



玖源生態農業科技(集團)有限公司

Ko Yo Ecological Agrotech (Group) Limited

(incorporated in the Cayman Islands with limited liability)

(Stock code: 8042)

2008

Interim Report
For the six months
ended 30 June 2008



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This report, for which the directors of Ko Yo Ecological Agrotech (Group) Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange for the purpose of giving information with regard to Ko Yo Ecological Agrotech (Group) Limited. The directors of Ko Yo Ecological Agrotech (Group) Limited, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.



HIGHLIGHTS

Unaudited profit attributable to shareholders of the Group was approximately RMB38 million for the six months ended 30 June 2008, which represents an increase of approximately 121% as compared to that of the same period last year.

For the six months ended 30 June 2008, unaudited turnover decreased to approximately RMB352 million, which represents a drop of approximately 28% as compared to the same period last year.

Unaudited basic earnings per share of the Group was approximately RMB0.71 cents for the six months ended 30 June 2008.

The Directors have resolved to pay an interim dividend at HK0.03 cents per share for the six months ended 30 June 2008.



To all shareholders,

The board of directors (the “Directors” or the “Board”) of Ko Yo Ecological Agrotech (Group) Limited (the “Company”) is pleased to present the unaudited condensed consolidated operating results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2008.

INTERIM DIVIDEND

The Board has resolved to pay an interim dividend of HK0.03 cent per share for the six months ended June 2008 to shareholders whose names appear on the register of members of the Company as at the close of business on 5 September 2008. The interim dividend will be paid to shareholders on 25 September 2008. The register of members of the Company will be closed from 3 September 2008 to 5 September 2008, both days inclusive, during which period no share transfer shall be effected. In order to qualify for the interim dividend, all instruments of transfers accompanied by the relevant share certificates must be lodged with the Company’s share register, Union Registrars Limited, at Room 1901-02, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong for registration by no later than 4:00 p.m. on 2 September 2008.

UNAUDITED CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the three months and six months ended 30 June 2008

The unaudited results of the Group for the three months and six months ended 30 June 2008 together with the unaudited comparative figures for the corresponding periods in 2007 are as follows:

	Notes	Three months ended		Six months ended	
		30 June		30 June	
		2008	2007	2008	2007
		RMB'000	RMB'000	RMB'000	RMB'000
Turnover	3	189,798	294,990	352,490	491,357
Cost of sales		(145,222)	(259,355)	(272,205)	(432,014)
Gross profit		44,576	35,635	80,285	59,343
Interest income		434	32	562	314
Distribution costs		(6,142)	(10,476)	(11,854)	(18,300)
Administrative expenses		(13,922)	(9,021)	(25,664)	(19,105)
Other income		6,423	1,153	11,981	5,721
Operating profit	4	31,369	17,323	55,310	27,973
Finance costs		(5,389)	(5,046)	(9,295)	(7,471)
Profit before taxation		25,980	12,277	46,015	20,502
Taxation	5	(4,160)	(1,549)	(7,517)	(3,087)
Profit after taxation		21,820	10,728	38,498	17,415
Minority interests		0	0	0	0
Profit attributable to shareholders		21,820	10,728	38,498	17,415
Basic earnings per share (RMB cents)*	6	0.38	0.42	0.71	0.69
Diluted earnings per share (RMB cents)	6	0.38	N/A	0.71	N/A
Declared dividends per share (HK cents)*	7	Nil	Nil	0.03	0.06

* The figures in 2007 had been adjusted for the effect of share subdivision of 1 into 5 on 27 December, 2007.

