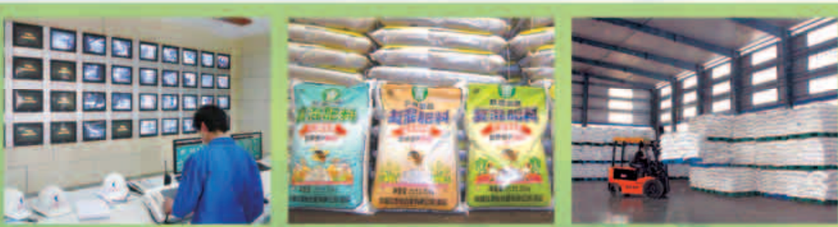
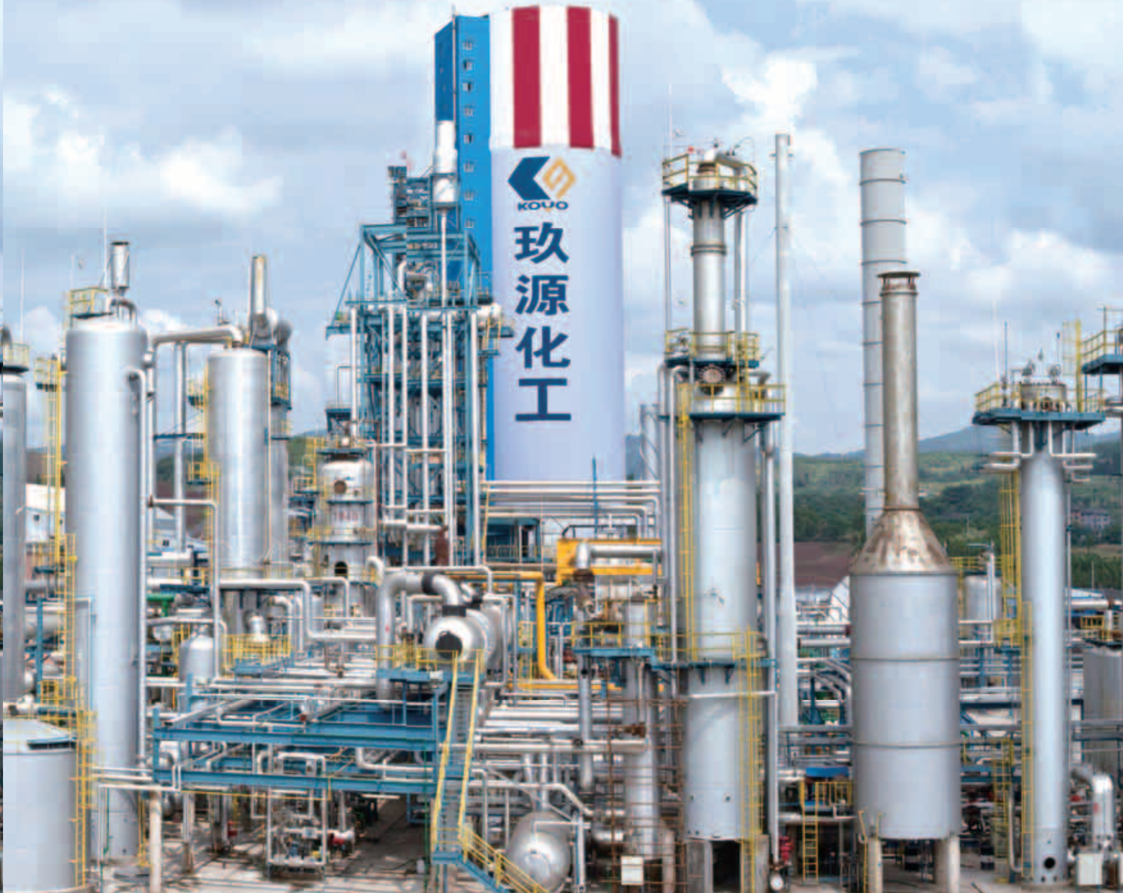
玖源化工(集團)有限公司
Ko Yo Chemical (Group) Limited

(incorporated in the Cayman Islands with limited liability)

(Stock code: 00827)



Interim Report 2011



HIGHLIGHTS

Unaudited gain attributable to shareholders of the Group was approximately RMB55.6 million for the six months ended 30 June 2011, which represents an increase of approximately RMB 89 million as compared to that of the same period last year.

