



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)

Interim  
Report

2010





## HIGHLIGHTS

Unaudited loss attributable to shareholders of the Group was approximately RMB33.4 million for the six months ended 30 June 2010, which represents a decrease of approximately RMB 42.8 million as compared to that of the same period last year.

For the six months ended 30 June 2010, unaudited turnover decreased to approximately RMB260 million, which represents a drop of approximately 16.6% as compared to the same period last year.

Unaudited basic loss per share of the Group was approximately RMB0.47 cents for the six months ended 30 June 2010.

The Directors do not recommend to pay any interim dividend for the six months ended 30 June 2010.



## 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 2010 together with the unaudited comparative figures for the corresponding periods in 2009 are as follows:

### UNAUDITED CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30 June 2010

		Six months ended 30 June	
		2010	2009
	Notes	RMB'000	RMB'000
Turnover	3	<b>259,727</b>	311,270
Cost of sales		<b>(250,415)</b>	(274,413)
Gross profit		<b>9,312</b>	36,857
Interest income		<b>954</b>	739
Distribution costs		<b>(13,068)</b>	(10,399)
Administrative expenses		<b>(23,979)</b>	(20,393)
Other income		<b>961</b>	11,088
Operating (loss)/profit	4	<b>(25,820)</b>	17,892
Finance costs		<b>(7,566)</b>	(6,910)
(Loss)/profit before taxation		<b>(33,386)</b>	10,982
Taxation	5	<b>(11)</b>	(1,588)
(Loss)/profit attributable to shareholders		<b>(33,397)</b>	9,394
Basic (loss)/earnings per share (RMB cents)	6	<b>(0.47)</b>	0.14
Diluted (loss)/earnings per share (RMB cents)	6	<b>(0.46)</b>	0.14
Declared dividends per share (HK cents)	7	<b>Nil</b>	Nil



## CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2010 and 31 December 2009

		(Unaudited) As at 30 June 2010 RMB'000	(Audited) As at 31 December 2009 RMB'000
<b>Non-current assets</b>			
Property, plant and equipment		1,122,313	1,069,949
Deferred income tax assets	11	2,606	2,586
Exploration and evaluation assets		332,613	332,613
Goodwill		8,900	8,900
Land use rights		89,613	90,128
		<u>1,556,045</u>	<u>1,504,176</u>
<b>Current assets</b>			
Inventories		61,682	100,263
Trade and other receivables	8	170,365	134,490
Prepaid income tax, net		—	6,117
Pledged bank deposits		117,032	83,325
Cash and bank deposits		221,967	144,498
		<u>571,046</u>	<u>468,693</u>
<b>Current liabilities</b>			
Trade and other payables	9	301,906	220,020
Short-term borrowings, secured	10	331,900	252,030
Current portion of long term borrowings, secured	10	115,837	128,141
		<u>749,643</u>	<u>600,191</u>
<b>Net current assets/(liabilities)</b>		<u>(178,597)</u>	<u>(131,498)</u>
<b>Total assets add current assets/(liabilities)</b>		<u>1,377,448</u>	<u>1,372,678</u>



		(Unaudited) As at 30 June 2010	(Audited) As at 31 December 2009
	Notes	RMB'000	RMB'000
<b>Finance by:</b>			
Share capital		136,100	136,082
Reserves Others		742,409	775,721
		<u>          </u>	<u>          </u>
Shareholders' funds		<u><b>878,509</b></u>	<u>911,803</u>
<b>Non-current liabilities</b>			
Long-term borrowings, secured	10	369,639	331,575
Derivative financial liabilities		41,029	41,029
Deferred subsidy income		7,404	7,404
Deferred income tax liabilities	11	80,867	80,867
		<u>          </u>	<u>          </u>
		<u><b>498,939</b></u>	<u>460,875</u>
		<u><b>1,377,448</b></u>	<u>1,372,678</u>



## UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2010 and 30 June 2009

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
Net cash generated from operating activities	74,394	91,631
Interest paid	(7,566)	(6,910)
Net cash inflow from operating activities	<u>66,828</u>	<u>84,721</u>
Investing activities		
Purchases of fixed assets and payments for construction-in-progress	(62,340)	(215,775)
Interest received	954	739
Net cash outflow from investing activities	<u>(61,386)</u>	<u>(215,036)</u>
Net cash inflow/(outflow) before financing activities	<u>5,442</u>	<u>(130,315)</u>
Financing activities		
Increase in pledged bank deposits	(33,707)	(24,047)
Issue of ordinary shares	103	66,580
New loans payable	270,427	488,168
Repayment of bank loans	(164,796)	(148,000)
Net cash inflow from financing activities	<u>72,027</u>	<u>382,701</u>
Increase in cash and cash equivalents	77,469	252,386
Cash and cash equivalents at 1 January	<u>144,498</u>	<u>44,902</u>
Cash and cash equivalents at 30 June	<u>221,967</u>	<u>297,288</u>



## UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2010 and 30 June 2009

	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 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
At 30 June 2009	<u>136,082</u>	<u>527,637</u>	<u>(22,041)</u>	<u>66,588</u>	<u>1,131</u>	<u>261,928</u>	<u>971,325</u>
At 1 January 2010 (audited)	136,082	527,637	(22,041)	24,198	1,131	244,796	911,803
Issue of new shares	18	85					103
Net loss for the six months ended 30 June 2010	—	—	—	—	—	(33,397)	(33,397)
At 30 June 2010	<u>136,100</u>	<u>527,722</u>	<u>(22,041)</u>	<u>24,198</u>	<u>1,131</u>	<u>211,399</u>	<u>878,509</u>

\* Details of Warrant Shares are set out in part c of the section of Disclosure of Interests.



## NOTES TO THE CONSOLIDATED 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 2009. 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 liabilities of RMB178,597,000 as at 30 June 2010. 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 2010 on the basis that the Group has sufficient bank deposit 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 2010 (unaudited)		Six months ended 30 June 2009 (unaudited)	
	RMB'000	%	RMB'000	%
BB & complex fertilizers	62,934	24.2%	96,107	30.9%
Sodium carbonate	44,102	17.0%	36,761	11.8%
Ammonium chloride	24,137	9.3%	25,049	8.0%
Urea	101,284	39.0%	132,667	42.6%
Ammonia	7,429	2.9%	3,597	1.2%
Ammonium bicarbonate	9,439	3.6%	8,577	2.8%
Others ( <i>Note</i> )	10,402	4.0%	8,512	2.7%
	<u>259,727</u>	<u>100%</u>	<u>311,270</u>	<u>100%</u>

*Note:* Others trading of urea, di-ammonium phosphate, high water soluble fertilizers and sodium carbonate

### 4. Operating profit

Operating profit is stated after crediting and charging the following:

	Six months ended 30 June	
	2010 RMB'000	2009 RMB'000
Charging:		
Staff costs (including directors' emoluments)		
– Salaries, wages and other benefits	15,281	15,208
– Contributions to retirement scheme	3,264	3,197
Cost of inventories	250,415	274,413
Provision for doubtful receivables	131	538
Loss on disposal of fixed assets	762	524
Operating leases for buildings	560	712
Depreciation and amortization charges	9,728	9,148
Auditors' remuneration	843	660
	<u>          </u>	<u>          </u>



## 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 2010.

Chengdu Ko Yo Chemical Industry Co., Ltd. (“Chengdu Ko Yo Chemical”), Chengdu Ko Yo Compound Fertilisers Co., Ltd. (“Chengdu Ko Yo Compound”), and Dazhou Koyo Chemical Industry Co., Ltd. (“Dazhou 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%. The Local Enterprise Income Tax has been exempted in 2010.