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2008 and 31 December 2007

		(Unaudited) As at 30 June 2008	(Audited) As at 31 December 2007
	Notes	RMB'000	RMB'000
Non-current assets			
Property, plant and equipment		620,355	450,701
Deferred income tax assets	11	2,463	2,409
Exploration and evaluation assets		331,099	331,099
Goodwill		8,900	8,900
Land use rights		42,800	43,315
		<u>1,005,617</u>	<u>836,424</u>
Current assets			
Inventories		69,031	64,130
Trade and other receivables	8	91,093	66,874
Pledged bank deposits		77,647	46,215
Cash and bank deposits		129,498	19,201
		<u>367,269</u>	<u>196,420</u>
Current liabilities			
Trade and other payables	9	150,492	81,397
Current income tax liabilities		—	65
Short-term bank loans, secured	10	166,000	159,500
		<u>316,492</u>	<u>240,962</u>
Net current assets / (liabilities)		<u>50,777</u>	<u>(44,542)</u>
Total assets less current liabilities		<u>1,056,394</u>	<u>791,882</u>

		(Unaudited)	(Audited)
		As at	As at
		30 June 2008	31 December 2007
	Notes	RMB'000	RMB'000
Finance by:			
Share capital		124,642	97,746
Reserves			
Declared interim/ proposed final dividend		1,700	3,922
Others		705,609	485,771
		<u>831,951</u>	<u>587,439</u>
Non-current liabilities			
Long-term bank loans, secured	10	137,568	117,568
Deferred subsidy income		6,008	6,008
Deferred income tax liabilities	11	80,867	80,867
		<u>224,443</u>	<u>204,443</u>
		<u>1,056,394</u>	<u>791,882</u>

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2008 and 30 June 2007

	Six months ended	
	30 June	
	2008	2007
	RMB'000	RMB'000
Net cash generated from operating activities	95,763	62,016
Interest paid	(9,295)	(7,471)
Net cash inflow from operating activities	<u>86,468</u>	<u>54,545</u>
Investing activities		
Purchases of fixed assets and payments for construction-in-progress	(178,386)	(46,980)
Proceeds from disposal of fixed assets	571	373
Interest received	562	314
Net cash outflow from investing activities	<u>(177,253)</u>	<u>(46,293)</u>
Net cash (outflow)/inflow before financing activities	<u>(90,785)</u>	<u>8,252</u>
Financing activities		
Increase in pledged bank deposits	(31,432)	(37,263)
Issue of ordinary shares	209,936	—
New loans payable	151,600	130,576
Repayment of bank loans	(125,100)	(79,076)
Dividends paid	(3,922)	(3,541)
Net cash inflow from financing activities	<u>201,082</u>	<u>10,696</u>
Increase in cash and cash equivalents	110,297	18,948
Cash and cash equivalents at 1 January	<u>19,201</u>	<u>12,839</u>
Cash and cash equivalents at 30 June	<u><u>129,498</u></u>	<u><u>31,787</u></u>

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2008 and 30 June 2007

	Share capital	Share premium	Merger reserve	Reserve fund	Enterprise expansion fund	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2007 (audited)	53,449	76,830	(22,041)	18,802	943	164,879	292,862
Net profit for the six months ended 30 June 2007	—	—	—	—	—	17,415	17,415
2006 final dividend paid	—	—	—	—	—	(3,541)	(3,541)
At 30 June 2007	<u>53,449</u>	<u>76,830</u>	<u>(22,041)</u>	<u>18,802</u>	<u>943</u>	<u>178,753</u>	<u>306,736</u>
At 1 January 2008 (audited)	97,746	289,457	(22,041)	20,835	1,131	200,311	587,439
Issue of new shares	26,896	183,040	—	—	—	—	209,936
Net profit for the six months ended 30 June 2008	—	—	—	—	—	38,498	38,498
2007 final dividend paid	—	—	—	—	—	(3,922)	(3,922)
At 30 June 2008	<u>124,642</u>	<u>472,497</u>	<u>(22,041)</u>	<u>20,835</u>	<u>1,131</u>	<u>234,887</u>	<u>831,951</u>

NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS

1. Basis of preparation

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

The unaudited interim financial statements have been prepared in accordance with the Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the disclosure requirements set out in Chapter 18 of the Rules Governing the Listing of the Securities on the Growth Enterprises Market of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”).

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 2007. The measurement basis used in the preparation of the unaudited interim financial statements is historical cost, except for certain investment properties and financial investments, which are measured at fair values. All inter-company transactions and balances within the Group have been eliminated on consolidation.