For the six months ended 30 June 2011, unaudited turnover increased to approximately RMB792 million, which represents an increase of approximately 205% as compared to the same period last year.

Unaudited basic gain per share of the Group was approximately RMB0.78 cents for the six months ended 30 June 2011.

The Directors do not recommend to pay any interim dividend for the six months ended 30 June 2011.

INTERIM RESULTS

The board of directors (the "Directors" or the "Board") of Ko Yo Chemical (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 2011 together with the unaudited comparative figures for the corresponding periods in 2010 are as follows:

UNAUDITED CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30 June 2011 and 30 June 2010

		Six months ended 30 June	
		2011	2010
	Notes	**RMB'000**	RMB'000
Turnover	3	**791,649**	259,727
Cost of sales		**(657,540)**	(250,415)
Gross profit		**134,109**	9,312
Interest income		**4,120**	954
Distribution costs		**(21,407)**	(13,068)
Administrative expenses		**(37,169)**	(23,979)
Other income		**823**	961
Operating profit/(loss)	4	**80,476**	(25,820)
Finance costs		**(24,157)**	(7,566)
Profit/(loss) before taxation		**56,319**	(33,386)
Taxation	5	**(744)**	(11)
Profit/(loss) attributable to shareholders		**55,575**	(33,397)
Basic earning/(loss) per share (RMB cents)	6	**0.78**	(0.47)
Diluted earnings/(loss) per share (RMB cents)	6	**0.76**	(0.46)
Declared dividends per share (HK cents)	7	**Nil**	Nil

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2011 and 31 December 2010

	Notes	(Unaudited) As at 30 June 2011 RMB'000	(Audited) As at 31 December 2010 RMB'000
Non-current assets			
Property, plant and equipment		**1,423,273**	1,318,214
Deferred income tax assets	11	**7,615**	7,583
Mining right		**334,306**	334,306
Goodwill		**8,900**	8,900
Land use rights		**87,590**	88,105
		1,861,684	1,757,108
Current assets			
Inventories		**72,134**	65,827
Trade and other receivables	8	**195,966**	148,913
Prepaid income tax, net		**—**	1,848
Pledged bank deposits		**570,660**	389,712
Cash and bank deposits		**117,238**	71,966
		955,998	678,266
Current liabilities			
Trade and other payables	9	**351,237**	176,981
Short-term borrowings, secured	10	**956,893**	810,360
Current portion of long term borrowings, secured	10	**89,628**	89,156
		1,397,758	1,076,497
Net current liabilities		**(441,760)**	(398,231)
Total assets add current liabilities		**1,419,924**	1,358,877

	Notes	(Unaudited) As at 30 June 2011 RMB'000	(Audited) As at 31 December 2010 RMB'000
Finance by:			
Share capital		**138,618**	136,100
Reserves		**831,540**	758,877
Shareholders' funds		**970,158**	894,977
Non-current liabilities			
Long-term borrowings, secured	10	**320,189**	332,918
Derivative financial liabilities		**41,786**	41,786
Deferred subsidy income		**6,924**	8,329
Deferred income tax liabilities	11	**80,867**	80,867
		449,766	463,900
		1,419,924	1,358,877

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2011 and 30 June 2010

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
Net cash generated from operating activities	**231,281**	74,394
Interest paid	**(24,157)**	(7,566)
Net cash inflow from operating activities	**207,124**	66,828
Investing activities		
Purchases of fixed assets and payments for construction-in-progress	**(138,906)**	(62,340)
Interest received	**4,120**	954
Net cash outflow from investing activities	**(134,786)**	(61,386)
Net cash inflow before financing activities	**72,338**	5,442
Financing activities		
Increase in pledged bank deposits	**(180,948)**	(33,707)
Issue of ordinary shares	**19,606**	103
New loans payable	**309,116**	270,427
Repayment of bank loans	**(174,840)**	(164,796)
Net cash (outflow)/inflow from financing activities	**(27,066)**	72,027
Increase in cash and cash equivalents	**45,272**	77,469
Cash and cash equivalents at 1 January	**71,966**	144,498
Cash and cash equivalents at 30 June	**117,238**	221,967

