



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 2012



HIGHLIGHTS

Unaudited gain attributable to shareholders of the Group was approximately RMB81.2 million for the six months ended 30 June 2012, which represents an increase of 46.1% as compared to that of the same period last year.

For the six months ended 30 June 2012, unaudited turnover was approximately RMB770 million, which represents a decrease of approximately 2.7% as compared to the same period last year.

Unaudited basic gain per share of the Group was approximately RMB1.13 cents for the six months ended 30 June 2012.

The Directors do not recommend to pay any interim dividend for the six months ended 30 June 2012.

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 2012 together with the unaudited comparative figures for the corresponding periods in 2011 are as follows:

UNAUDITED CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30 June 2012

	Notes	Six months ended 30 June	
		2012 RMB'000	2011 RMB'000
Turnover	3	769,967	791,649
Cost of sales		(549,432)	(657,540)
Gross profit		220,535	134,109
Interest income		5,361	4,120
Distribution costs		(27,318)	(21,407)
Administrative expenses		(34,700)	(37,169)
Other income		1,257	823
Operating profit	4	165,135	80,476
Finance costs		(59,840)	(24,157)
Profit before taxation		105,295	56,319
Taxation	5	(24,107)	(744)
Profit attributable to shareholders		81,188	55,575
Basic earning per share (RMB cents)	6	1.13	0.78
Diluted earnings per share (RMB cents)	6	1.13	0.76
Declared dividends per share (HK cents)	7	Nil	Nil

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2012 and 31 December 2011

		(Unaudited) As at 30 June 2012 RMB'000	(Audited) As at 31 December 2011 RMB'000
Non-current assets			
Property, plant and equipment		1,828,009	1,521,150
Deferred income tax assets	11	2,437	2,163
Mining right		334,306	334,306
Intangible assets		11,438	11,438
Land use rights		55,284	55,401
		2,231,474	1,924,458
Current assets			
Inventories		44,747	43,220
Trade and other receivables	8	154,716	155,194
Prepaid income tax, net		—	6,357
Pledged bank deposits		1,019,592	789,009
Cash and bank deposits		46,506	132,094
Non-current assets held for sale		198,784	198,784
		1,464,345	1,324,658
Current liabilities			
Trade and other payables	9	268,404	307,123
Short-term borrowings, secured	10	1,865,343	1,448,846
Current portion of long term borrowings, secured	10	89,541	93,329
		2,223,288	1,849,298
Net current liabilities		(758,943)	(524,640)
Total assets less current liabilities		1,472,531	1,399,818

CONDENSED CONSOLIDATED BALANCE SHEET *(Continued)*

As at 30 June 2012 and 31 December 2011

		(Unaudited) As at 30 June 2012 RMB'000	(Audited) As at 31 December 2011 RMB'000
Finance by:			
		138,618	138,618
		962,630	881,442
		1,101,248	1,020,060
Non-current liabilities			
	10	276,606	284,655
		5,072	5,072
		7,050	7,476
	11	82,555	82,555
		371,283	379,758
		1,472,531	1,399,818

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2012 and 30 June 2011

	Six months ended 30 June	
	2012 RMB'000	2011 RMB'000
Net cash generated from operating activities	140,282	231,281
Interest paid	(59,840)	(24,157)
Net cash inflow from operating activities	80,442	207,124
Investing activities		
Purchases of fixed assets and payments for construction-in-progress	(345,468)	(138,906)
Interest received	5,361	4,120
Net cash outflow from investing activities	(340,107)	(134,786)
Net cash (outflow)/inflow before financing activities	(259,665)	72,338
Financing activities		
Increase in pledged bank deposits	(230,583)	(180,948)
Issue of ordinary shares	—	19,606
New loans payable	655,843	309,116
Repayment of bank loans	(251,183)	(174,840)
Net cash inflow/(outflow) from financing activities	174,077	(27,066)
(Decrease)/increase in cash and cash equivalents	(85,588)	45,272
Cash and cash equivalents at 1 January	132,094	71,966
Cash and cash equivalents at 30 June	46,506	117,238

