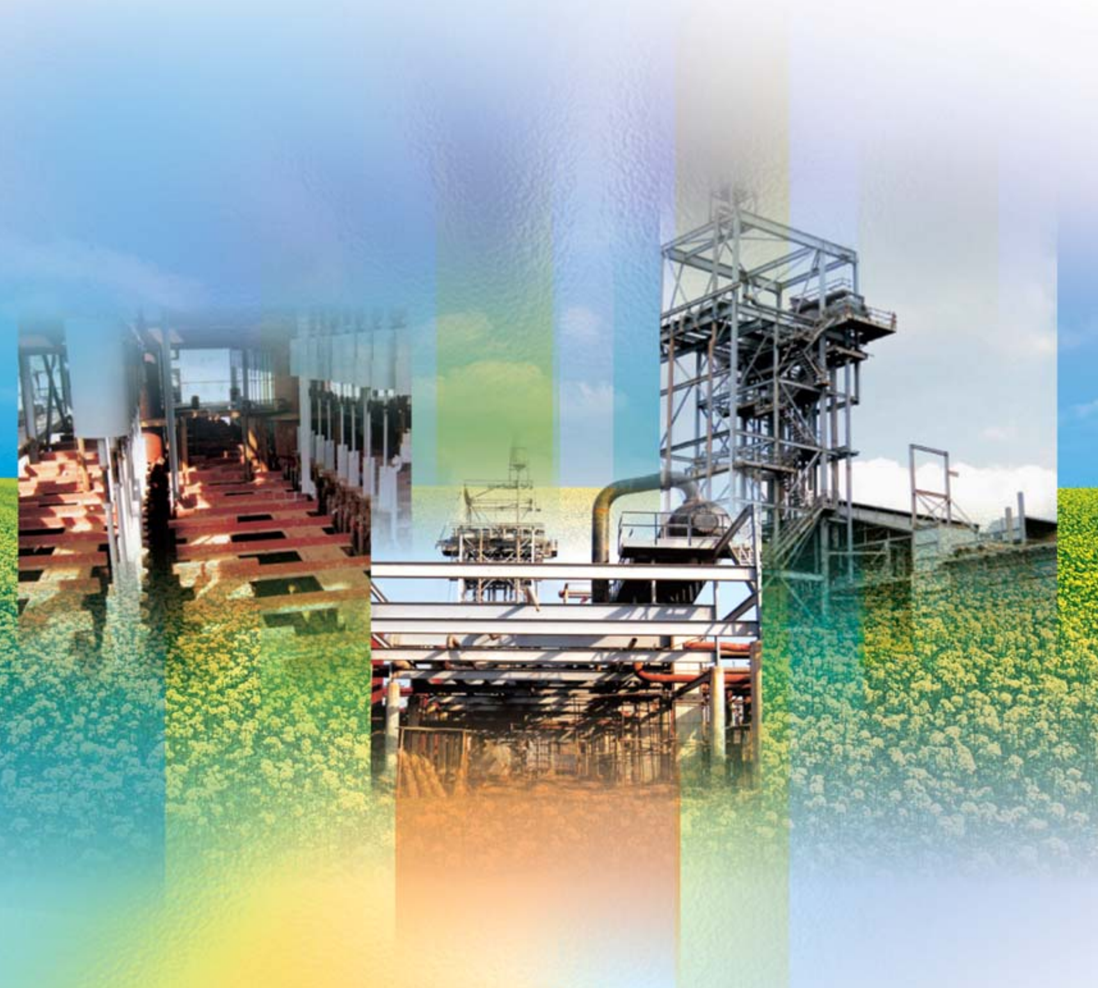
玖源生態農業科技(集團)有限公司

Ko Yo Ecological Agrotech (Group) Limited

(incorporated in the Cayman Islands with limited liability)

(Stock code: 00827)



2009

Interim Report

HIGHLIGHTS

Unaudited profit attributable to shareholders of the Group was approximately RMB9.4 million for the six months ended 30 June 2009, which represents a decrease of approximately 75.6% as compared to that of the same period last year.

For the six months ended 30 June 2009, unaudited turnover decreased to approximately RMB311 million, which represents a drop of approximately 11.7% as compared to the same period last year.

Unaudited basic earnings per share of the Group was approximately RMB0.14 cents for the six months ended 30 June 2009.

The Directors do not recommend to pay any interim dividend for the six months ended 30 June 2009.