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2011 and 30 June 2010

	Share capital RMB'000	Share premium RMB'000	Merger reserve RMB'000	Share-based compensation reserve RMB'000	Reserve fund RMB'000	Enterprise expansion fund RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2010 (audited)	136,082	527,637	(22,041)	5,510	18,688	1,131	244,796	911,803
Share issued for exercised options	18	85	—	—	—	—	—	103
Net loss for the six months ended 30 June 2010	—	—	—	—	—	—	(33,397)	(33,397)
At 30 June 2010	136,100	527,722	(22,041)	5,510	18,688	1,131	211,399	878,509
At 1 January 2011 (audited)	136,100	527,722	(22,041)	14,186	21,830	1,131	216,049	894,977
Issue of new shares	2,518	17,088	—	—	—	—	—	19,606
Net profit for the six months ended 30 June 2011	—	—	—	—	—	—	55,575	55,575
At 30 June 2011	138,618	544,810	(22,041)	14,186	21,830	1,131	271,624	970,158

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 2010. 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 RMB441,760,000 as at 30 June 2011. 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 2011 on the basis that the Group has positive operating profit, 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 2011 (unaudited)		Six months ended 30 June 2010 (unaudited)	
	RMB'000	**%**	RMB'000	%
BB & complex fertilizers	**107,900**	**13.6%**	62,934	24.2%
Sodium carbonate	**59,165**	**7.5%**	44,102	17.0%
Ammonium chloride	**25,160**	**3.2%**	24,137	9.3%
Urea	**454,966**	**57.5%**	101,284	39.0%
Ammonia	**113,534**	**14.3%**	7,429	2.9%
Ammonium bicarbonate	**5,482**	**0.7%**	9.439	3.6%
Others *(Note)*	**25,442**	**3.2%**	10,402	4.0%
	791,649	**100%**	259,727	100%

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	
	2011	2010
	RMB'000	RMB'000
Charging:		
Staff costs (including directors' emoluments)		
– Salaries, wages and other benefits	**39,178**	15,281
– Contributions to retirement scheme	**5,948**	3,264
Cost of inventories	**657,540**	250,415
Provision for doubtful receivables	**129**	131
Loss on disposal of fixed assets	**534**	762
Operating leases for buildings	**860**	560
Depreciation and amortization charges	**33,828**	9,728
Auditors' remuneration	**518**	843

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 2011.

The applicable income tax rate of Chengdu Ko Yo Chemical Industry Co., Ltd. ("Chengdu Ko Yo Chemical"), Chengdu Ko Yo Compound Fertilisers Co., Ltd. ("Chengdu Ko Yo Compound"), Dazhou Koyo Chemical Industry Co., Ltd. ("Dazhou Ko Yo Chemical") and Sichuan Ko Yo Agrochem Co., Ltd. ("Sichuan Ko Yo Agrochem") in 2011 are 25%.

Accordingly, current income tax provision made for Chengdu Ko Yo Compound and Sichuan Ko Yo Agrochem for the six months ended 30 June 2011 was approximately RMB194,000 and RMB550,000 respectively.

Chengdu Ko Yo Chemical and Qingdao Ko Yo Chemical Co., Ltd. did not have current income tax provision for the six months ended 30 June 2011.

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

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
Current tax in the PRC	**776**	31
Deferred income tax *(Note 11)*	**(32)**	(20)
	744	11

6. Earnings per share

The calculation of the basic and diluted earnings per share for the six months ended 30 June, 2011 and 2010 were based on:

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
Profit/(loss)for the period	**55,575**	(33,397)
Weighted average number of shares for calculation of basic earnings per share	**7,120,756,353**	7,044,935,912
Effect of dilutive potential shares on the outstanding share options	**147,598,785**	169,782,890
Weighted average number of shares for calculation of diluted earnings per share	**7,268,355,138**	7,214,718,802

7. Dividend

The Board does not recommend the payment of any dividend for the six months ended 2011.