The Group had net current assets of RMB50,777,000 as at 30 June 2008. 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 2008 on the basis that the Group has profitable operations and that it will succeed in negotiating with its bankers to roll over the outstanding bank loans.

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

3. Turnover

Turnover represents the net amounts received and receivables for chemical products and chemical fertilizers sold, less returns and allowances and value-added taxes, if applicable, during the six months period. The Group's revenues are primarily generated in the People's Republic of China (the "PRC").

Turnover consisted of the following products:

	Six months ended 30 June 2008 (unaudited)		Six months ended 30 June 2007 (unaudited)	
	RMB'000	%	RMB'000	%
BB & complex fertilizers	118,468	33.6%	170,865	34.8%
Sodium carbonate	66,584	18.9%	51,076	10.4%
Ammonium chloride	48,006	13.6%	19,851	4%
Urea	109,546	31.1%	109,215	22.2%
Ammonia	6,931	2.0%	5,930	1.2%
Ammonium bicarbonate	2,220	0.6%	1,952	0.4%
Others (<i>Note</i>)	735	0.2%	132,468	27.0%
	<u>352,490</u>	<u>100%</u>	<u>491,357</u>	<u>100%</u>

Note: Others include the trading of sodium carbonate (2008) and the trading of ammonium sulfate, ammonium di-hydrogen phosphate, mono-ammonium phosphate, urea, foliar fertilizers and highly water soluble fertilizers (2007).

4. Operating profit

Operating profit is stated after crediting and charging the following:

	Six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
Charging:		
Staff costs (including directors' emoluments)		
– Salaries, wages and other benefits	16,308	16,306
– Contributions to retirement scheme	2,304	1,919
Cost of inventories	272,205	432,014
Provision for doubtful receivables	359	524
Loss on disposal of fixed assets	192	65
Operating leases for buildings	712	741
Depreciation and amortization charges	7,969	7,883
Auditors' remuneration	721	720
	<u>721</u>	<u>720</u>

5. Taxation

No provision for profits tax in the Cayman Islands, the British Virgin Islands or Hong Kong has been made, as the Group had no assessable profit arising in or derived from those jurisdictions during the six months ended 30 June 2008.

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

Accordingly, current income tax provision made for Chengdu Ko Yo Chemical and Chengdu Ko Yo Compound for the six months ended 30 June 2008 were approximately RMB5,773,000 and RMB1,433,000 respectively.

Dazhu Ko Yo Chemical is entitled to full exemption from the EIT in the first two profitable years and a 50% reduction for the next three years thereafter. 2008 is the third profit-making year of Dazhu Ko Yo Chemical and thus the preferential EIT rate applicable is 7.5%. Accordingly, current income tax provision made for Dazhu Ko Yo Chemical for the six months ended 30 June 2008 was RMB311,000.

Dezhou Ko Yo Compound Fertiliser Co., Ltd. ("Dezhou Ko Yo Compound") and Qingdao Ko Yo Chemical Co., Ltd. ("Qingdao Ko Yo Chemical") did not have current income tax provision for the six months ended 30 June 2008.

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

	Six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
Current tax in the PRC	7,571	3,181
Deferred income tax (Note 11)	(54)	(94)
	<u>7,517</u>	<u>3,087</u>

6. Earnings per share

The calculation of the basic and diluted earnings per share for the three months and six months ended 30 June, 2008 and 2007 were based on:

	Three months ended		Six months ended	
	30 June		30 June	
	2008	2007	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Profit for the period	<u>22,125</u>	10,728	<u>38,482</u>	17,415
Weighted average number of shares for calculation of basic earnings per share	<u>5,713,081,319</u>	505,820,000	<u>5,391,652,747</u>	505,820,000
Effect of dilutive potential shares on the outstanding share options	<u>61,122,224</u>	N/A	<u>47,655,687</u>	N/A
Weighted average number of shares for calculation of diluted earnings per share	<u>5,774,203,543</u>	<u>505,820,000</u>	<u>5,439,308,434</u>	<u>505,820,000</u>

7. Dividend

The Board has resolved the payment of an interim dividend at HK0.03 cent per share to the shareholders whose names appear on the register of members of the Company as at the close of business on 5 September 2008. The dividend will be paid to shareholders on 25 September 2008. The dividend as declared should not be taken as an indication of the level of profit or dividend for the full year.