Accordingly, current income tax provision made for Chengdu Ko Yo Compound for the six months ended 30 June 2010 was approximately RMB11,000.

Dazhou 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. 2010 is the fifth profit-making year of Dazhou Ko Yo Chemical and thus the preferential EIT rate applicable is 7.5%. Accordingly, there was no current income tax provision made for Dazhou Ko Yo Chemical for the six months ended 30 June 2010.

Chengdu Ko Yo Chemical, Qingdao Ko Yo Chemical Co., Ltd. and Sichuan Ko Yo Agrochem Co., Ltd. did not have current income tax provision for the six months ended 30 June 2010.

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

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
Current tax in the PRC	31	1,669
Deferred income tax ( <i>Note 11</i> )	(20)	(81)
	<u>11</u>	<u>1,588</u>



## 6. Earnings per share

The calculation of the basic and diluted earnings per share for the six months ended 30 June, 2010 and 2009 were based on:

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
(Loss)/profit for the period	(33,397)	9,394
Weighted average number of shares for calculation of basic earnings per share	7,044,935,912	6,620,643,094
Effect of dilutive potential shares on the outstanding share options	<u>169,782,890</u>	<u>19,165,521</u>
Weighted average number of shares for calculation of diluted earnings per share	<u><u>7,214,718,802</u></u>	<u><u>6,639,808,615</u></u>

## 7. Dividend

The Board does not recommend the payment of any dividend for the six months ended 2010.

## 8. Trade and other receivables

	(Unaudited)	(Audited)
	As at	As at
	30 June	31 December
	2010	2009
	RMB'000	RMB'000
Trade receivables	26,278	24,094
Prepayments, purchase deposits and other deposits	56,828	88,250
Notes receivable	5,231	3,165
Other receivables	<u>82,028</u>	<u>18,981</u>
	<u><u>170,365</u></u>	<u><u>134,490</u></u>



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 2010 RMB'000	(Audited) As at 31 December 2009 RMB'000
Aged:		
Less than 3 months	25,779	23,491
More than 3 months but not exceeding 1 year	502	603
More than 1 year but not exceeding 2 years	0	2
More than 2 years but not exceeding 3 years	134	255
More than 3 years	5,020	4,769
	<u>31,435</u>	<u>29,120</u>
Less: provision for doubtful receivables	(5,157)	(5,026)
	<u>26,278</u>	<u>24,094</u>

9. Trade and other payables

	(Unaudited) As at 30 June 2010 RMB'000	(Audited) As at 31 December 2009 RMB'000
Trade payables	47,524	97,405
Notes payable	217,430	22,000
Deposits from customers	11,226	72,865
Accruals and other payables	25,726	27,750
	<u>301,906</u>	<u>220,020</u>



The aging analysis of trade payables is as follows:

	(Unaudited) As at 30 June 2010 RMB'000	(Audited) As at 31 December 2009 RMB'000
Aged:		
Less than 1 year	26,389	95,033
More than 1 year but not exceeding 2 years	20,578	2,262
More than 2 years but not exceeding 3 years	244	110
More than 3 years	313	—
	<u>47,524</u>	<u>97,405</u>

#### 10. Borrowings

	(Unaudited) As at 30 June 2010 RMB'000	(Audited) As at 31 December 2009 RMB'000
Short-term borrowings, secured	331,900	252,030
Long-term borrowings repayable:		
Less than 1 year	115,837	128,141
Between 1 and 2 years	183,892	70,000
Between 2 and 5 years	177,176	83,162
Over 5 years	8,571	178,413
	<u>485,476</u>	<u>459,716</u>
Within 1 year included in current liabilities	<u>(115,837)</u>	<u>(128,141)</u>
	<u>369,639</u>	<u>331,575</u>

As at 30 June 2010, the borrowings of the Group were generally secured by certain fixed assets and pledged cash deposits of the Group. These borrowings bear interest at the rate of 4.78% to 6.37% (2009: 5.54% to 8.22%) per annum.