8. Trade and other receivables

	(Unaudited) As at 30 June 2011 RMB'000	(Audited) As at 31 December 2010 RMB'000
Trade receivables	**25,695**	20,110
Prepayments, purchase deposits and other deposits	**141,020**	94,849
Notes receivable	**12,968**	20,253
Other receivables	**16,283**	13,701
	195,966	148,913

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 2011 RMB'000	(Audited) As at 31 December 2010 RMB'000
Aged:		
Less than 3 months	**21,604**	20,016
More than 3 months but not exceeding 1 year	**4,134**	137
More than 1 year but not exceeding 2 years	**129**	88
More than 2 years but not exceeding 3 years	**88**	1
More than 3 years	**5,025**	5,024
	30.980	25,266
Less: provision for doubtful receivables	**(5,285)**	(5,156)
	25,695	20,110

9. Trade and other payables

	(Unaudited) **As at** **30 June** **2011** **RMB'000**	(Audited) As at 31 December 2010 RMB'000
Trade payables	**29,164**	26,342
Construction payable	**7,518**	29,443
Notes payable	**142,130**	40,170
Deposits from customers	**51,279**	40,377
Accruals and other payables	**121,146**	40,649
	351,237	176,981

The aging analysis of trade payables is as follows:

	(Unaudited) **As at** **30 June** **2011** **RMB'000**	(Audited) As at 31 December 2010 RMB'000
Aged:		
Less than 1 year	**20,748**	25,353
More than 1 year but not exceeding 2 years	**7,285**	153
More than 2 years but not exceeding 3 years	**674**	836
More than 3 years	**457**	—
	29,164	26,342

10. Borrowings

	(Unaudited) As at 30 June 2011 RMB'000	(Audited) As at 31 December 2010 RMB'000
Short-term borrowings, secured	**956,893**	810,360
Long-term borrowings repayable:		
Less than 1 year	**89,628**	89,156
Between 1 and 2 years	**88,606**	86,916
Between 2 and 5 years	**205,817**	212,138
Over 5 years	**25,766**	33,864
	409,817	422,074
Within 1 year included in current liabilities	**(89,628)**	(89,156)
	320,189	332,918

As at 30 June 2011, 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 7.57% (2010: 4.78% to 6.37%) per annum.

11. Deferred income tax

There were no offsetting of deferred income tax assets and liabilities in 2010 and in six months period ended 2011.

Deferred income tax assets:

	Loss available for offsetting future taxable profits RMB'000	Impairment of assets RMB'000	Deferred subsidy income RMB'000	Unrealised profit on intercompany sales RMB'000	Total RMB'000
At 31 December 2010	5,228	657	1,133	565	7,583
Credit to income statement	—	32	—	—	32
At 30 June 2011	**5,228**	**689**	**1,133**	**565**	**7,615**

Deferred income tax liabilities:

	Evaluation and exploration assets
As 31 December 2010	(80,867)
At 30 June 2011	**(80,867)**

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Performance

For the six months ended 30 June 2011, the Group recorded a turnover of approximately RMB792 million, representing an increase of approximately 205% as compared with approximately RMB260 million for the same period last year. Profit attributable to shareholders was approximately RMB55.6 million (2010: first half year loss of approximately RMB33.4 million), which represented an increase of approximately RMB89 million compared with previous year, and basic gain per share were approximately RMB0.78 cents (2010: first half year basic loss per share approximately RMB0.47 cents).

During the period under review, the total sales volume (excluding the trading portion) of the Group reached approximately 400,000 tonnes (2010: 207,000 tonnes), representing an increase of approximately 93% as compared to that of the same period last year.

For the period under review, the gross profit margin of the Group increased by approximately 13.3% to 16.9% as compared with the corresponding period last year, which were mainly due to the increase in selling price of products. Cost of sales amounted to approximately RMB658 million, representing an increase of approximately 163% as compared to corresponding period of last year. Distribution costs increased by approximately 64%, and the administrative expenses increased by approximately 55% as compared with the corresponding period last year.

Business Review

For the six months ended 30 June 2011, the Group is engaged in the manufacturing and distribution of chemical fertilizers and chemical products, including BB Fertilizers and complex fertilizers, sodium carbonate, urea, ammonium chloride, ammonium bicarbonate and liquid ammonia.

