



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
2013

Guangan Plant



Dazhou Plant



HIGHLIGHTS

Unaudited gain attributable to shareholders of the Group was approximately RMB25.4 million for the six months ended 30 June 2013, which represents a decrease of 68.7% as compared to that of the same period last year.

For the six months ended 30 June 2013, unaudited turnover was approximately RMB681 million, which represents a decrease of approximately 11.6% as compared to the same period last year.

Unaudited basic gain per share of the Group was approximately RMB0.35 cents for the six months ended 30 June 2013.

The Directors do not recommend to pay any interim dividend for the six months ended 30 June 2013.

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 2013 together with the unaudited comparative figures for the corresponding periods in 2012 are as follows:

Unaudited Condensed Consolidated Profit and Loss Account

For the six months ended 30 June 2013

	Notes	Six months ended 30 June	
		2013 RMB'000	2012 RMB'000
Turnover	3	680,756	769,967
Cost of sales		(570,467)	(549,432)
Gross profit		110,289	220,535
Interest income		21,343	5,361
Distribution costs		(29,464)	(27,318)
Administrative expenses		(33,669)	(34,700)
Other income		3,417	1,257
Operating profit	4	71,916	165,135
Finance costs		(41,227)	(59,840)
Profit before taxation		30,689	105,295
Taxation	5	(5,259)	(24,107)
Profit attributable to shareholders		25,430	81,188
Basic earning per share (RMB cents)	6	0.35	1.13
Diluted earnings per share (RMB cents)	6	0.35	1.13
Declared dividends per share (HK cents)	7	Nil	Nil

Condensed Consolidated Balance Sheet

As at 30 June 2013 and 31 December 2012

	<i>Notes</i>	(Unaudited) As at 30 June 2013 RMB'000	(Audited) As at 31 December 2012 RMB'000
Non-current assets			
Property, plant and equipment		2,375,987	2,087,704
Deferred income tax assets	11	2,085	2,111
Mining right		334,306	334,306
Intangible assets		11,168	11,168
Land use rights		54,177	54,216
		<u>2,777,723</u>	<u>2,489,505</u>
Current assets			
Inventories		66,367	58,631
Trade and other receivables	8	152,553	112,908
Prepaid income tax, net		–	4,536
Pledged bank deposits		1,525,247	1,228,847
Cash and bank deposits		417,104	350,752
Non-current assets held for sale		198,784	198,784
		<u>2,360,055</u>	<u>1,954,458</u>
Current liabilities			
Trade and other payables	9	378,322	323,480
Short-term borrowings, secured	10	2,194,330	1,933,961
Current portion of long term borrowings, secured	10	179,990	129,098
		<u>2,752,642</u>	<u>2,386,539</u>
Net current liabilities		<u>(392,587)</u>	<u>(432,081)</u>
Total assets less current liabilities		<u>2,385,136</u>	<u>2,057,424</u>

Condensed Consolidated Balance Sheet *(Continued)*

As at 30 June 2013 and 31 December 2012

	<i>Notes</i>	(Unaudited) As at 30 June 2013 RMB'000	(Audited) As at 31 December 2012 RMB'000
Finance by:			
Share capital		138,618	138,618
Reserves Others		1,011,879	979,454
		<u>1,150,497</u>	<u>1,118,072</u>
Shareholders' funds			
		<u>1,150,497</u>	<u>1,118,072</u>
Non-controlling interest		<u>3,600</u>	<u>3,600</u>
Total equity		<u>1,154,097</u>	<u>1,121,672</u>
Non-current liabilities			
Long-term borrowings, secured	<i>10</i>	1,106,642	808,324
Derivative financial liabilities		33,602	36,530
Deferred subsidy income		4,443	4,546
Deferred income tax liabilities	<i>11</i>	86,352	86,352
		<u>1,231,039</u>	<u>935,752</u>
		<u>2,385,136</u>	<u>2,057,424</u>

Unaudited Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2013 and 30 June 2012