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2012 and 30 June 2011

	Share capital	Share premium	Merger reserve	Share-based compensation reserve	Reserve fund	Enterprise expansion fund	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
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
At 1 January 2012 (audited)	138,618	550,133	(22,041)	14,186	33,304	1,131	304,729	1,020,060
Net profit for the six months ended 30 June 2012	—	—	—	—	—	—	81,188	81,188
At 30 June 2012	138,618	550,133	(22,041)	14,186	33,304	1,131	385,917	1,101,248

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 2011. 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 RMB758,943,000 as at 30 June 2012. 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 2012 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

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 2012 (unaudited)		Six months ended 30 June 2011 (unaudited)	
	RMB'000	%	RMB'000	%
BB & complex fertilizers	73,609	9.6	107,900	13.6
Sodium carbonate	—	—	59,165	7.5
Ammonium chloride	—	—	25,160	3.2
Urea	540,934	70.2	454,966	57.5
Ammonia	121,153	15.7	113,534	14.3
Ammonium bicarbonate	1,759	0.3	5,482	0.7
Others (Note)	32,512	4.2	25,442	3.2
	769,967	100	791,649	100

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

4. Operating profit

Operating profit is stated after crediting and charging the following:

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
Charging:		
Staff costs (including directors' emoluments)		
— Salaries, wages and other benefits	29,971	39,178
— Contributions to retirement scheme	3,969	5,948
Cost of inventories	549,432	657,540
Provision for doubtful receivables	1,098	129
Loss on disposal of fixed assets	1,532	534
Operating leases for buildings	499	860
Depreciation and amortization charges	37,193	33,828
Auditors' remuneration	757	518

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 2012.

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") and Sichuan Ko Yo Agrochem Co., Ltd. ("Sichuan Ko Yo Agrochem") in 2012 are 25%.

Dazhou Koyo Chemical Industry Co., Ltd. ("Dazhou Ko Yo") qualifies as a foreign investment production enterprise and is located in the western region in Mainland China. As approved by local tax bureau, it is subject to the preferential tax policies for the development of western region with Enterprises Income Tax ("EIT") at the rate of 15%.

Accordingly, current income tax provision made for Dazhou Ko Yo for the six months ended 30 June 2012 was approximately RMB24,381,000.

Sichuan Ko Yo Agrochem, Chengdu Ko Yo Compound, 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 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

5. Taxation *(Continued)*

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

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
Current tax in the PRC	24,381	776
Deferred income tax (Note 11)	(274)	(32)
	24,107	744

6. Earnings per share

The calculation of the basic and diluted earnings per share for the six months ended 30 June, 2012 and 2011 were based on:

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
Profit for the period	81,188	55,575
Weighted average number of shares for calculation of basic earnings per share	7,195,284,615	7,120,756,353
Effect of dilutive potential shares on the outstanding share options	6,457,201	147,598,785
Weighted average number of shares for calculation of diluted earnings per share	7,201,741,816	7,268,355,138

7. Dividend

The Board does not recommend the payment of any dividend for the six months ended 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

8. Trade and other receivables

	(Unaudited)	(Audited)
	As at	As at
	30 June	31 December
	2012	2011
	RMB'000	RMB'000
Trade receivables	19,868	18,343
Prepayments, purchase deposits and other deposits	96,645	101,859
Notes receivable	7,573	4,100
Other receivables	30,630	30,892
	154,716	155,194

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)	(Audited)
	As at	As at
	30 June	31 December
	2012	2011
	RMB'000	RMB'000
Aged:		
Less than 3 months	6,847	17,664
More than 3 months but not exceeding 1 year	13,446	79
More than 1 year but not exceeding 2 years	681	733
More than 2 years but not exceeding 3 years	130	83
More than 3 years	5,103	5,025
	26,207	23,584
Less: provision for doubtful receivables	(6,339)	(5,241)
	19,868	18,343