## 11. Deferred income tax

There were no offsetting of deferred income tax assets and liabilities in 2009 and in six months period ended 2010.

Deferred income tax assets:

	Impairment of assets RMB'000	Deferred subsidy income RMB'000	Unrealised profit on intercompany sales RMB'000	Total RMB'000
At 31 December 2009	754	1,199	633	2,586
Credit to income statement	20	—	—	20
	<u>774</u>	<u>1,199</u>	<u>633</u>	<u>2,606</u>
At 30 June 2010	<u>774</u>	<u>1,199</u>	<u>633</u>	<u>2,606</u>

Deferred income tax liabilities:

	Evaluation and exploration assets
As 31 December 2009	<u>(80,867)</u>
At 30 June 2010	<u>(80,867)</u>



## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial Performance

For the six months ended 30 June 2010, the Group recorded a turnover of approximately RMB260 million, representing a decrease of approximately 16.6% as compared with approximately RMB311 million for the same period last year. Loss attributable to shareholders was approximately RMB33.4 million (2009: profit of approximately RMB9.4 million), which represented a drop of approximately RMB42.8 million compared with previous year, and basic loss per share were approximately RMB0.47 cents (2009: basic earning per share approximately RMB0.14 cents).

During the period under review, the total sales volume (excluding the trading portion) of the Group reached 207,000 tonnes (2009: 234,000 tonnes), representing a decrease of approximately 11.5% 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 11.8% to 3.6% as compared with the corresponding period last year, which were mainly due to the decrease in selling price and increase in cost of raw materials of products. Cost of sales amounted to approximately RMB250 million, representing a decrease of approximately 8.7% as compared to corresponding period of last year. Distribution costs increased by approximately 25.7%, and the administrative expenses increased by approximately 17.6% as compared with the corresponding period last year.

### Business Review

For the 6 months ended 30 June 2010, products manufactured and distributed by the Group included BB fertilizers, complex fertilizers, sodium carbonate, urea, ammonium chloride, ammonium bicarbonate and liquidized ammonia.

During the period under review, the Group's turnover reached approximately RMB 260 million, representing a decrease of 16.6% over the same period of last year. Total sales volume excluding trading portion reached approximately 207,000 tonnes, representing a decrease of approximately 11.5% over the same period of last year. Loss attributable to shareholders of the Group reached approximately RMB 33.4 million. Basic loss per share reached approximately RMB0.47 cents.



## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

### **Business Review** *(Continued)*

The Group's turnover and profit did not reach the expected performance during the first half of the year, which could be attributed to a few adverse factors. First, the severe cold weather in Northern China together with drought in South-western China and heavy rainfall in Southern China delayed the normal farming and fertilizing cycle. Demand for fertilizers thereby dramatically dropped. As the Group's target markets for fertilizer sales were mainly located in those affected region, chemical fertilizer sales results did not reach expected growth. Moreover, demand and supply of fertilizer market was undergoing abnormal changes. The demand was sluggish, in general, while prices remained low. Demand for urea in many regions since the beginning of the year has recorded the accumulated price decrease of over 10%. Third, the prices of raw materials soared up.

Since the second quarter of this year, the Development and Reform Commission of China announced the policies on raising the price of water, electricity, petroleum as well as natural gas, production costs for the Company further increased which affected our general revenue. Lastly, affected by the insufficient supply of natural gas, the production facilities were unable to attain full capacity production. The Group's urea production therefore declined approximately for 20% as compared with the same period of last year. Impacted by such factors, the Group and the whole industry have been confronted with the challenge of poor results. Despite these negative effects, the continuous economic recovery would gradually support the demand for chemical fertilizers, pesticides and other agricultural chemical products. The Management therefore expected that chemical fertilizer industry will show overall recovery and price for fertilizers will increase accordingly.