	Six months ended 30 June	
	2013 RMB'000	2012 RMB'000
Net cash generated from operating activities	96,652	140,282
Interest paid	(41,227)	(59,840)
Net cash inflow from operating activities	<u>55,425</u>	<u>80,442</u>
Investing activities		
Purchases of fixed assets and payments for construction-in-progress	(323,596)	(345,468)
Interest received	21,343	5,361
Net cash outflow from investing activities	<u>(302,253)</u>	<u>(340,107)</u>
Net cash outflow before financing activities	<u>(246,828)</u>	<u>(259,665)</u>
Financing activities		
Increase in pledged bank deposits	(296,400)	(230,583)
New loans payable	934,931	655,843
Repayment of bank loans	(325,351)	(251,183)
Net cash inflow from financing activities	<u>313,180</u>	<u>174,077</u>
Increase/(Decrease) in cash and cash equivalents	66,352	(85,588)
Cash and cash equivalents at 1 January	<u>350,752</u>	<u>132,094</u>
Cash and cash equivalents at 30 June	<u>417,104</u>	<u>46,506</u>

Unaudited Consolidated Statement of Changes in Equity

For the six months ended 30 June 2013 and 30 June 2012

	Share Capital	Share Premium	Merger Reserve	Share- based compensation	Reserve Fund	Enterprise Expansion Fund	Retained Earnings	Transaction to NCI	NCI	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
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 6 Months ended 30 June 2012	-	-	-	-	-	-	81,188	-	-	81,188
At 30 June 2012	<u>138,618</u>	<u>550,133</u>	<u>(22,041)</u>	<u>14,186</u>	<u>33,304</u>	<u>1,131</u>	<u>385,917</u>	<u>-</u>	<u>-</u>	<u>1,101,248</u>
At 1 January 2013 (audited)	138,618	550,133	(22,041)	14,186	44,952	1,131	394,693	-	-	1,121,672
Net Profit for the 6 Months ended 30 June 2013	-	-	-	-	-	-	25,430	-	-	25,430
Fair value of share options granted	-	-	-	6,995	-	-	-	-	-	6,995
Transfer of equity interest to non-controlling interests ("NCI")	-	-	-	-	-	-	-	(3,600)	3,600	-
At 30 June 2013	<u>138,618</u>	<u>550,133</u>	<u>(22,041)</u>	<u>21,181</u>	<u>44,952</u>	<u>1,131</u>	<u>420,123</u>	<u>(3,600)</u>	<u>3,600</u>	<u>1,154,097</u>

Notes of 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 2012. 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 RMB392,587,000 as at 30 June 2013. 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 2013 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 of 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 2013 (unaudited)		Six months ended 30 June 2012 (unaudited)	
	RMB'000	%	RMB'000	%
BB & complex fertilizers	33,423	4.9	73,609	9.6
Urea	427,486	62.8	540,934	70.2
Ammonia	105,684	15.5	121,153	15.7
Ammonium bicarbonate	–	–	1,759	0.3
Others <i>(Note)</i>	114,163	16.8	32,512	4.2
	<u>680,756</u>	<u>100</u>	<u>769,967</u>	<u>100</u>

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

Notes of Financial Statements *(Continued)*

4. OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	Six months ended 30 June	
	2013 RMB'000	2012 RMB'000
Charging:		
Staff costs (including directors' emoluments)		
— Salaries, wages and other benefits	27,074	29,971
— Contributions to retirement scheme	4,634	3,969
Cost of inventories	570,467	549,432
Provision for doubtful receivables	—	1,098
Loss on disposal of fixed assets	245	1,532
Operating leases for buildings	719	499
Depreciation and amortization charges	35,107	37,193
Fair value of share options granted	6,995	—
Auditors' remuneration	1,159	757

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 2013.

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 2013 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 2013 was approximately RMB5,233,000.

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 2013.

Notes of 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	
	2013 RMB'000	2012 RMB'000
Current tax in the PRC	5,233	24,381
Deferred income tax <i>(Note 11)</i>	<u>(26)</u>	<u>(274)</u>
	<u><u>5,259</u></u>	<u><u>24,107</u></u>

6. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share for the six months ended 30 June 2013 and 2012 were based on:

	Six months ended 30 June	
	2013 RMB'000	2012 RMB'000
Profit for the period	25,430	81,188
Weighted average number of shares for calculation of basic earnings per share	7,195,284,615	7,195,284,615
Effect of dilutive potential shares on the outstanding share options	<u>56,511</u>	<u>6,457,201</u>
Weighted average number of shares for calculation of diluted earnings per share	<u><u>7,195,341,126</u></u>	<u><u>7,201,741,816</u></u>

7. DIVIDEND

The Board does not recommend the payment of any dividend for the six months ended 2013.