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

9. Trade and other payables

	(Unaudited)	(Audited)
	As at	As at
	30 June	31 December
	2012	2011
	RMB'000	RMB'000
Trade payables	20,750	34,233
Construction payable	15,685	23,215
Notes payable	—	8,100
Deposits from customers	153,294	205,167
Accruals and other payables	78,675	36,408
	268,404	307,123

The aging analysis of trade payables is as follows:

	(Unaudited)	(Audited)
	As at	As at
	30 June	31 December
	2012	2011
	RMB'000	RMB'000
Aged:		
Less than 1 year	15,292	26,733
More than 1 year but not exceeding 2 years	3,991	6,931
More than 2 years but not exceeding 3 years	799	11
More than 3 years	668	558
	20,750	34,233

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

10. Borrowings

	(Unaudited) As at 30 June 2012 RMB'000	(Audited) As at 31 December 2011 RMB'000
Short-term borrowings, secured	1,865,343	1,448,846
Long-term borrowings repayable:		
Less than 1 year	89,541	93,329
Between 1 and 2 years	103,711	103,710
Between 2 and 5 years	166,104	154,675
Over 5 years	6,791	26,270
	366,147	377,984
Within 1 year included in current liabilities	(89,541)	(93,329)
	276,606	284,655

As at 30 June 2012, 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 5.24% to 8.84% (2011: 4.78% to 7.57%) per annum.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

11. Deferred income tax

There were no offsetting of deferred income tax assets and liabilities in 2011 and in six months period ended 2012.

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 2011	1,012	679	472	—	2,163
Credit to income statement	—	274	—	—	274
At 30 June 2012	1,012	953	472	—	2,437

Deferred income tax liabilities:

	Evaluation and exploration assets RMB'000
As 31 December 2011	(82,555)
At 30 June 2012	(82,555)

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Performance

For the six months ended 30 June 2012, the Group recorded a turnover of approximately RMB770 million, representing a decrease of approximately 2.7% as compared with approximately RMB792 million for the same period last year. Profit attributable to shareholders was approximately RMB81.2 million (2011: first half year profit of approximately RMB55.6 million), which represented an increase of approximately 46.1% compared with previous year, and basic gain per share were approximately RMB1.13 cents (2011: first half year basic gain per share approximately RMB0.78 cents).

During the period under review, the total sales volume (excluding the trading portion) of the Group reached approximately 315,000 tonnes (2011: 400,000 tonnes), representing a decrease of approximately 21% 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 16.9% to 28.6% as compared with the corresponding period last year, which were mainly due to the decrease in cost and increase in selling price of products. Cost of sales amounted to approximately RMB549 million, representing a decrease of approximately 16.4% as compared to corresponding period of last year. Distribution costs increased by approximately 27.6%, and the administrative expenses decreased by approximately 6.6% as compared with the corresponding period last year.

Business Review

For the six months ended 30 June 2012, the Group is engaged in the manufacturing and distribution of chemical fertilizers and chemical products, including urea, liquid ammonia, BB Fertilizers and complex fertilizers, and ammonium bicarbonate.

During the first half year, the sales and turnover of the Group's products declines compared with those last year, which is mainly due to the declining production of products arising from the Xindu Plant (located at Xindu District, Chengdu City, Sichuan Province) has been closed in the lower half of last year as the relocation request by the government (while the new project of relocation to Guangan is under construction), and Dazhu Plant (located at Dazhu County Sichuan Province) due to the ongoing increase in production cost and recorded consecutive loss, it just operated for two months during the first half year. In order to mitigate the negative impacts on the overall production business of the Company, the management of the Company decided to temporarily suspend the operation of Dazhu Plant with effect from April 2012.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Business Review *(Continued)*