During the period under review, the Group's turnover reached approximately RMB 792 million, representing an increase of 205% as compared to last year. The total sales reached approximately 400,000 tonnes, representing an increase of 93% as compared to the same period of last year. Gross profit of the Company amounted to approximately RMB134 million, representing an increase of approximately 1,340% as compared to the same period of last year. Basic earnings per share was approximately RMB0.78 cents.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Business Review *(Continued)*

The Group's turnover has witnessed a significant growth during the first half year of the year, which led to the turnaround from operating losses sustained in the last two consecutive years. The impressive performance was mainly due to:

1. The successful operation of the plant at Dazhou contributed to the growth in profit. Since the plant at Dazhou commenced operation in the fourth quarter of 2010, the utilization rate for production equipment of synthetic ammonia and urea at the plant increased steadily. Except for the suspended operation for inspection and repair in January 2011, the average utilization rate for the production equipment of synthetic ammonia and urea reached 82.2% and 92.9% respectively. This was attributable to the competitive advantages of Dazhou plant being located adjacent to the natural gas field and dedicated supply pipeline. During the period under review, the sales volume on the products from Dazhou plant reached approximately 201,000 tonnes and recorded a turnover of RMB 366 million and a profit of approximately RMB 62 million.

2. The price of product gradually resumed its growth and surge. As the recovery in the fertilizer industry became more apparent, the price of chemical fertilizers generally moved upward at different degrees. In particular, the urea market evidenced turnaround since May with the wholesale price in the market surging of RMB 500-600 per ton on average as compared to the same period of last year with a peak of RMB 2,400 per ton. Meanwhile, the prices for phosphate, potash fertilizer and complex fertilizer climbed up approximately by 18.5%,8% and 23.8%, respectively and the selling price of the Company's product increased approximately by 9% - 46% on average as compared to the same period of last year.

Business Review *(Continued)*

2. *(Continued)*

In contrast with the results for the same period of the last year, despite of the growth in the Group's results to a greater extent , the profit was still affected by a number of factors as follows:

1. Market factor. The price of fertilizers fell prior to the rise in general during the first half of the year and subsequently stayed at the upward rising trend gradually. The price of products from January to April remained steady as compared to the same period in 2010. The extent of growth was not high. The wholesale price in the urea market fluctuated between RMB 1,900-2,300 per ton and the growth became more evident since May.

2. The prices in production of raw materials also surged. Since the prices for natural gas rose at the beginning of the year, the price of anthracite also increased. During the first half of the year, the price of anthracite increased from RMB 1,300 per ton to RMB 1,425 per tonne an increase of 10%. On the other hand, the price of power for industrial use also revised upward since 1st June 2011. The operation of our plants located at Dazhu County and Xindu District, Sichuan, became not satisfactory as being affected by the surge in production cost and the amount of gas supply. The plant located at Xindu District experienced a loss of approximately RMB 34,539,000 in the full year of 2010 and approximately RMB 6,910,000 for the first half of 2011.

3. Utilization rate. As result of the suspended operation for inspection and repair in January this year, the operation of production facilities in Xindu and Dazhou were being affected to a certain extent, which resulted in lower profit and income.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Business Review *(Continued)*

Faced with the production and operation condition during the first half of the year, the Company had adopted the following measures to tackle in a positive manner so as to achieve the operation indicators for the full year.

As to the market: 1. Bulk sales of urea and liquid ammonia products will be further enhanced through the consolidation of sound cooperation relationship with major accounts in key markets; 2. The maintenance of existing sales network for complex fertilisers and BB fertilisers as well as share in existing market by way of external processing and trading, until the production in Xindu, Sichuan resumes upon the completion of relocation that suspended the operation; 3. The launch of polypeptide urea products into the market, which allowed more added values in the product. This will mitigate the pressure on costs faced by the production plant at Dazhu, Sichuan.

As to production: The operation efficiency for the production equipment at Dazhou plant will be fully capitalized by utilizing the competitive edges from the dedicated supply Natural Gas Energy Chemical Industrial Zone of Dazhou. Hence the supply of natural gas is steady and abundant.

In view of the results of the Group's operation in the period under review, the Board did not recommend to pay any interim dividend for the six months ended 30 June 2011.

PROSPECT

2nd Phase of the Project in Dazhou will commence within the year

The project with a respective annual production capacity of 400,000 tonnes of synthetic ammonia and 450,000 tonnes of urea (the "1st Phase of the Project") in Dazhou successfully commenced operation and has been operating steadily. During the second half of the year, the Company will initiate the "Project for Annual Output of 300,000 Tonnes of Urea and 40,000 Tonnes of Melamine" (the "2nd Phase of the Project"), which will fulfill the target for construction as expected. Melamine is a downstream product for urea. The production of melamine will further extend the product chain, enhance the added value of products, optimize the composition of the Company's products and profitability.