In consideration of the Group's results during the period under review, the Directors did not recommend the payment of any interim dividend for the six months ended 30 June 2010.

In face of the above adverse factors, the whole company has implemented following measures for solution.





## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### Sales Market

The Group will focus on major markets and premium customers in order to rely on their capital and storage capacity to enhance chemical fertilizers reserves during low season. Second, with an emphasis on major customers, the Group is able to expand products sales within reasonably larger region through their market networks and channel. Third, to cope with the State's encouragement policies towards agricultural sector, the Group will jointly participate with local agricultural organizations in a series of promotional campaigns such as “測土配方”, “萬村千鄉” as well as “雙百工程”. By establishing closer relationship with local authorities, the purchase amount from government would largely increase. In addition, the Group will utilize the mobile efficiency of agricultural firms to adjust its sales strategies in a flexible manner in accordance with the changing market price. Through OEM as well as raising chemical fertilizers trading to further enhance the Company's revenue in general. Lastly but not least, leveraging on the production commencement of the Company's new plant in Dazhou, the Group will focus on building up the urea products “湖光” as the principal brand in the industry.

### Cost and expense control

On one hand, the Group would improve the supply of raw material as well as maintenance work of our production equipment to secure a stable and full production capability in the long run. On the other hand, the Group would also implement measures to control production and management cost, such as expenses on purchasing and inventory cost.

### Management improvement

In respect of management measures, the Company endeavored to boost the staffs' confidence in overcoming challenges and emphasized control on management system, technical training as well as manpower reserves to further improve staff's efficiency and capability. This would also benefit our future development by providing the Company with new human resources. Furthermore, the Company would streamline its management on the new plant in Dazhou by making scientific adjustment on trial production and future operation respectively, in which the ultimate goal is to establish a modernized corporate structure. The Company also strived to strengthen and refine its system on quality management.



## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### Management improvement (Continued)

In June 2010, the Company's ISO 9001 quality management system successfully passed the spot review conducted by China Quality Certification Centre once every 3 year, 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 new plant in Dazhou has produced products and is expected to bring contribution to the Company

Thanks to the relentless efforts made by the management of the Company and the entire staff in the preliminary work of the project, the Group's new plant project in the Natural Gas Energy Utilization Area of Dazhou city, Sichuan, with a respective annual production capacity of 400,000 tonnes of synthetic ammonia and 450,000 tonnes of urea ("The Dazhou Project") has launched production of synthetic ammonia and urea since 14 August 2010.

To cope with commencement of Dazhou Project, relevant preparation work for raw material procurement, production organization and market sales have been carried out in advance. The Management expects that the stable operation of Dazhou Project in the second half of the year would benefit the Company by realizing 100% of its production capacity.

Meanwhile, in light of the above favorable conditions, the Company intends to initiate the "Project for Annual Output of 300,000 Tonnes of Urea and 40,000 Tonnes of Melamine" ("2nd Phase of the Project") so as to fully utilize the capacity of Dazhou Project's production equipment, balance its remaining liquefied ammonia and effectively synchronize the production of synthetic ammonia and urea in order to reduce product cost. In the meantime, as Melamine is the down-stream product of urea, it will not only enhance the value added to the product and extend the product chain, but also be capable of further optimizing the product structure to achieve the product diversification of the Company. At present, the Company has completed the project approval process regarding the 2nd Phase of the Project for Annual Output of 300,000 Tonnes of Urea, with the approval obtained from the Development and Reform Commission of Sichuan Provincial Government. Meanwhile, the preliminary work for the annual output of 40,000 tonnes of melamine has been launched as well. Upon completion of the preliminary research and survey, the Company intends to acquire a set of Melamine production equipment featuring advanced technology, low energy consumption and premium product quality. With the productivity expansion and technological enhancement of the new plant in Dazhou in the 2nd Phase of the Project, it is expected that the annual productivity of the finalized equipment in the new plant will reach 500,000 tonnes of synthetic ammonia, 800,000 tonnes of urea, and 40,000 tonnes of melamine respectively.