In contrast with the results for the same period of the last year, the Group's results recorded substantial growth mainly due to:

- (1) benefits brought by relatively sufficient supply of natural gas as well as stable operation of production equipment at Dazhou Plant and lower production cost.
 - (i) In bid for stable production, the Company is committed to organizing and coordinating the raw materials for production. On the other hand, the improving operation of Sinopec Puguang Purification Plant increases its external capacity to supply gas, which generates natural gas to fundamentally suffice the production of Dazhou Plant;
 - (ii) Since Dazhou Plant commenced its production two years ago, Dazhou Plant has suspended twice for its maintenance work, and the operating status of all facilities is optimized and gradually meets the standards, while the employees have been improving their skills to operate such production equipment, which further ensures the smooth operation of such facilities.

based on the two factors above, there is substantial improvement of the productivity of Dazhou Plant's existing production equipment, reducing the average production cost of liquid ammonia and urea products by 6.7% and 5.0% compared against those in the same period last year.

- (2) favorable market in the first half year. According to the statistics available in the China Chemical Fertilizer Information Centre, the average factory prices of liquid ammonia and urea products in PRC amounted to approximately RMB 3,230/tonne and RMB 2,238/tonne respectively. In view of changes in the market price, the Company made corresponding upward adjustments to the average selling price of liquid ammonia and urea products.
- (3) benefits from stringent control of the production procedure of the Company. There is constant improvement in the product quality, which bolsters the Company's rising price for its products. The percentage of top quality products produced by Dazhou Plant for the first half year remains above 99.56%.
- (4) further reduction in loss of profit thanks to the temporarily closing of Dazhu Plant by the Company.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Business Review *(Continued)*

During the first half of 2012, against the backdrop of global economic slowdown, the Group took full advantage of the opportunities in the market to timely adjust the products' selling prices, while leveraging on the favorable conditions of natural gas supply to maintain the stable operation of facilities, thus realizing substantial improvement in the Group's results. As the Company may face some uncertainty factors during the lower half year, in order to meet the Company's business target of the year, the Company contemplates the following business strategic countermeasures:

As to production: It remains to be the core work to ensure stable operation of the production equipment in Dazhou Plant. Based on such premise, efforts are intensified to uncover potential, minimize energy consumption, and lower costs, thus maximizing the productivity in Dazhou Plant.

As to the market: 1. Flexible adjustments of the marketing strategies are made to boost the Company's further expansion of market share in the key markets; 2. ongoing improvement in product quality and services will bolster the brand's presence and further improve the profitability.

As to the management: 1. More training for the staff, improvement of their overall performance quality, and establishment of an organizational structure suitable for the future development of the Group will help fully utilize manpower resources, boost the staff morale, and maximize the productivity; 2. Speed up the implementation of ERP management system aims at the completion of the 1st phase of the project by the end of this year according to the schedule; and 3. Further preparation will be underway for the production of the Guangan Project in order to guarantee successful production of such project in future.

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 2012.

PROSPECT

Progress in the relocation of production equipment for Xindu

At the request of the People's Government of Chengdu, the Company shut down the production equipment in Xindu Plant and completed the settlement of staff by 2011, laying solid foundation for the smooth relocation of Xindu Plant to Guangan.

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

In accordance with the overall development strategy as planned by the Group, the Company transformed 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 set up a new production base of chemicals. The Company introduced introduce a set of production equipment of synthetic ammonia-methanol through preliminary research for Guangan Ko Yo Chemical Industry 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 the Guangan Project"). The preliminary approval and preparation work for the project was completed in 2011. 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. Currently, all of the overseas equipment is arrived at the site of the project, and the stage for inspection and installation has already commenced. In the first half year, the onsite underground pipeline network and road construction of the project began. Meanwhile, to realize the stable production of the project in the future year, the Company also established the department of preparatory production for the Guangan project at the beginning of this year. This department is responsible for the preliminary production, organizational structure, and staffing and training involved in the project.