INTERIM RESULTS

The board of directors (the "Directors" or the "Board") of Ko Yo Ecological Agrotech (Group) Limited (the "Company") is pleased to present the unaudited condensed consolidated operating results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2009 together with the unaudited comparative figures for the corresponding periods in 2008 are as follows:

UNAUDITED CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30 June 2009

		Six months ended 30 June	
		2009	2008
	Notes	**RMB'000**	RMB'000
Turnover	3	**311,270**	352,490
Cost of sales		**(274,413)**	(272,205)
Gross profit		**36,857**	80,285
Interest income		**739**	562
Distribution costs		**(10,399)**	(11,854)
Administrative expenses		**(20,393)**	(25,664)
Other income		**11,088**	11,981
Operating profit	4	**17,892**	55,310
Finance costs		**(6,910)**	(9,295)
Profit before taxation		**10,982**	46,015
Taxation	5	**(1,588)**	(7,517)
Profit attributable to shareholders		**9,394**	38,498
Basic earnings per share (RMB cents)	6	**0.14**	0.71
Diluted earnings per share (RMB cents)	6	**0.14**	0.71
Declared dividends per share (HK cents)	7	**Nil**	0.03

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2009 and 31 December 2008

	Notes	(Unaudited) As at 30 June 2009 RMB'000	(Audited) As at 31 December 2008 RMB'000
Non-current assets			
Property, plant and equipment		**1,009,396**	759,835
Deferred income tax assets	11	**2,152**	2,071
Exploration and evaluation assets		**331,547**	331,547
Goodwill		**8,900**	8,900
Land use rights		**41,769**	42,284
		1,393,764	1,144,637
Current assets			
Inventories		**58,764**	98,258
Trade and other receivables	8	**92,894**	78,200
Prepaid income tax, net		**—**	4,205
Pledged bank deposits		**83,383**	59,336
Cash and bank deposits		**297,288**	44,902
		532,329	284,901
Current liabilities			
Trade and other payables	9	**210,529**	173,059
Short-term bank loans, secured	10	**196,000**	171,000
Current portion of long term loans, secured	10	**62,468**	42,601
		468,997	386,660
Net current assets/(liabilities)		**63,332**	(101,759)
Total assets add current assets/(liabilities)		**1,457,096**	1,042,878

	Notes	(Unaudited) As at 30 June 2009 RMB'000	(Audited) As at 31 December 2008 RMB'000
Finance by:			
Share capital		**136,082**	124,642
Reserves			
Others		**835,243**	727,765
Shareholders' funds		**971,325**	852,407
Non-current liabilities			
Long-term bank loans, secured	10	**399,370**	104,070
Deferred subsidy income		**5,534**	5,534
Deferred income tax liabilities	11	**80,867**	80,867
		485,771	190,471
		1,457,096	1,042,878

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2009 and 30 June 2008

	Six months ended 30 June	
	2009	2008
	RMB'000	RMB'000
Net cash generated from operating activities	**91,631**	95,763
Interest paid	**(6,910)**	(9,295)
Net cash inflow from operating activities	**84,721**	86,468
Investing activities		
Purchases of fixed assets and payments for construction-in-progress	**(215,775)**	(178,386)
Proceeds from disposal of fixed assets	**—**	571
Interest received	**739**	562
Net cash outflow from investing activities	**(215,036)**	(177,253)
Net cash outflow before financing activities	**(130,315)**	(90,785)
Financing activities		
Increase in pledged bank deposits	**(24,047)**	(31,432)
Issue of ordinary shares	**66,580**	209,936
New loans payable	**488,168**	151,600
Repayment of bank loans	**(148,000)**	(125,100)
Dividends paid	**—**	(3,922)
Net cash inflow from financing activities	**382,701**	201,082
Increase in cash and cash equivalents	**252,386**	110,297
Cash and cash equivalents at 1 January	**44,902**	19,201
Cash and cash equivalents at 30 June	**297,288**	129,498

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2009 and 30 June 2008

	Share capital	Share premium	Merger reserve	Reserve fund	Enterprise expansion fund	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2008 (audited)	97,746	289,457	(22,041)	20,835	1,131	200,311	587,439
Issue of new shares	26,896	183,040					209,936
Net profit for the six months ended 30 June 2008	—	—	—	—	—	38,498	38,498
2007 final dividend paid	—	—	—	—	—	(3,922)	(3,922)
At 30 June 2008	124,642	472,497	(22,041)	20,835	1,131	234,887	831,951
At 1 January 2009 (audited)	124,642	472,497	(22,041)	23,644	1,131	252,534	852,407
Issue of new shares	11,440	55,140					66,580
Fair value of Warrant Shares*	—	—	—	42,944	—	—	42,944
Net profit for the six months ended 30 June 2009	—	—	—	—	—	9,394	9,394
2008 final dividend paid	—	—	—	—	—	—	—
At 30 June 2009	136,082	527,637	(22,041)	66,588	1,131	261,928	971,325

* Details of Warrant Shares are set out in the section of Shares Placing and Warrants Issurance.

NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS

1. Basis of preparation

The Company is an investment holding company. The Group is principally engaged in the manufacture and sale of chemical products and chemical fertilizers in Mainland China.

The unaudited interim financial statements have been prepared in accordance with the Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements set out in Appendix 16 of the Rules Governing the Listing of the Securities (the "Listing Rules") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

2. Principal accounting policies

The principal accounting policies used in the unaudited interim financial statements are consistent with those followed in the Group's financial statements for the year ended 31 December 2008. The measurement basis used in the preparation of the unaudited interim financial statements is historical cost, except for certain investment properties and financial investments, which are measured at fair values. All inter-company transactions and balances within the Group have been eliminated on consolidation.

The Group had net current assets of RMB63,332,000 as at 30 June 2009. The directors of the Company have given due consideration to the liquidity of the Group and have adopted the going concern basis in preparing the consolidated financial statements for the six months ended 30 June 2009 on the basis that the Group has profitable operations and that it will succeed in negotiating with its bankers to roll over the outstanding bank loans.

The financial statements are unaudited but have been reviewed by the audit committee of the Company.

3. Turnover

Turnover represents the net amounts received and receivables for chemical products and chemical fertilizers sold, less returns and allowances and value-added taxes, if applicable, during the 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:

	Six months ended 30 June 2009 (unaudited)		Six months ended 30 June 2008 (unaudited)	
	RMB'000	**%**	RMB'000	%
BB & complex fertilizers	**96,107**	**30.9%**	118,468	33.6%
Sodium carbonate	**36,761**	**11.8%**	66,584	18.9%
Ammonium chloride	**25,049**	**8.0%**	48,006	13.6%
Urea	**132,667**	**42.6%**	109,546	31.1%
Ammonia	**3,597**	**1.2%**	6,931	2.0%
Ammonium bicarbonate	**8,577**	**2.8%**	2,220	0.6%
Others *(Note)*	**8,512**	**2.7%**	735	0.2%
	311,270	**100%**	352,490	100%

Note: Others include the trading of sodium carbonate in 2008, and trading of urea, high water soluble fertilizers and sodium carbonate in 2009

4. Operating profit

Operating profit is stated after crediting and charging the following:

	Six months ended 30 June	
	2009	2008
	RMB'000	RMB'000
Charging:		
Staff costs (including directors' emoluments)		
– Salaries, wages and other benefits	**15,208**	16,308
– Contributions to retirement scheme	**3,197**	2,304
Cost of inventories	**274,413**	272,205
Provision for doubtful receivables	**538**	359
Loss on disposal of fixed assets	**524**	192
Operating leases for buildings	**712**	712
Depreciation and amortization charges	**9,148**	7,969
Auditors' remuneration	**660**	721

5. 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 six months ended 30 June 2009.

Chengdu Ko Yo Chemical Industry Co., Ltd. ("Chengdu Ko Yo Chemical"), Chengdu Ko Yo Compound Fertilisers Co., Ltd. ("Chengdu Ko Yo Compound"), and Dazhou City Dazhu Ko Yo Chemical Industry Co., Ltd. ("Dazhu Ko Yo Chemical") were established as foreign investment enterprises in western regions of the PRC. They are subject to the preferential tax policies for the development of western regions with Enterprise Income Tax ("EIT") at the rate of 15%.

Accordingly, current income tax provision made for Chengdu Ko Yo Chemical and Chengdu Ko Yo Compound for the six months ended 30 June 2009 were approximately RMB793,000 and RMB795,000 respectively.

Dazhu Ko Yo Chemical is entitled to full exemption from the EIT in the first two profitable years and a 50% reduction for the next three years thereafter. 2009 is the fourth profit-making year of Dazhu Ko Yo Chemical and thus the preferential EIT rate applicable is 7.5%. Accordingly, there was no current income tax provision made for Dazhu Ko Yo Chemical for the six months ended 30 June 2009.

Qingdao Ko Yo Chemical Co., Ltd. ("Qingdao Ko Yo Chemical") did not have current income tax provision for the six months ended 30 June 2009.

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

	Six months ended 30 June	
	2009	2008
	RMB'000	RMB'000
Current tax in the PRC	**1,669**	7,571
Deferred income tax (Note 11)	**(81)**	(54)
	1,588	7,517

6. Earnings per share

The calculation of the basic and diluted earnings per share for the six months ended 30 June, 2009 and 2008 were based on:

	Six months ended 30 June	
	2009	2008
	RMB'000	RMB'000
Profit for the period	**9,394**	38,498
Weighted average number of shares for calculation of basic earnings per share	**6,620,643,094**	5,391,652,747
Effect of dilutive potential shares on the outstanding share options	**19,165,521**	47,655,687
Weighted average number of shares for calculation of diluted earnings per share	**6,639,808,615**	5,439,308,434

7. Dividend

The Board does not recommend the payment of any dividend for the six months ended 2009.