8. Trade and other receivables

	(Unaudited)	(Audited)
	As at	As at
	30 June 2008	31 December 2007
	RMB'000	RMB'000
Trade receivables	26,380	7,915
Prepayments, purchase deposits and other deposits	41,122	48,152
Notes receivable	9,190	5,021
Other receivables	14,401	5,786
	<u>91,093</u>	<u>66,874</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)	(Audited)
	As at	As at
	30 June 2008	31 December 2007
	RMB'000	RMB'000
Aged:		
Less than 3 months	26,489	7,758
More than 3 months but not exceeding 1 year	704	287
More than 1 year but not exceeding 2 years	2,616	4,641
More than 2 years but not exceeding 3 years	2,515	370
More than 3 years	61	506
	<u>32,385</u>	<u>13,562</u>
Less: provision for doubtful receivables	(6,005)	(5,647)
	<u>26,380</u>	<u>7,915</u>

9. Trade and other payables

	(Unaudited)	(Audited)
	As at	As at
	30 June 2008	31 December 2007
	RMB'000	RMB'000
Trade payables	17,840	24,473
Notes payable	63,230	7,130
Deposits from customers	33,318	27,430
Accruals and other payables	36,104	22,364
	<u>150,492</u>	<u>81,397</u>

The aging analysis of trade payables is as follows:

	(Unaudited)	(Audited)
	As at	As at
	30 June 2008	31 December 2007
	RMB'000	RMB'000
Aged:		
Less than 1 year	17,363	23,877
More than 1 year but not exceeding 2 years	232	368
More than 2 years but not exceeding 3 years	11	228
More than 3 years	234	—
	<u>17,840</u>	<u>30,450</u>

10. Bank loans

	(Unaudited)	(Audited)
	As at	As at
	30 June 2008	31 December 2007
	RMB'000	RMB'000
Short-term bank loans, secured	<u>166,000</u>	<u>159,500</u>
Long-term bank loans repayable:		
Less than 1 year	—	—
Between 1 and 2 years	55,270	35,270
Between 2 and 3 years	<u>82,298</u>	<u>82,298</u>
	<u>137,568</u>	<u>117,568</u>

As at 30 June 2008, bank loans of the Group were generally secured by certain fixed assets and pledged cash deposits of the Group. These bank loans bear interest at the rate of 6.87% to 8.96% (2007: 5.63% to 8.31%) per annum.

11. Deferred income tax

There were no offsetting of deferred income tax assets and liabilities in 2007 and in six months period ended 2008.

Deferred income tax assets:

	Impairment of assets	Deferred subsidy income	Total
	RMB'000	RMB'000	RMB'000
At 31 December 2007	1,049	1,360	2,409
Credit to income statement	54	—	54
At 30 June 2008	<u>1,103</u>	<u>1,360</u>	<u>2,463</u>

Deferred income tax liabilities:

	Evaluation and exploration assets
As 31 December 2007	<u>(80,867)</u>
At 30 June 2008	<u>(80,867)</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Performance

For the six months ended 30 June 2008, the Group recorded a turnover of approximately RMB352 million, representing a decrease of approximately 28% as compared with approximately RMB491 million for the same period last year. Profit attributable to shareholders was approximately RMB38.5 million (2007: approximately RMB17.4 million), which represented an increase of approximately 121% compared with previous year, and basic earnings per share were approximately RMB0.71 cents (2007: approximately RMB3.44 cents).

During the period under review, the total sales quantities excluding trading portion of the Group reached 219,000 tonnes (2007: 258,000 tonnes), representing a decrease of approximately 15% as compared to that of the same period last year. The decrease mainly due to the decrease in sales quantities of BB and complex fertilizers.