As to financing and funding support of the project, on 29 June 2012, the Company entered into the Subscription Agreement with the subscribers (namely PA International and Asian Equity), whereby proposing issue of HK\$140,000,000 9% senior bonds due by 2015. The estimated net proceeds of the Bonds Issue of approximately HK\$138 million, which was intended to be used as general working capital of the plant situated in Guangan, Sichuan, the PRC and general working capital of the Group.

Progress in the 2nd phase of Dazhou Project

To stabilize production as well as to further optimize the production of facilities in Dazhou Plant and concentrate on the smooth construction of the 1st phase of the Guangan Project, the Company make appropriate adjustments and delays to the progress in "Project for Annual Output of 300,000 Tonnes of Urea and 40,000 Tonnes of Melamine" (the "2nd Phase of the Dazhou Project").

After capacity expansion and technical improvement in the 2nd phase of Dazhou Project, the final annual production capacity in Dazhou Plant is expected to reach 500,000 tonnes of synthetic ammonia, 800,000 tonnes of urea, and 40,000 tonnes of melamine.

Progress in the 2nd phase of Dazhou Project *(Continued)*

The Directors anticipate that the stable operation of Dazhou Plant will become the highlight in the Company's profit growth this year, while the 2nd phase of the Dazhou Project and the 1st phase of the Guangan Project will also contribute new development opportunities to the future development of the Company, gradually tapping the Company to the fast-growing period.

Progress in the project of phosphorous mine

Sichuan Chengyuan Chemical Industry Company Limited ("Sichuan Cuyo"), a wholly-owned subsidiary of the Group, has successfully obtained exploitation licence for its phosphorous mine located at Qingping Township, Mianzhu City, Sichuan Province upon examination and approval by Bureau of Land and Resource of the State in 2010. Currently, the Company intends to jointly develop an economic, energy saving and environmental exploiting technology of phosphorous mine with the well-known science and technology institutions in China in order to produce phosphoric acid for industrial use with the raw material of phosphorous mine. The Company can have the right of property of the patented technology that allow the Company's industry chain to expand both upstream and downstream and laying a foundation for further improvement of economic benefits and the sustainable development of the Company.

Rigid demand of chemical fertilizers still exists

In the first half year, China faced a prosperous landscape of nitrogen fertilizer market by production and sales, and the selling price for nitrogen fertilizer products remained high. As to the supply, 2010 and 2011 witnessed two consecutive years of low production rate and little production growth. In spring this year, however, there was a significant increase in industrial and agricultural demands in PRC, thus creating the balance but slightly tight trend of nitrogen fertilizers used during the fertilizer season this year. In addition, as a result of soaring costs in electricity, salary, financing, transportation, and many other production factors, there is a greater increase in the cost of nitrogen fertilizers. The rigid support of costs will also play an important role in a rise of the product price.

As to the demand, enterprises engaged in complex fertilizer business advanced their purchasing orders, with an increase in complex fertilizers with high nitrogen and secondary processing compared with previous years, while further governmental subsidies granted to the farmers improved their initiative to use fertilizers in addition to an increase in industrial consumption. In view of these factors, the consumption of urea soared, pushing the price of urea to climb up.

Because of the consumption of chemical fertilizers is directly related to agricultural production and safety supply of food, the rigid demand of fertilizers still exists. Recently, the increase in international food price has lead to the increase in local price of products that heavily rely on import such as great bean and soya bean. This has a stabilize and supporting effect on the price of fertilizers.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 June 2012, the Group had net current liabilities of approximately RMB758,943,000. Current assets as at 30 June 2012 comprised cash and bank deposits of approximately RMB46,506,000, pledged bank deposits of approximately RMB1,019,592,000, inventories of approximately RMB44,747,000, non-current assets held for sale of approximately RMB198,784,000, trade and other receivables of approximately RMB154,716,000. Current liabilities as at 30 June 2012 comprised short-term loans of approximately RMB1,865,343,000, current portion of long term loans of approximately RMB89,541,000 and trade and other payables of approximately RMB268,404,000.