8. Trade and other receivables

	(Unaudited) **As at** **30 June 2009** **RMB'000**	(Audited) As at 31 December 2008 RMB'000
Trade receivables	**18,299**	7,376
Prepayments, purchase deposits and other deposits	**45,017**	59,969
Notes receivable	**6,387**	5,860
Other receivables	**23,191**	4,995
	92,894	78,200

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) **As at** **30 June 2009** **RMB'000**	(Audited) As at 31 December 2008 RMB'000
Aged:		
Less than 3 months	**15,220**	6,667
More than 3 months but not exceeding 1 year	**3,079**	733
More than 1 year but not exceeding 2 years	**703**	352
More than 2 years but not exceeding 3 years	**2,285**	4,541
More than 3 years	**2,595**	259
	23,882	12,552
Less: provision for doubtful receivables	**(5,583)**	(5,176)
	18,299	7,376

9. Trade and other payables

	(Unaudited) As at 30 June 2009 RMB'000	(Audited) As at 31 December 2008 RMB'000
Trade payables	**108,127**	54,540
Notes payable	**80,000**	48,130
Deposits from customers	**11,069**	46,072
Accruals and other payables	**11,333**	24,317
	210,529	173,059

The aging analysis of trade payables is as follows:

	(Unaudited) As at 30 June 2009 RMB'000	(Audited) As at 31 December 2008 RMB'000
Aged:		
Less than 1 year	**106,630**	52,509
More than 1 year but not exceeding 2 years	**1,106**	1,988
More than 2 years but not exceeding 3 years	**132**	43
More than 3 years	**259**	—
	108,127	54,540

10. Bank loans

	(Unaudited) As at 30 June 2009 RMB'000	(Audited) As at 31 December 2008 RMB'000
Short-term bank loans, secured	**196,000**	171,000
Long-term bank loans repayable:		
Less than 1 year	**62,468**	42,601
Between 1 and 2 years	**219,370**	104,070
Between 2 and 5 years	**180,000**	—
Over 5 years	**—**	—
	461,838	146,671
Within 1 year included in current liabilities	**(62,468)**	(42,601)
	399,370	104,070

As at 30 June 2009, bank loans of the Group were generally secured by certain fixed assets and pledged cash deposits of the Group. These bank loans bear interest at the rate of 5.54% to 8.22% (2008: 6.87% to 8.96%) per annum.

11. Deferred income tax

There were no offsetting of deferred income tax assets and liabilities in 2008 and in six months period ended 2009.

Deferred income tax assets:

	Impairment of assets RMB'000	Deferred subsidy income RMB'000	Total RMB'000
At 31 December 2008	824	1,247	2,071
Credit to income statement	81	—	81
At 30 June 2009	905	1,247	2,152

Deferred income tax liabilities:

	Evaluation and exploration assets
As 31 December 2008	(80,867)
At 30 June 2009	(80,867)

Financial Performance

For the six months ended 30 June 2009, the Group recorded a turnover of approximately RMB311 million, representing a decrease of approximately 11.7% as compared with approximately RMB352 million for the same period last year. Profit attributable to shareholders was approximately RMB9.4 million (2008: approximately RMB38.5 million), which represented a decrease of approximately 75.6% compared with previous year, and basic earnings per share were approximately RMB0.14 cents (2008: approximately RMB0.71 cents).

During the period under review, the total sales quantities excluding trading portion of the Group reached 234,000 tonnes (2008: 219,000 tonnes), representing an increase of approximately 6.7% as compared to that of the same period last year.

For the period under review, the gross profit margin of the Group decreased by approximately 22.8% to 11.8% as compared with the corresponding period last year, which were mainly due to the decrease in selling price of products. Cost of sales amounted to approximately RMB274 million, representing an increase of approximately 0.8% as compared to corresponding period of last year. Distribution costs decreased by approximately 12.3%, and the administrative expenses decreased by approximately 20.5% as compared with the corresponding period last year.

Business Review

For the 6 months ended 30 June 2009, products manufactured and distributed by the Group included BB fertilizers, complex fertilizers, sodium carbonate, urea, ammonium chloride, ammonium bicarbonate and liquidized ammonia. In the first half of 2009, due to the continuous spread of the global financial crisis, people lost confidence in the fertilizer market and the inventory of farming distributors dropped substantially, resulting a weak demand for fertilizer and the prices continued to fall. At the same time, since the product prices of crops and cotton, vegetables and fruits remained low and the income of farmers was far from satisfactory, coupled with the impact from the financial crisis, the income of farmers who worked as employees dropped, resulting a low consumption power and a weak demand for chemical fertilizer. Due to such factors, the Group failed to deliver outstanding performance in the first half of the year but achieved its basic operation target.