Notes of Financial Statements *(Continued)*

8. TRADE AND OTHER RECEIVABLES

	(Unaudited) As at 30 June 2013 RMB'000	(Audited) As at 31 December 2012 RMB'000
Trade receivables	12,291	5,953
Prepayments, purchase deposits and other deposits	95,023	67,978
Notes receivable	4,870	1,800
Other receivables	40,369	37,177
	<u>152,553</u>	<u>112,908</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 2013 RMB'000	(Audited) As at 31 December 2012 RMB'000
Aged:		
Less than 3 months	10,410	4,072
More than 3 months but not exceeding 1 year	61	55
More than 1 year but not exceeding 2 years	63	1,826
More than 2 years but not exceeding 3 years	1,767	133
More than 3 years	5,231	5,108
	<u>17,532</u>	<u>11,194</u>
Less: provision for doubtful receivables	(5,241)	(5,241)
	<u>12,291</u>	<u>5,953</u>

Notes of Financial Statements *(Continued)*

9. TRADE AND OTHER PAYABLES

	(Unaudited) As at 30 June 2013 RMB'000	(Audited) As at 31 December 2012 RMB'000
Trade payables	30,061	33,084
Construction payable	69,362	45,622
Deposits from customers	163,398	212,309
Accruals and other payables	115,501	32,465
	<u>378,322</u>	<u>323,480</u>

The aging analysis of trade payables is as follows:

	(Unaudited) As at 30 June 2013 RMB'000	(Audited) As at 31 December 2012 RMB'000
Aged:		
Less than 1 year	28,287	26,716
More than 1 year but not exceeding 2 years	1,046	2,787
More than 2 years but not exceeding 3 years	101	3,070
More than 3 years	627	511
	<u>30,061</u>	<u>33,084</u>

Notes of Financial Statements *(Continued)*

10. BORROWINGS

	(Unaudited) As at 30 June 2013 RMB'000	(Audited) As at 31 December 2012 RMB'000
Short-term borrowings, secured	2,194,330	1,933,961
Long-term borrowings repayable:		
Less than 1 year	179,990	129,098
Between 1 and 2 years	171,526	203,928
Between 2 and 5 years	935,116	604,396
Over 5 years	–	–
	1,286,632	937,422
Within 1 year included in current liabilities	(179,990)	(129,098)
	1,106,642	808,324

As at 30 June 2013, 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 4.96% to 9.00% (2012: 5.24% to 8.84%) per annum.

Notes of Financial Statements *(Continued)*

11. DEFERRED INCOME TAX

There were no offsetting of deferred income tax assets and liabilities in 2012 and in six months period ended 2013.

Deferred income tax assets:

	Loss available for offsetting future taxable profits RMB'000	Impairment of assets RMB'000	Deferred subsidy income RMB'000	Total RMB'000
At 31 December 2012	1,012	679	420	2,111
Credit to income statement	—	—	(26)	(26)
At 30 June 2013	1,012	679	394	2,085

Deferred income tax liabilities:

	Evaluation and exploration assets RMB'000	Withholding tax RMB'000	Total RMB'000
At 31 December 2012	(80,867)	(5,485)	(86,352)
At 30 June 2013	(80,867)	(5,485)	(86,352)

Management Discussion and Analysis

FINANCIAL PERFORMANCE

For the six months ended 30 June 2013, the Group recorded a turnover of approximately RMB681 million, representing a decrease of approximately 11.6% as compared with approximately RMB770 million for the same period last year. Profit attributable to shareholders was approximately RMB25.4 million (2012: first half year profit of approximately RMB81.2 million), which represented a decrease of approximately 68.7% compared with previous year, and basic gain per share were approximately RMB0.35 cents (2012: first half year basic gain per share approximately RMB1.13 cents).

During the period under review, the total sales volume (excluding the trading portion) of the Group reached approximately 274,000 tonnes (2012: 315,000 tonnes), representing a decrease of approximately 13% as compared to that of the same period last year.

For the period under review, the gross profit margin of the Group decreased from approximately 28.6% to 16.2% as compared with the corresponding period last year, which were mainly due to the decrease in selling price of products. Cost of sales amounted to approximately RMB570 million, representing an increase of approximately 3.8% as compared to corresponding period of last year. Distribution costs increased by approximately 7.9%, and the administrative expenses decreased by approximately 3.0% as compared with the corresponding period last year.