## **PROSPECT** *(Continued)*

### **The new plant in Dazhou has produced products and is expected to bring contribution to the Company** *(Continued)*

The Directors expect that the completion and production of the project will become a substantial source of profit for the Group, expand the Company's scale, strengthen its competitiveness and at the same time ensure the stable and rapid growth in the future.

### **Granted approval the exploitation licence for a phosphorous mine**

The application for the exploitation licence of a phosphorous mine of Sichuan Chengyuan Chemical Industry Company Limited ("Sichuan Cuyo"), a wholly-owned subsidiary of the Group, located at Qingping Township, Mianzhu City, Sichuan Province has passed by the examination conducted by Bureau of Land and Resource of the State. Having been granted the approval, the Group is then able to secure the phosphorous mine as our reserve of strategic resource, and in the meantime allows the Company's industry chain to expand both upstream and downstream and lay a foundation for further improvement of economic benefits and the sustainable development of the Group.

### **Further integration of the fertilizer industry in China, with fertilizer prices on the rise soon**

Following the reinforced environmental protection and the limitation of high consumption industries imposed by the State, some small-scale urea enterprises with high energy consumption will be locked out. The adjustment of the industry structure will enable the fertilizer industry to maintain sound and on-going stable operation.

In line with the global shortage of cereals and the protection policy of various nations imposed on cereals, the rigid demand for fertilizers will remain on the rise for a longer period in future. Following the recovery of the current global economy and rising prices of agricultural products, the urea price has experienced a stable and gradual rebound. According to the data available from the fertilizer information website in China, the international urea price in the second week of August had recorded the biggest increase in a week since 2008. The urea price has soared up from US\$245/tonne to US\$275/tonne, FOB Baltic Sea. The wholesale price in the domestic urea market has also experienced an average rise of RMB50/tonne. In summary of the above, the fertilizer prices will go up with strong support.

To boost the confidence and returns for the shareholders, the Group will endeavor to adhere to our flexible decision making and cost leadership strategy, while consistently adjusting and seeking potential with an aim to facilitate production and business performance.



## **LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE**

As at 30 June 2010, the Group had net current liabilities of approximately RMB178,597,000. Current assets as at 30 June 2010 comprised cash and bank deposits of approximately RMB221,967,000, pledged bank deposits of approximately RMB117,032,000, inventories of approximately RMB61,682,000, trade and other receivables of approximately RMB170,365,000. Current liabilities as at 30 June 2010 comprised short-term loans of approximately RMB331,900,000, current portion of long term loans of approximately RMB115,837,000 and trade and other payables of approximately RMB301,906,000.

### **CAPITAL COMMITMENTS**

As at 30 June 2010, the Group had outstanding capital commitments of approximately RMB50 million.

### **FINANCIAL RESOURCES**

As at 30 June 2010, the Group had cash and bank balances of approximately RMB221,967,000 and standby bank facilities of approximately RMB15 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 142% and 116% as at 30 June 2010 and 31 December 2009 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 2010.

### **MATERIAL ACQUISITIONS/DISPOSALS**

The Group had no material acquisitions/disposals during the six months ended 30 June 2010.



## **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 2010.

## **DETAILS OF FUTURE PLANS FOR MATERIAL INVESTMENT OR CAPITAL ASSETS**

Other than the phase II of the new urea plant with an annual ultimate capacity of 500,000 tonnes of ammonia and 800,000 tonnes of urea in Dazhou, Sichuan Province, the PRC as per annual report dated 30 April 2010 and the 40,000 tonnes melamine project mentioned in this interim report, the Directors do not have any future plans for material investment or capital assets.