During the period under review, the Group's turnover for the first half of the year reached approximately RMB 311 million, representing a decrease of 11.7% over the same period of last year. Total sales volume reached approximately 234,000 tonnes, representing an increase of 6.7% over the same period of last year. Profit attributable to shareholders of the Group reached approximately RMB 9.4 million, representing a decrease of approximately 75.6% over the same period of last year. Basic earnings per share reached approximately RMB0.14 cents.

Business Review *(continued)*

The sales of the Group's product in the first half of the year experienced growth, but its turnover and revenue fell. This is mainly attributed to the impact of the financial crisis and the downturn of the fertilizer market and the substantial drop of price. Take urea as an example, the factory price of domestic urea in China dropped from RMB1900/tons at the beginning of the year to RMB1500/tons at present, representing a decrease of 30% from the highest point of last year. On the other hand, since the price of agricultural products continued to fall, the activeness of Chinese farmers to plant and use fertilizer was affected obviously. With the continuous fall in fertilizer prices, low confidence of the market as well as the impact of wait-and-see sentiment in the market, the prices of distributor fertilizer fell substantially, resulting a sluggish demand for fertilizer.

Having regard to the Group's performance during the period under review, the board of directors does not recommend the payment of interim dividend for the six months ended 30 June 2009.

In face of the serious economic and market conditions, the Group adhered to its cost leadership strategy, improved its internal strengths and took various measures to reduce its production cost and enhance its profitability, with an aim to improve its competitiveness in the market and fully protect the interests of the Company and its shareholders as a whole. The Group particularly held a meeting in May with an aim to "overcome unfavourable conditions, reduce cost and tide over difficulties" and requested the respective branches to put forward specific cost-saving measures according to the subject of the meeting and their actual conditions. Preliminary effectiveness of these measures is embodied in the following aspects:

Production and operation

Benefiting from a series of energy saving and environmental protection technology improvement implemented in 2008, the Group's production facilities in Dazhu, Dazhou City of Sichuan Province was able to improve the stability of its equipment and reduce production energy consumption. Energy consumption for unit product of ammonia reduced by 8% to 10% as compared to the same period last year. Having overcome the insufficient supply of electric power and natural gas in the first quarter of the year, the Group's production facilities in Xindu District, Chengdu City of Sichuan Province actively coordinated raw materials for production, adjusted the deployment of facilities and personnel and conducted its production at full load, resulting an increase in output of the Group's products in the first half of the year. Output of ammonium bicarbonate increased significantly, representing an increase of approximately 290% over the same period last year. The significant increase in output of this product is mainly due to the timely adjustment to our product portfolio according to the demand and supply condition in the local market with a view to maximize profit.

Marketing network

In view of the previous market network and channel building basis, the Group focused its market operation on strengthening its production bases and stabilizing its major customer base in the first half of the year, so as to ensure effective marketing of products. In the first half of 2009, the Group overcame the difficulty in weak market demand by achieving product sales volume of 234,000 tonnes, approximately 6.7% higher than 219,000 tonnes in the same period last year. However, the Group recorded a general decrease in turnover and results due to the continued fall in fertilizer price this year.

Marketing network *(continued)*

Having regard to the Group's future development strategy and capacity expansion trend, the management of the Company decided to establish a separate marketing company, which will specialize in the sales of agricultural commodities, chemical and chemical fertilizers products. Currently, the proposed establishment is under application and it is expected that the marketing company shall be duly incorporated and commence its operation in the second half of 2009. Implementation of this plan will be favourable for the Group to coordinate its management, fully integrate its marketing resources and lay a solid foundation for the Group's rapid growth and expansion.

Management improvement

In respect of management measures, the Group endeavoured to carry out refined management, streamlined various management rules and painstakingly improved its regulations relating to project investment, material procurement and storage management in the first half of the year. This initiative is helpful for the Company to reduce its operation risk and improve its efficiency, e.g. speed up logistics and inventory turnover to lower inventory costs.

In June 2009, the Company's ISO 9001 quality management system successfully passed the annual review by China Quality Certification Centre, which affirmed the Group's effectiveness in the long-term operation of its quality management system and sufficiently proved that cost and quality are always regarded as the basis for the Company's operation in severe market competition.

Prospect

The urea plant in Dazhou was granted loans by the World Bank Group and the construction progress of this project is fully accelerated

Thanks to the relentless efforts made by the management of the Company and the entire staff in the preliminary work of the project, construction progress of the Group's urea project with an annual production capacity of 400,000 tonnes of ammonia and 450,000 tonnes of urea in the Natural Gas Energy Utilization Area of Dazhou city, Sichuan was significantly accelerated in the first half of the year.