BUSINESS REVIEW

For the six months ended 30 June 2013, the Group is engaged in the manufacturing and distribution of chemical fertilizers and chemical products, including urea, liquid ammonia, BB Fertilizers and complex fertilizers.

During the first half year, the PRC domestic micro-economy growth continuously declined and slowed down. Chemical fertilizer industry generally weakened, thus the growth of chemical fertilizers' production, apparent consumption, and general industry-wide income decelerated. In the first half year, due to the market downturn, coupled with a gradual decline in product selling price, the Group's profitability, production and sales of its product, and turnover decline at varying degrees as compared to that of the same period last year.

During the period of business review, the Company's Urea Plant located in Dazhou has a stable supply of natural gas and good operation of production, thereby maintaining a higher utilization rate. To counter the market downturn in the first half year with sales strategies flexibly adjusted in different geographical markets, the Company was committed to maintaining low inventory so as to reduce the pressure on funds and cost.

Management Discussion and Analysis *(continued)*

BUSINESS REVIEW *(Continued)*

In the same time, by building on the product trading commenced in the first half year, we constantly tried to expand product trading volume. For six months ended 30 June 2013, the trade volume grew by approximately 265% over the previous year, effectively compensating the declines in turnover of self-produced products, thereby providing a certain contribution to the profit of the first half year. As to product quality, first-rate urea product has been stable of over 99%, further enhancing the competitiveness of the Company's urea brand in the market.

In light of the adverse operational situation facing the Company in the first half year and in order to meet the full year operational target, the Company will assign the work in the second half year from the following business countermeasures:

As to production: It strengthens the production safety training and inspection, prevents and eliminates the occurrence of safety hazards, enhances the overhaul management in mechanical, electrical and instrumental professional equipment by improving equipment in good condition and reducing equipment failures; effectively coordinates the production materials such as waters, electricity and gas in order to maintain stable and optimal operation of equipment. Subject to stable operation of Dazhou production facility, we will strive to optimize the technological indicators and minimize energy consumption and lower costs, and give full play to the overall operation efficiency of Dazhou Plant. According to the construction progress in Guangan Project, we will advance preparatory production work in terms of human-power, market sales and production materials in order to guarantee the smooth operation commencement of this project in the second half year.

As to market: Firstly, In light of the market situation in the first half year, the Company will enhance the sales in core market around Sichuan Dazhou, and guarantee the sales market share of self-owned products in local market by implementing channels and key customers; Secondly, to enhance products' competitiveness, the Company adheres to the strategies of focusing on the product quality and building up first-rate brand of urea products; Thirdly, on the basis that trading volume of products has been completed in a better manner, the Company continues to expand the market share of product trading; Fourthly, to do a good job in market deployment for the Company's future sales of new products, the Company runs against time to implement the sales details of projects and products proposed to commence operation in Guangan, and had established strategic cooperation relationship with international and local methanol purchasers.

Management Discussion and Analysis *(continued)*

BUSINESS REVIEW *(Continued)*

As to management, Firstly, by completing external auditing for the quality environment management system, the Company further identifies the deficiencies and problems existing in the company management, formulates the corresponding measures, and comprehensively improves the management standards of the Company; Secondly, the Company optimizes the ERP system modules, simultaneously enhances training on employee operation and application, and speeds up on-line operation of ERP management system; Thirdly, faced with the current business situation, the Company's management proposes the company-wide initiative of "strict austerity policies", minimizes various expenditures from their own ,and provides strong support for the operation of the Company.

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 2013.

Prospect

THE 1ST PHASE OF THE PROJECT IN GUANGAN PROCEEDS SMOOTHLY, AND WILL BE COMPLETED AND COMMENCE OPERATION DURING THE YEAR

A project of the Company with an annual production of 300,000 tonnes of synthetic ammonia and 500,000 tonnes of methanol, which commenced construction in 2012 (the "1st Phase of the Project in Guangan"), is located in Xinqiao Energy and Chemical Park (新橋能源化工園區) in Guangan, Sichuan Province, which is a national economic and technological development zone approve by the State Council and enjoys a number of preferential policies and funding support from the state. The synthetic ammonia and methanol cogeneration equipment required by the project was jointly purchased by Guangan Koyo Chemical Industry Co., Ltd and Guangan Lotusan Natural Gas Chemical Industry Co., Ltd from Canada, which represents advanced processes and has good conditions.