After preliminary research and investigation, the Company had acquired a set of idle Melamine production equipment from US. This equipment adopts DSM technique featuring advanced technology, low energy consumption, nil pollution and premium product quality. At present the equipment has been delivered to the site. As the project is located at the 1st Phase of the Project in Dazhou, the land used by the project was already reserved in the 1st Phase of the Project, and would share the public facilities with the 1st Phase. Therefore, cost will be saved from the investment and will also be benefitted from the advantage of low cost raw materials in the upper stream.

It is planned by the Company to complete the construction of the project for 40,000 tonnes of melamine by mid-2012, for which operation will commence thereafter. The construction of the project for 300,000 tonnes of urea will be completed by 2013, for which operation will commence thereafter. Through the expansion in capacity and technology upgrade from the 2nd Phase of the Project, it is expected that the annual productivity of Dazhou plant will finally reach 500,000 tonnes of synthetic ammonia, 800,000 tonnes of urea, and 40,000 tonnes of melamine respectively.

PROSPECT *(Continued)*

Progress in the relocation of production equipment for Xindu

The Company will execute the relocation of Xindu Plant by the end of 2011 in accordance with the requests from the People's Government of Chengdu. In order to successfully commence such work, the Company has established a team that will dedicate in leading the relocation work and formulate the corresponding working plans. This will allow the Company to tackle and properly deal with the disposals of assets and the settlement of staff involved in the relocation process. Taking into account that the production equipment in Xindu Plant will be relocated and that the operation condition for the first half of the year was not satisfactory, the Company planned to suspend production at that plant for the second half of the year and will simultaneously commence the relocation. In order to reduce the loss and unfavourable factors incurred by the suspension of operation in Xindu Plant, the Company will maintain the existing product sales network and market share through increase in product volume from external processing and trading. This will allow the steady migration of the plant to Guangan.

On 16th June 2011, Ko Yo Development and the Purchaser entered into the Equity Transfer Agreement with Chengdu Hexin Real Estate Co., Ltd. ("Purchaser") pursuant to which Ko Yo Development has agreed to sell, and the Purchaser has agreed to purchase the 40% equity interest in Chengdu Ko Yo Chemical at a consideration of RMB20 million (equivalent to approximately HK$24 million). Further to the Equity Transfer Agreement, Ko Yo Development and the Purchaser also entered into the Supplemental Agreement in respect of the disposition of the assets and liabilities of Chengdu Ko Yo Chemical. The Purchaser has also agreed to settle the debt of Chengdu Ko Yo Chemical of RMB49.44 million (equivalent to approximately HK$59.33 million) subject to the terms and conditions of the Supplemental Agreement. Such equity transfer is now being applied and pending for approval at local business registration competent authorities. Upon the completion of the equity transfer, the disposition of assets and liabilities of Xindu Plant will be further facilitated.

PROSPECT *(Continued)*

Progress in the relocation of production equipment for Xindu *(Continued)*

In accordance with the overall development strategy as planned by the Group, the Company will transform this location into a new development opportunity. By leveraging on the resources, such as salt mines, natural gas and coal in Guangan, Sichuan, the Company will set up a new production base of chemicals. The Company intends to introduce a set of production equipment of synthetic ammonia-methanol through preliminary research for Guangan Koyo Chemical Co., Ltd and Guangan Lotusan Natural Gas Chemical Industry Co., Ltd. A project with an annual production of 300,000 tonnes of synthetic ammonia and 500,000 tonnes of methanol ("1st Phase of Project at Guangan"). Currently, the preliminary approval and preparation work for the project have been completed. The indicated use in natural gas of 650 million cubic meter in total that is required by the project has obtained approval from the People's Government of Guangan, PetroChina Southwest Oil & Gasfield Company and PetroChina Nanchong City Gas Company Limited.

Equilibrium in urea market for the second half of the year, with price being supported by costs

According to the statistical information from the China Chemical Fertilizer Information Web, 24.18 million tonnes of urea (hereinafter referred to as the "actual volume") were produced in China between January to May this year. This was 3.2% lower than 24.98 million tonnes recorded in the same period last year. As the production of urea decreased, whilst the demand for complex fertilizer and industrial urea is sound, the disequilibrium in the demand and supply of urea in the first half of the year was apparently mitigated, and was the half year with smallest extent of disequilibrium during the recent years. Since May, with the surge in the market price of urea, the utilization rate of production entities also improved. It is expected that during the second half of the year, the production of urea will turnaround and resume its growth. However, being affected by the low inventory level maintained by the distributors in the earlier times, July being the month that the agricultural industry activates its use of fertilizers, the demand for downstream complex fertilizers (amounting to approximately 30% of the demand for complex fertilizers by manufacturers) and industrial urea, low custom duty on the portion for exports, it is expected that the market of urea will maintain its equilibrium during the second half of the year.