In February 2009, the Company entered into a loan agreement of RMB 0.3 billion with the China Construction Bank. In April 2009, after entering into an agreement with International Finance Corporation, which is a member of the World Bank Group, the Group obtained the capital injection amounting to US$10,000,000 and a banking facility amounting to USD 20,000,000 from International Finance Corporation. This provided the new urea plant in Dazhou City with sufficient funds and ensured full acceleration of the project construction. Equipment imported from foreign countries were all delivered to the site in late April 2009 and entered into the phases of overhaul and installation. At present, the corresponding ancillaries comprising public water and electricity utilities have been completed in the place where the project is located. The equipment for synthetic ammonia was also all installed. In early August 2009, successful ignition and drying oven for urea package boiler indicate the synthetic ammonia system of the project entering trial production stage. The urea equipment of the project is still under busy construction and installation. The slip-form construction for urea prilling tower, the most crucial equipment, has been topped in August ahead of schedule and is expected to commence trial production in the fourth quarter of this year. To cope with the successful commencement of production of the project, the Group has embarked to coordinate production materials and marketing network.

Prospect *(continued)*

The urea plant in Dazhou was granted loans by the World Bank Group and the construction progress of this project is fully accelerated *(continued)*

The directors expect that the successful implementation and commencement of production of this project will bring strong momentum for the future growth in the Company's turnover and profit. Thus the Company's management and all staff will use their best efforts to speed up the project and ensure its commencement of production as early as possible.

Application for phosphate mining right

Due to the disastrous earthquake in Sichuan Province in May 2008, issuance of the mining license for the phosphorite mine of Sichuan Chengyuan Chemical Company Limited (四川承源化工有限公司) ("Sichuan Chengyuan", a wholly-owned subsidiary of the Group) in Qingping Township, Mianzhu City, Sichuan Province has been delayed. Sichuan Chengyuan has been granted the extension of the reservation period for the mine area by the Sichuan Department of Land and Resources from 30 June 2009 to 30 June 2011, whereby Sichuan Chengyuan obtained the preferential right to apply for the mining license during the period.

As required by relevant government authorities, Sichuan Chengyuan has prepared all the data and information required for the application for the mining license, which will be submitted to the Ministry of Land and Resources of the PRC to obtain the approval for the mining right as soon as possible upon obtaining review opinion from relevant government authorities.

Should the final approval be obtained, the phosphate mine will become the strategic resource for the Company's medium to long term development, which will enable the Company to expand its industry chain towards up and down streams and lay a solid foundation for the Group to further improve its economic benefit and realize sustainable development.

The PRC government's policies supporting agriculture remain unchanged and fertilizer price is expected to stop falling and stabilize

From the perspective of national policies, the PRC government released the new Restructuring and Revitalization Plan for the Petrochemical Industry and published notices relating to the adjustment of whole-carriage tariff for transportation of fertilizers by railway and fertilizer export duty in the first half of 2009. Despite such changes, the PRC government has always stuck to the principle of "promoting the stable operation of the fertilizer industry and supporting agricultural production", which is favourable for enterprises in the long run.

From the perspective of market conditions, the price of fertilizer products will stop falling and stabilize driven by the increase in prices of agricultural products and crude oil in the second half of the year. Currently, price of agricultural products gradually tends to stop falling and stabilize. The general index for wholesale price of agricultural products in the PRC has stabilized its growth since the upturn in about November last year. Internationally, the Goldman Sachs Grain Index has risen by 23% to 468 points over the three months ended early June. The decrease in market supply as a result of the previous expected decrease in sowing activities will result in a sustainable rise in price of agricultural products in the future. In respect of crude oil, the disparity between supply and demand will continue to grow in the second half of the year due to the output cut by OPEC. It is expected that crude oil price will tend to rise, which will definitely highlight the usefulness of biological energy as a substitute and drive the demand for fertilizers.

In face of the impact of the current global economic crisis and unprecedented pressure, the Group will continue to pursue its operation strategy of flexible decision-making and cost leadership, build confidence, make sustained adjustments and explore internal potential, endeavour to promote production and realize future business goal, with a view to explore new development opportunities.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 June 2009, the Group had net current assets of approximately RMB63,332,000. Current assets as at 30 June 2009 comprised cash and bank deposits of approximately RMB297,288,000, pledged bank deposits of approximately RMB83,383,000, inventories of approximately RMB58,764,000, trade and other receivables of approximately RMB92,894,000. Current liabilities as at 30 June 2009 comprised short-term loans of approximately RMB196,000,000, current portion of long term loans of approximately RMB62,468,000 and trade and other payables of approximately RMB210,529,000.

CAPITAL COMMITMENTS

As at 30 June 2009, the Group had outstanding capital commitments of approximately RMB221 million.