Currently, the equipment installation of the project has almost been completed. Its onsite construction is expected to be completed in the third quarter of the year and it is expected to commence operation in the fourth quarter during the year as scheduled. In order for the project to be successfully completed and commence operation, the Company specially set up a production preparation department for Guangan Project responsible for preliminary production preparation, organisational structure, and the allocation and training of human resources for the project.

Directors expected that, the successfully operation of the 1st Phase of Guangan Project will constantly provide more fuels to the growth of the Company in future.

Prospect *(continued)*

PROGRESS IN THE 2ND PHASE OF DAZHOU PROJECT

Because of the equipment installation of Guangan Project has almost been completed and will commence the preliminary production within this year, the Company will start the construction of the 2nd Phase of Dazhou Project on the lower half of this year. It is expected to be completed and will commence the trial production on the lower half of 2014.

Through the expansion in capacity and technology upgrade at the 2nd Phase of the Project, it is expected that the annual urea productivity of Dazhou plant will reach 800,000 tonnes and will add productivity of 40,000 tonnes of melamine. Melamine is a downstream product for urea. The production of melamine will further extend the product chain, enhance the added value of products, and optimize the Company's product mix and profitability.

PROGRESS IN THE PROJECT OF PHOSPHOROUS MINE

We have obtained the mining rights in relation to a phosphate mine located at Qingping Township, Mianzhu City, Sichuan Province and owned by Sichuan Chengyuan Chemical Industry Co., Ltd. ("Sichuan Cuyo"), a wholly-owned subsidiary of the Group, with the approval of the Ministry of Land and Resources in 2010. In order to carry out the phosphate mine project, the Group established a new holding company named Sichuan Ko Chang Technology Co., Ltd. (四川玖長科技有限公司) in May 2012, which will focus on the research and development of technology for using medium- and low-grade phosphate as materials to produce industrial-grade phosphoric acid. The mining and related work will remain the responsibility of Sichuan Chengyuan. Currently, Sichuan Jiuchang Technology Company Limited (四川玖長科技有限公司) has made patent application to the Chinese State Intellectual Property Office which has been accepted by the Office and passed the initial audit. The Company will have the right of property of the patented technology and lay a solid foundation for the sustainable development of the Company's future industry.

INDUSTRY REVIEW AND PROSPECT

In January to June 2013, China's macroeconomic growth continuously declined and decelerated, urbanization lagged behind against stimulating demand growth, and structural problems emerged along with revenue decline and insufficient growth momentum in domestic demand. As a result, effective demand for domestic fertilizer and petrochemical industries was obviously insufficient in the first half, especially entering the second quarter, the inventory of finished products remained high, but the stress over inventory depletion continued to be high, leading to ongoing falling trend for the general price of products.

As a result of adjustment and optimized upgrading taking place in the industry structure, and according to the policy of improving and developing a modern industry system, it is expected that chemical fertilizer and petrochemical industries will take times to restore rapid growth. For the second half year, the domestic industry experienced a longer cycle of adjusted inventory depletion, and thus the stock market is expected to rebound in stages. With the implementation of new tariffs in 2013 and the forthcoming of export window period, export growth will to some extent support domestic price of key exported fertilizers and the principal income growth and profitability in chemical fertilizers is expected to rebound. With the effect of overhauling, urea export, autumn prepared fertilizers and winter storage and other factors, terminal demand is expected to turn into a warm expectation at end of third quarter, and production and sales of chemical fertilizers and petrochemical industry are expected to perform better than that in the first half year.

Liquidity, Financial Resources and Capital Structure

As at 30 June 2013, the Group had net current liabilities of approximately RMB392,587,000. Current assets as at 30 June 2013 comprised cash and bank deposits of approximately RMB417,104,000, pledged bank deposits of approximately RMB1,525,247,000, inventories of approximately RMB66,367,000, non-current assets held for sale of approximately RMB198,784,000, trade and other receivables of approximately RMB152,553,000. Current liabilities as at 30 June 2013 comprised short-term loans of approximately RMB2,194,330,000, current portion of long term loans of approximately RMB179,990,000 and trade and other payables of approximately RMB378,322,000.

Capital Commitments

As at 30 June 2013, the Group had outstanding capital commitments of approximately RMB270 million.