PROSPECT *(Continued)*

Equilibrium in urea market for the second half of the year, with price being supported by costs *(Continued)*

As the demand in China has been steady, the supply may still be restricted at certain period. Moreover, as the price of raw materials for production remain high, together with the increase in cost of human resources, it is expected that the price of urea in the second half of the year will be well supported.

Moreover, being affected by the anticipated inflation in China and the stimulus from the surge in the prices of agricultural products and cereal as a whole, farmers will be more motivated to plant cereals. This will increase the income of farms to a certain extent, which will also increase the demand of fertilizers and support the price of urea.

It is expected by the Directors that the operation of Dazhou plant when completed in a stable manner will be the profit centre for the Company this year. At the same time, the initiation of the 2nd Phase of the Project in Dazhou and the planning of the 1st Phase of the Project in Guangan will also bring new opportunities for the development of the Company in future, and allow the Company to gradually move into a phase of rapid growth.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 June 2011, the Group had net current liabilities of approximately RMB441,760,000. Current assets as at 30 June 2011 comprised cash and bank deposits of approximately RMB117,238,000, pledged bank deposits of approximately RMB570,660,000, inventories of approximately RMB72,134,000, trade and other receivables of approximately RMB195,966,000. Current liabilities as at 30 June 2011 comprised short-term loans of approximately RMB956,893,000, current portion of long term loans of approximately RMB89,628,000 and trade and other payables of approximately RMB351,237,000.

CAPITAL COMMITMENTS

As at 30 June 2011, the Group had outstanding capital commitments of approximately RMB139 million.

FINANCIAL RESOURCES

As at 30 June 2011, the Group had cash and bank balances of approximately RMB117,238,000 and standby bank facilities of approximately RMB47 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 190% and 172% as at 30 June 2011 and 31 December 2010 respectively. The gearing ratios were calculated based on total liabilities over total equity as at the balance sheet dates. The increase in gearing ratio is due to the increase in the short term bank loans. However, most of the short term loan had been guaranteed by the pledged bank deposits. If calculating the gearing ratios with subtracting the short term bank loans by the pledged bank deposits, the resulting gearing ratios will be 132% and 129% as at 30 June 2011 and 31 December 2010.

CONTINGENT LIABILITIES

The Group had no significant contingent liabilities as at 30 June 2011.

MATERIAL ACQUISITIONS/DISPOSALS

Save as disclosed in the announcement dated 16 June 2011 regarding the disposal of the 40% equity interest in a subsidiary of the Company, the Group had no material acquisitions/disposals during the six months ended 30 June 2011.

SUBSCRIPTION OF NEW SHARES BY INTERNATIONAL FINANCE CORPORATION ("IFC")

As disclosed in the announcement (the "Subscription Announcement") dated 17 June 2011, the Company entered into the subscription agreement (the "Subscription Agreement") with IFC, a substantial shareholders of the Company. IFC conditionally agrees to subscribe and pay the aggregate subscription price of USD7 million for an aggregate number of fully paid and non-assessable subscription shares (the "Subscription Shares") equal to USD8 million dividend by the subscription price as defined in the Subscription Announcement. Based on the pricing mechanism in the Subscription Agreement, the minimum and maximum number of the Subscription Shares shall be approximately 286,896,552 and 355,237,476 shares respectively. The Company will seek the grant of the specific mandate to allot and issue the Subscription Shares at the extraordinary general meeting on 9 September 2011.

PLACING OF NEW SHARES WITH BONUS WARRANTS

As disclosed in the announcement dated 29 July 2011 regarding the placing agreement (the Placing Agreement") with First Shanghai Securities Limited (the "Placing Agent"), the Placing Agent has agreed to place, on a best effort basis, to not less than six placees for up to 300,000,000 new shares of the Company at a price of HK$0.172 per placing share (the "Placing Shares"). Upon completion of the placing, the holders of the Placing Shares will automatically be entitled to the bonus warrants (the "Bonus Warrants") (entitling the holders thereof to subscribe for one share of the Company for every Bonus Warrant for a period of 18 months from the date of issue at an initial subscription price of HK$0.188) at nil consideration on the basis of one Bonus Warrant to one Placing Share.