FINANCIAL RESOURCES

As at 30 June 2009, the Group had cash and bank balances of approximately RMB297,288,000 and standby bank facilities of approximately RMB14 million. The Company intends to finance the Group's future operations, capital expenditure and other capital requirements with the existing bank balances and standby bank facilities.

GEARING RATIO

The Group's gearing ratios were 98% and 68% as at 30 June 2009 and 31 December 2008 respectively. The gearing ratios were calculated based on total liabilities over total equity as at the balance sheet dates.

CONTINGENT LIABILITIES

The Group had no significant contingent liabilities as at 30 June 2009.

MATERIAL ACQUISITIONS/DISPOSALS

The Group had no material acquisitions/disposals during the six months ended 30 June 2009.

SHARES PLACING AND WARRANTS ISSUANCE

On 29 April 2009, 650,000,000 new ordinary shares (the "New Shares") of HKD0.02 each in the share capital of the Company with the aggregate nominal value of HKD13,000,000 were issued at HKD0.12 per share (the "Placing Price"). The subscriber of the New Shares was International Finance Corporation (the "IFC"), a member of the World Bank Group who was independent of and not connected with the Company or its connected persons. The Placing Price represented a discount of approximately 14.29% to the closing price of HKD0.14 per Share as quoted on the Stock Exchange on 16 April 2009. The New Shares represented approximately 10.17% of the issued share capital of the Company prior to the issue of New Shares. A net proceed of approximately HKD76 million in aggregate after expenses and commissions was received. Such proceeds was applied to the new urea plant with an annual production capacity of 400,000 tonnes of ammonia and 450,000 tonnes of urea in Dazhou, Sichuan Province, the PRC as per announcement dated 17 April 2009.

On 29 April 2009, 500,000,000 warrant shares (the "Warrant Shares") were issued at nil consideration to IFC and each Warrant Shares has the subscription right to subscribe a share of the Company at a price of HKD0.156 within a 5 years period starting from 29 April 2009.

SEGMENTAL INFORMATION

The Group's activities are primarily conducted in the PRC and are within the same business segment. Therefore, no segmental information was presented for the six months ended 30 June 2009.

DETAILS OF FUTURE PLANS FOR MATERIAL INVESTMENT OR CAPITAL ASSETS

Other than the new urea plant with an annual capacity of 400,000 tonnes of ammonia and 450,000 tonnes of urea in Dazhou, Sichuan Province, the PRC as per announcement dated 17 April 2009, the Directors do not have any future plans for material investment or capital assets.

EMPLOYEE INFORMATION

As at 30 June 2009, the Group had 2,096 (2008: 2,137) employees, comprising 6 (2008: 6) in management, 104 (2008: 97) in finance and administration, 1,885 (2008: 1,944) in production, 92 (2008: 84) in sales and marketing and 9 (2008: 6) in research and development, 2,090 (2008: 2,131) of these employees were located in the PRC and 6 (2008: 6) were located in Hong Kong.

CHARGES ON THE GROUP'S ASSETS

As at 30 June 2009, certain land use rights and buildings with a total net book value of approximately RMB107,062,000 (2008: RMB109,308,000), plant and machinery with a total net book value of approximately RMB157,990,000 (2008: RMB48,169,000) and bank deposits of approximately RMB83,383,000 (2008: RMB77,647,000) were pledged as collateral for the Group's bank loans and notes payable.

FOREIGN EXCHANGE EXPOSURE

The Group exposes to foreign exchange risks as certain portion of loans are denominated in foreign currencies, primarily with respect to the US dollar. The management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

SHARE OPTION SCHEME

On 10 June 2003, the Company adopted a share options scheme and amended at an extraordinary general meeting on 28 July 2004 (the "GEM Share Option Scheme"). The GEM Share Option Scheme was terminated on 25 August 2008. A new share option scheme (the "Existing Share Option Scheme") was adopted on 18 September 2008. A summary of the principal terms and conditions of the GEM Share Option Scheme are set out in the section headed "Share Option Scheme" in Appendix IV to the Prospectus and details of amendments of the Scheme are set out in the circular of the Company dated 12 July 2004. The details of the Existing Share Option Scheme can be found in the circular of the Company dated 29 August 2008.