For the period under review, the gross profit margin of the Group increased by approximately 10.7% to 22.8% as compared with the corresponding period last year, which were mainly due to the decrease in turnover of the low gross profit margin trading portion, the implementation of Cyclic Catalytic Regenerative Reforming (“CCR”) of the urea plant in Xin Du District, Sichuan Province and the increase in selling price of products. Cost of sales amounted to approximately RMB272 million, representing a decrease of approximately 37% as compared to corresponding period of last year. Distribution costs decreased by approximately 35.2%, and the administrative expenses increased by approximately 34.3% as compared with the corresponding period last year.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Business Review

For the 6 months ended 30 June 2008, the Group remained focused on manufacture and distribution of BB Fertilizers, complex fertilizers, sodium carbonate, urea, ammonium chloride, ammonium bicarbonate and liquidized ammonia. Affected by the fertilizers export policy of the PRC government and the Sichuan Earthquake, the Group recorded turnover and total sales volume reached approximately RMB352 million and 219,000 tonnes, decreased 28% and 15% respectively over the same period of last year. However, the increase in selling price and the decrease in production cost as well as the elaboration of economical benefit, which thanks to ammonia compound production equipment improved by the CCR technology, the Group recorded a substantial growth in profit over the same period of last year.

During the period under review, profit attributable to shareholders was approximately RMB38 million, which represented an increase of approximately 121% compared to the same period of last year. Basic earnings per share reached approximately RMB0.71 cents.

During the period under review, an interim dividend at HK0.03 cents per share for the six months ended 30 June 2008 was recommended by the board of directors after considering the financial position of the Company and the project of new urea plant in Dazhou city, Sichuan.

During the period under review, the turnover and sales volume of the Group decreased. The main reasons for this are as follows:

Approved by the State Council of the PRC in April, 2008, Tariff Regulations Commission under the State Council tendered a notification that, from 20 April to 30 September 2008, during the peak season of using fertilizers, a 100% special customs tariff is imposed on chemical fertilizers and part of raw materials of chemical fertilizers based on current export tariff, regardless of all forms of trade, locations and enterprise exports. After imposing special customs tariff, urea export tariff increased by 100% to 135%. Affected by the policy, the Group's export business was in static condition. (Total export volume of the first half year of 2007 was approximately 100,000 tonnes)

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Business Review (continued)

A magnitude 8.0 earthquake hit Wenchuan, Sichuan Province on 12 May, 2008. The plant of the Group located in Dazhou, Sichuan Province operates as normal. The plant and production facilities located in Xindu, Sichuan Province was not destroyed and affected. However, the plant suspended production temporarily on 13 May as requested by the government. It resumed its all normal operation on 25 May. Due to the impact caused by the suspension, there was a decrease in production of chemical fertilizers and chemical products, which altogether weighing approximately 12,000 tonnes.

Facing the devastating Sichuan Earthquake, the Group fully showed its good management skill. The Group maintained effective communication with investors by delivering announcements on the one hand, and arranged workers to resume working under the prerequisite of safety on the other hand. After receiving instructions of resuming operation from the government, the Group utilized the equipment of Xindu plant, the daily sales volume of urea, soda, ammonium chloride, liquidized ammonia amounted to approximately 900 tonnes. Apart from this, the Group supported the earthquake-stricken area by making donations and delivering goods and materials to the affected area. All these represented the united power of the Group's staff and gave expression to corporate social responsibility and obligation that an enterprise should shoulder. Because of this belief, the production equipment of the Group operated in high efficiency as always, in which secured the ultimate realization of the profit of this period.

Although the first half year results were affected by the above-mentioned negative factors, with rising demand in general domestic chemical fertilizer and continuous high prices of chemical fertilizers, the Group took advantage of its decent cost-control management and operation to realize this period's turnover target.