As disclosed in the announcement dated 10 August 2011, the Placing Agent by a notice in writing exercised its right to terminate the Placing Agreement on 9 August 2011.

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 2011.

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, 800,000 tonnes of urea and the 40,000 tonnes melamine in Dazhou of Sichuan and the relocation of Xindu plant to Guangan of Sichuan as per annual report dated 25 March 2011, the Directors do not have any future plans for material investment or capital assets.

EMPLOYEE INFORMATION

As at 30 June 2011, the Group had 2,108 (2010: 2,073) employees, comprising 6 (2010: 6) in management, 216 (2010: 103) in finance and administration, 1,799 (2010: 1,883) in production, 83 (2010: 77) in sales and marketing and 4 (2010: 4) in research and development, 2,102 (2010: 2,067) of these employees were located in the PRC and 6 (2010: 6) were located in Hong Kong.

CHARGES ON THE GROUP'S ASSETS

As at 30 June 2011, certain land use rights and buildings with a total net book value of approximately RMB209,741,000 (2010: RMB182,567,000), plant and machinery with a total net book value of approximately RMB384,577,000 (2010: RMB453,646,000) and bank deposits of approximately RMB570,660,000 (2010: RMB117,032,000) 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 2011 were disclosed in the following table:

	Number of share options										
	Held at 1 Jan 2011 ('000)	Grant during period ('000)	Exercised during period ('000)	Cancelled during period ('000)	**Held at 30 Jun 2011 ('000)**	Share Options A ('000)	Share Options B ('000)	Share Options C ('000)	Share Options D ('000)	Share Options E ('000)	Share Options F ('000)
Directors											
Li Weiruo	6,500	—	—	—	**6,500**	—	—	2,100	—	4,400	—
Yuen Bai	6,000	—	—	—	**6,000**	—	—	2,000	—	4,000	—
Chi Chuan	23,000	—	—	—	**23,000**	21,000	—	—	—	2,000	—
Man Au Vivian	23,000	—	—	—	**23,000**	19,000	—	—	—	4,000	—
Li Shengdi	25,000	—	—	—	**25,000**	21,000	—	—	—	4,000	—
Hu Xiaoping	6,000	—	—	—	**6,000**	2,000	—	—	—	—	4,000
Woo Che-wor Alex	6,000	—	—	—	**6,000**	2,000	—	—	—	—	4,000
Qian Laizhong	6,100	—	—	—	**6,100**	—	—	2,100	—	—	4,000
Employees	166,500	—	—	—	**166,500**	57,000	42,000	—	29,000	38,500	—
Total	268,100	—	—	—	**268,100**	122,000	42,000	6,200	29,000	56,900	12,000

* 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.

Share Options F: Grant at 23 November 2010, exercisable from grant date until 22 November 2020 with exercise price HK$0.220.

DISCLOSURE OF INTERESTS

(a) Interests of the Directors in the Company

As at 30 June 2011, 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	40.73%
Yuan Bai	366,464,000	6,000,000	372,464,000	5.18%
Chi Chuan	62,640,000	23,000,000	85,640,000	1.19%
Man Au Vivian	31,320,000	23,000,000	54,320,000	0.75%
Li Shengdi	—	25,000,000	25,000,000	0.35%
Hu Xiaoping	—	—	6,000,000	0.08%
Woo Che-wor, Alex	—	—	6,000,000	0.08%
Qian Laizhong	—	—	6,100,000	0.08%

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 2011, so far as is known to any Director or chief executive of the Company, the following 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.

Name	Capacity	Number of shares	Interests in issued share capital of the Company
International Finance Corporation*	Beneficial Owner	799,884,615	11.12%

(c) Interests of other persons in the Company

Save as disclosed above, as at 30 June 2011, so far as is known to any Director or chief executive of the Company, no 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.

Save as disclosed above, as at 30 June 2011, 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 350,115,385 warrants shares as at 30 June 2011 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 2011, 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 2011.

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, 26 August 2011