SHARE OPTION SCHEME *(Continued)*

Details of options granted by the Company pursuant to the Scheme and outstanding as at 30 June 2009 were disclosed in the following table:

	Number of options							Number of options		
	Held at 1 Jan 2009	Grant during period	Exercised during period	Cancelled during period	Held at 30 Jun 2009	Grant date	Exercise price (HK$)	Exercisable from grant date until 22 Sep 2013	Exercisable from grant date until 10 Apr 2016	Exercisable from grant date until 9 Sep 2017
Directors										
Li Weiruo	2,100,000	–	–	–	2,100,000	16 May 2006	0.150	–	2,100,000	
Yuen Bai	2,000,000	–	–	–	2,000,000	16 May 2006	0.150	–	2,000,000	
Chi Chuan	21,000,000	–	–	–	21,000,000	23 Sep 2003	0.124	21,000,000	–	
Man Au Vivian	19,000,000	–	–	–	19,000,000	23 Sep 2003	0.124	19,000,000	–	
Li Shengdi	21,000,000	–	–	–	21,000,000	23 Sep 2003	0.124	21,000,000	–	
Hu Xiaoping	2,000,000	–	–	–	2,000,000	23 Sep 2003	0.124	2,000,000	–	
Woo Che-wor Alex	2,000,000	–	–	–	2,000,000	23 Sep 2003	0.124	2,000,000	–	
Qian Laizhong	2,100,000	–	–	–	2,100,000	16 May 2006	0.150		2,100,000	
Employees	57,000,000	–	–	–	57,000,000	23 Sep 2003	0.124	57,000,000		
	47,000,000	–	–	5,000,000	42,000,000	11 Apr 2006	0.150		42,000,000	
	30,000,000	–	–	–	30,000,000	10 Sep 2007	0.116			30,000,000
Total	205,200,000	–	–	5,000,000	200,200,000			122,000,000	48,200,000	30,000,000

DISCLOSURE OF INTERESTS

(a) Interests of the Directors in the Company

As at 30 June 2009, 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 Model Code (the "Model Code") for Securities Transactions by Directors of Listed Issuers contained in Listing Rules were as follows:

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

Directors	Personal long position in shares (beneficial owner)	Personal long position in share options (beneficial owner)	Aggregate long position in shares and underlying shares	Interests in the issued share capital
Li Weiruo	2,924,440,000	2,100,000	2,926,540,000	41.54%
Yuan Bai	366,464,000	2,000,000	368,464,000	5.23%
Chi Chuan	62,640,000	21,000,000	83,640,000	1.19%
Man Au Vivian	31,320,000	19,000,000	50,320,000	0.71%
Li Shengdi	—	21,000,000	21,000,000	0.27%
Hu Xiaoping	—	2,000,000	2,000,000	0.03%
Woo Che-wor, Alex	—	2,000,000	2,000,000	0.03%
Qian Laizhong	—	2,100,000	2,100,000	0.03%

(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 of non-voting deferred shares	Capacity	Type of interest	Approximate interests in holding
Li Weiruo	Ko Yo Development Co., Limited ("Ko Yo Hong Kong") *(Note)*	2,100,000	Beneficial Owner	Personal	70%
Yuan Bai	Ko Yo Hong Kong	420,000	Beneficial Owner	Personal	14%
Chi Chuan	Ko Yo Hong Kong	120,000	Beneficial Owner	Personal	4%
Man Au Vivian	Ko Yo Hong Kong	60,000	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	Name of company	Number of non-voting deferred shares	Capacity	Type of interest	Approximate interests in holding of such class
Li Weiruo	Ko Yo Hong Kong	2,100,000	Beneficial Owner	Personal	70%
Yuan Bai	Ko Yo Hong Kong	420,000	Beneficial Owner	Personal	14%
Chi Chuan	Ko Yo Hong Kong	120,000	Beneficial Owner	Personal	4%
Man Au Vivian	Ko Yo Hong Kong	60,000	Beneficial Owner	Personal	2%

(b) Interests of the substantial shareholders in the Company

As at 30 June 2009, so far as is known to any Director or chief executive of the Company, no person (not being a Director or a chief executive of the Company) who had an 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 2009, so far as is known to any Director or chief executive of the Company, the following persons had an interest 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.

Name	**Capacity**	**Number of shares**	**Interests in issued share capital of the Company**
International Finance Corporation	Beneficial Owner	650,000,000	9.23%

Save as disclosed above, as at 30 June 2009, the Directors are not aware of any other person (other than the Directors and chief executives of the Company) who 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.

DIRECTORS' INTEREST IN COMPETING BUSINESS

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

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the six months ended 30 June 2009, the Company has adopted the Model Code regarding securities transactions by directors on terms no less exacting than the required standard of dealings. Specific enquiry had been made to 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.

AUDIT COMMITTEE

Audit committee was established on 10 June 2003 with written terms of reference in compliance with the Code on Corporate Governance Practices (the "Code"). 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 the management of the Group 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 interim financial statements accounts of the Company and the Group for the six months ended 30 June 2009.

CORPORATE GOVERNANCE

The Board practices and procedures had set out the Code as set out in Appendix 14 to the Listing Rules since 1 January 2005. Appropriate actions have been taken by the Company for complying with the Code and the Group has complied with the code provisions set out in the Code.

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 September 2009