Affected by the pressure of surging prices of resources such as coal, electricity, gases, coupled with tight supply of chemical fertilizers during peak seasons of using fertilizers, resulted in a surge in prices of chemical fertilizers. Among these, market price of urea hit a record high, reaching a price of RMB2,400 per ton, which was RMB400 per ton higher over the same period of last year. As a result. This ensured the continuous business growth of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Prospects

Newly-established Dazhou Project Progresses Smoothly

During the period under review, the project with annual capacity of ammonia compound and urea of approximately 400,000 tonnes and 450,000 tonnes respectively in the Natural Gas Energy Utilization Area of Dazhou city, Sichuan (四川省達州市天然氣能源化工園區) is progressing smoothly. The Sichuan Earthquake did not lay impact on the construction work of the project. The project is under construction as scheduled. The construction work of ammonium compound foundation and construction foundation are proceeding as scheduled. The construction work of the underground pipe network of urea equipment is progressing as well. The fourth and seventh batch of dismantling equipment had been delivered to the project site in the early half year of 2008, and categorized for examination and installation.

At present, the Dazhou Project was examined and approved by the Sichuan Development And Reform Commission, and was listed in the focused construction projects of the Sichuan Province's Eleventh Five Year Plan and the focused construction projects of Sichuan province in 2008, and has achieved the affirmation of the Sichuan Development of Reform Commission and China Petrochemical Corporation on natural gas supply of 450 million cubic metres per year. The Boards expect that driven by the completion and operation of the project, the turnover and profit will continue to grow in the future.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Prospects (continued)

The PRC Government Remains Supporting Pro-farming Policies

Supply of Chemical Fertilizers is in Short Supply

On 19 June, 2008, The National Development and Reform Commission announced that, starting from 20 June 2008, prices of petrol and diesel are raised by RMB1,000 per ton, and the price of aviation kerosene is raised by RMB1,500 per ton. Starting from 1 July, the selling price of electricity is raised by RMB2.5 cents per kilowatt-hour on average nationwide. The prices of liquefied petroleum gas and natural gas remain unchanged. Rural-urban residents' use of electricity and agriculture, chemical fertilizers usage of electricity remain unchanged. The price of electricity in seriously earthquake-stricken provinces such as Sichuan, Shanxi and Gansu remain unchanged. Crops-planting peasants, forestry and fishery sectors (Including Distant Water Fishery) are aided with financial subsidy. Among these, based on the integrated direct subsidies which were already raised this year, an additional RMB5 per acreage financial subsidy is added to peasants. The policy is beneficial to chemical fertilizers enterprises and shows government's support and concern towards chemical fertilizers enterprises.

Benefited from the policies adopted by the government, which is favored to the production of chemical fertilizers, the domestic production of chemical fertilizers achieved a stable growth. According to 《中國化肥信息網》, the total production of domestic chemical fertilizers (pure amount) amounted to 24,638,000 tonnes from January to May 2008, which represented a growth of 5.5 % compared with the same period last year. With the rising prices of agricultural products such as food, the demand for chemical fertilizers will be boosted rapidly.

Sichuan is an agricultural province as well as a chemical fertilizers production base. Affected by the Sichuan Earthquake, more than 3,500,000 acreages of crops were affected. The recovery of agricultural production is extremely urgent as it is the key term for rice and corn's planting at the moment. Meantime, owing to suspension of chemical fertilizers, coupled with transportation blockage, the supply of chemical fertilizers in Sichuan Province is tense.

Under this condition, the Group grasps every business opportunity and is ready for challenges. Relying on the supportive policies made by the Sichuan local government, the Group will try its best to expand its scale of production and target in marketing strategies. At the same time, the Group is devoted to raise sales volume and turnover, so as to create even more interests to shareholders.



LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 June 2008, the Group had net current assets of approximately RMB50,777,000. Current assets as at 30 June 2008 comprised cash and bank deposits of approximately RMB129,498,000, pledged bank deposits of approximately RMB77,647,000, inventories of approximately RMB69,031,000, trade and other receivables of approximately RMB91,093,000. Current liabilities as at 30 June 2008 comprised short-term loans of approximately RMB166,000,000 and trade and other payables of approximately RMB150,492,000.

CAPITAL COMMITMENTS

As at 30 June 2008, the Group had outstanding capital commitments of approximately RMB218 million.