Financial Resources

As at 30 June 2013, the Group had cash and bank balances of approximately RMB417,104,000 and standby bank facilities of approximately RMB112,000,000. 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 57% and 54% as at 30 June 2013 and 31 December 2012 respectively. The gearing ratios were calculated as net debt divided by total capital.

Contingent Liabilities

The Group had no significant contingent liabilities as at 30 June 2013.

Material Acquisitions/Disposals

The Group had no material acquisitions/disposals during the six months ended 30 June 2013.

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 2013.

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 28 March 2012, the Directors do not have any future plans for material investment or capital assets.

Employee Information

As at 30 June 2013, the Group had 894 (2012: 842) employees, comprising 6 (2012: 6) in management, 142 (2012: 71) in finance and administration, 698 (2012: 725) in production and 48 (2012: 40) in sales and marketing and 888 (2012: 836) of these employees were located in the PRC and 6 (2012: 6) were located in Hong Kong.

Charges on the Group's Assets

As at 30 June 2013, certain land use rights and buildings with a total net book value of approximately RMB121,489,000 (2012: RMB142,799,000), plant and machinery with a total net book value of approximately RMB538,868,000 (2012: RMB304,115,000) and bank deposits of approximately RMB1,525,247,000 (2012: RMB1,019,592,000) 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 2013 were disclosed in the following table:

	Held at 1 Jan 2013 ('000)	Grant during period ('000)	Cancelled during period ('000)	Number of share options						
				Held at 30 Jun 2013 ('000)	Share Options B ('000)	Share Options C ('000)	Share Options D ('000)	Share Options E ('000)	Share Options F ('000)	Share Options H ('000)
Directors										
Li Weiruo	6,500	-	-	6,500	-	2,100	-	4,400	-	-
Yuen Bai	6,000	22,000	(11,000)	17,000	-	2,000	-	4,000	-	11,000
Chi Chuan	23,000	42,000	(42,000)	23,000	-	-	-	2,000	-	21,000
Man Au Vivian	23,000	38,000	(38,000)	23,000	-	-	-	4,000	-	19,000
Li Shengdi	25,000	42,000	(42,000)	25,000	-	-	-	4,000	-	21,000
Hu Xiaoping	6,000	4,000	(4,000)	6,000	-	-	-	-	4,000	2,000
Woo Che-wor Alex	6,000	4,000	(4,000)	6,000	-	-	-	-	4,000	2,000
Qian Laizhong	6,100	-	-	6,100	-	2,100	-	-	4,000	-
Employees	154,500	175,000	(159,000)	170,500	32,500	-	23,000	27,500	-	87,500
Total	<u>256,100</u>	<u>327,000</u>	<u>(300,000)</u>	<u>283,100</u>	<u>32,500</u>	<u>6,200</u>	<u>23,000</u>	<u>45,900</u>	<u>12,000</u>	<u>163,500</u>

Share Option Scheme *(Continued)*

* Share Options A: Grant on 23 September 2003 with exercise price HK\$0.124 and all of the 122,000,000 Share Options A were cancelled on 22 February 2013.

Share Options B: Grant on 11 April 2006, exercisable from grant date until 10 April 2016 with exercise price HK\$0.150. 1,500,000 Share Options B were cancelled on 22 February 2013.

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

Share Options D: Grant on 10 September 2007, exercisable from grant date until 9 September 2017 with exercise price HK\$0.116. 2,000,000 Share Options D were cancelled on 22 February 2013.

Share Options E: Grant on 14 January 2010, exercisable from grant date until 13 January 2020 with exercise price HK\$0.230. 11,000,000 Share Options E were cancelled on 22 February 2013.

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

Share Options G: 163,500,000 were granted on 22 February 2013 with exercise price HK\$0.136 and all were cancelled on 25 February 2013.

Share Options H: 163,500,000 were granted on 28 March 2013, exercisable from grant date until 27 March 2023 with exercise price HK\$0.119.

Disclosure of Interests

(A) INTERESTS OF THE DIRECTORS IN THE COMPANY

As at 30 June 2013, 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	17,000,000	383,464,000	5.33%
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") <i>(Note)</i>	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 2013, 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 2013, 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 2013, 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 2013 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 2013, 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, except for the share options granted on 22 February 2013 and those options had been cancelled on 25 February 2013, 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 2013.

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, 23 August 2013