CAPITAL COMMITMENTS

As at 30 June 2012, the Group had outstanding capital commitments of approximately RMB189 million.

FINANCIAL RESOURCES

As at 30 June 2012, the Group had cash and bank balances of approximately RMB46,506,000 and standby bank facilities of approximately RMB84,000,000. 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 236% and 219% as at 30 June 2012 and 31 December 2011 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 loans by the pledged bank deposits, the resulting gearing ratios will be 143% and 141% as at 30 June 2012 and 31 December 2011.

CONTINGENT LIABILITIES

The Group had no significant contingent liabilities as at 30 June 2012.

MATERIAL ACQUISITIONS/DISPOSALS

The Group had no material acquisitions/disposals during the six months ended 30 June 2012.

SUBSCRIPTION OF NEW SHARES BY INTERNATIONAL FINANCE CORPORATION (“IFC”)

As disclosed in the announcements dated 17 June 2011 and 25 May 2012, the Company and IFC have agreed the lapse of the subscription agreement dated 17 June 2011. Nevertheless, IFC will continue the discussion with the Company on other potential financing arrangement.

ISSUE OF HK\$140,000,000 9% SENIOR BONDS AND UNLISTED WARRANTS

As disclosed in the announcement dated 29 June 2012, the Company entered into the subscription agreement with Asian Equity Special Opportunities Portfolio Master Fund Limited and PA International Opportunity VII Limited (the “Subscribers”) regarding the issue of HK\$140,000,000 9% senior bonds and 875,000,000 unlisted warrants with an initial exercising price of HK\$0.16 to the Subscribers. The subscription was completed on 9 July 2012.

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 2012.

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 Guang’an of Sichuan as per annual report dated 28 March 2012, the Directors do not have any future plans for material investment or capital assets.

EMPLOYEE INFORMATION

As at 30 June 2012, the Group had 842 (2011: 2,108) employees, comprising 6 (2011: 6) in management, 71 (2011: 216) in finance and administration, 725 (2011: 1,799) in production, 40 (2011: 83) in sales and marketing and nil (2011: 4) in research and development, 836 (2011: 2,102) of these employees were located in the PRC and 6 (2011: 6) were located in Hong Kong.

CHARGES ON THE GROUP'S ASSETS

As at 30 June 2012, certain land use rights and buildings with a total net book value of approximately RMB142,799,000 (2011: RMB209,741,000), plant and machinery with a total net book value of approximately RMB304,115,000 (2011: RMB384,577,000) and bank deposits of approximately RMB1,019,592,000 (2011: RMB570,660,000) 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 2012 were disclosed in the following table:

	Held at 1 Jan 2012 ('000)	Grant during period ('000)	Exercised during period ('000)	Cancelled during period ('000)	Number of share options						
					Held at 30 Jun 2012 ('000)	Share Options A	Share Options B	Share Options C	Share Options D	Share Options E	Share Options F
						('000)	('000)	('000)	('000)	('000)	('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	162,500	—	—	(8,000)	154,500	57,000	34,000	—	25,000	38,500	—
Total	264,100	—	—	(8,000)	256,100	122,000	34,000	6,200	25,000	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 2012, 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**

Number of Director	Name of company	Name 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**

Number of Director	Name of company	Name 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%

DISCLOSURE OF INTERESTS *(Continued)*

(b) Interests of the substantial shareholders in the Company

As at 30 June 2012, 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	799,884,165	11.12%

(c) Interests of other persons in the Company

Save as disclosed above, as at 30 June 2012, 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 2012, 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 2012 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 2012, 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 2012.

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, 24 August 2012