## **EMPLOYEE INFORMATION**

As at 30 June 2010, the Group had 2,073 (2009: 2,096) employees, comprising 6 (2009: 6) in management, 103 (2009: 104) in finance and administration, 1,883 (2009: 1,885) in production, 77 (2009: 92) in sales and marketing and 4 (2009: 9) in research and development, 2,067 (2009: 2,090) of these employees were located in the PRC and 6 (2009: 6) were located in Hong Kong.

## **CHARGES ON THE GROUP'S ASSETS**

As at 30 June 2010, certain land use rights and buildings with a total net book value of approximately RMB182,567,000 (2009: RMB107,062,000), plant and machinery with a total net book value of approximately RMB453,646,000 (2009: RMB157,990,000) and bank deposits of approximately RMB117,032,000 (2009: RMB83,383,000) 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.

Details of options granted by the Company pursuant to the Scheme and outstanding as at 30 June 2010 were disclosed in the following table:

	Number of share options									
	Held at	Grant	Exercised	Cancelled	Held at	Share	Share	Share	Share	Share
	1 Jan	during	during	during	30 Jun	Options	Options	Options	Options	Options
2010	period	period	period	2010	A	B	C	D	E	
(‘000)	(‘000)	(‘000)	(‘000)	(‘000)	(‘000)	(‘000)	(‘000)	(‘000)	(‘000)	(‘000)
<b>Directors</b>										
Li Weiruo	2,100	4,400	—	—	6,500	—	—	2,100	—	4,400
Yuen Bai	2,000	4,000	—	—	6,000	—	—	2,000	—	4,000
Chi Chuan	21,000	2,000	—	—	23,000	21,000	—	—	—	2,000
Man Au Vivian	19,000	4,000	—	—	23,000	19,000	—	—	—	4,000
Li Shengdi	21,000	4,000	—	—	25,000	21,000	—	—	—	4,000
Hu Xiaoping	2,000	—	—	—	2,000	2,000	—	—	—	—
Woo Che-wor Alex	2,000	—	—	—	2,000	2,000	—	—	—	—
Qian Laizhong	2,100	—	—	—	2,100	—	—	2,100	—	—
<b>Employees</b>	129,000	38,500	(1,000)	—	166,500	57,000	42,000	—	29,000	38,500
<b>Total</b>	<u>200,200</u>	<u>56,900</u>	<u>(1,000)</u>	<u>—</u>	<u>256,100</u>	<u>122,000</u>	<u>42,000</u>	<u>6,200</u>	<u>29,000</u>	<u>56,900</u>

\* Share Options A: Grant at 23 September 2003, exercisable from grant date until 22 September 2013 with exercise price HK\$0.124.

Share Options B: Grant at 11 April 2006, exercisable from grant date until 10 April 2016 with exercise price HK\$0.150.

Share Options C: Grant at 16 May 2006, exercisable from grant date until 10 April 2016 with exercise price HK\$0.150.

Share Options D: Grant at 10 September 2007, exercisable from grant date until 9 September 2017 with exercise price HK\$0.116.

Share Options E: Grant at 14 January 2010, exercisable from grant date until 13 January 2020 with exercise price HK\$0.230.

1,000,000 of Share Options D were exercised during the period of six months ended 30 June 2010.



## DISCLOSURE OF INTERESTS

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

As at 30 June 2010, 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	6,500,000	2,930,940,000	41.60%
Yuan Bai	366,464,000	6,000,000	372,464,000	5.29%
Chi Chuan	62,640,000	23,000,000	85,640,000	1.22%
Man Au Vivian	31,320,000	23,000,000	54,320,000	0.77%
Li Shengdi	—	25,000,000	25,000,000	0.35%
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%



## 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 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	non-voting Name of company	Number of Type of deferred shares	Capacity	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%





## DISCLOSURE OF INTERESTS (Continued)

### (b) Interests of the substantial shareholders in the Company

As at 30 June 2010, 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 2010, 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 2010, 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.

\* International Finance Corporation also held 500,000,000 warrants shares 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.



## **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 2010, 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 2010.

## **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, 20 August 2010