FINANCIAL RESOURCES

As at 30 June 2008, the Group had cash and bank balances of approximately RMB129,498,000 and standby bank facilities of approximately RMB82 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 39% and 43% as at 30 June 2008 and 31 December 2007 respectively. The gearing ratios were calculated based on total liabilities over total assets as at the balance sheet dates.

CONTINGENT LIABILITIES

The Group had no significant contingent liabilities as at 30 June 2008.

MATERIAL ACQUISITIONS/DISPOSALS

The Group had no material acquisitions/disposals during the six months ended 30 June 2008.

SHARE PLACING

On 22 May 2008, 1,000,000,000 existing ordinary shares of HKD0.02 each in the share capital of the Company (the “Shares”) were placed at HKD0.17 per share (the “Placing Price”) through the share placement (the “Share Placement”) and on 2 June 2008, the Company issued 1,000,000,000 new Shares with the aggregate nominal value of HKD20,000,000 (the “New Shares”). The placees were professional, institutional and private investors who were independent of and not connected with the directors, chief executive, management shareholders or substantial shareholders of the Company or any of its subsidiaries. The Placing Price represented a discount of approximately 15% to the closing price of HKD0.2 per Share as quoted on the Stock Exchange on 22 May 2008. The New Shares represented approximately 18.54% of the issued Shares prior to the Share Placement. A net proceed of approximately HKD165 million in aggregate after expenses and commissions was received and the net price for New Shares was approximately HKD0.165. Such proceeds was applied to the new urea plant with an annual production capacity of 400,000 tonnes of ammonia and 450,000 tonnes of urea in Dazhou, Sichuan Province, the PRC as per announcement dated 23 May 2008.

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 2008.

DETAILS OF FUTURE PLANS FOR MATERIAL INVESTMENT OR CAPITAL ASSETS

Other than the new urea plant with an annual capacity of 400,000 tonnes of ammonia and 450,000 tonnes of urea in Dazhou, Sichuan Province, the PRC as per announcement dated 23 May 2008, the Directors do not have any future plans for material investment or capital assets.

EMPLOYEE INFORMATION

As at 30 June 2008, the Group had 2,137 (2007: 1,808) employees, comprising 6 (2007: 6) in management, 97 (2007: 105) in finance and administration, 1,944 (2007: 1,594) in production, 84 (2007: 95) in sales and marketing and 6 (2007: 8) in research and development, 2,131 (2007: 1,802) of these employees were located in the PRC and 6 (2007: 6) were located in Hong Kong.

CHARGES ON THE GROUP'S ASSETS

As at 30 June 2008, certain land use rights and buildings with a total net book value of approximately RMB109,308,000 (2007: RMB104,505,000), plant and machinery with a total net book value of approximately RMB48,169,000 (2007: RMB56,680,000) and bank deposits of approximately RMB77,647,000 (2007: RMB58,064,000) 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

Share options were granted to certain directors, employees and consultant of the Company or its subsidiaries under the share option scheme adopted by written resolutions of shareholders on 10 June 2003 (the "Scheme"), which was amended by an ordinary resolution duly passed at an extraordinary general meeting by the Company's shareholders on 28 July 2004. A summary of the principal terms and conditions of the 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.

SHARE OPTION SCHEME (Continued)

Details of options granted by the Company pursuant to the Scheme and outstanding as at 30 June 2008 were disclosed in the following table:

	Number of options					Held at 30 Jun 2008	Grant date	Exercise price (HK\$)	Number of options		
	Held at 1 January 2008	Grant during period	Exercised during period	Cancelled during period	Held at				Exercisable from grant date until 22 September 2013	Exercisable from grant date until 10 April 2016	Exercisable from grant date until 9 September 2017
Directors											
Li Weiruo	2,100,000	—	—	—	2,100,000	16 May 2006	0.150	—	2,100,000	—	
Yuen Bai	2,000,000	—	—	—	2,000,000	16 May 2006	0.150	—	2,000,000	—	
Chi Chuan	21,000,000	—	—	—	21,000,000	23 September 2003	0.124	21,000,000	—	—	
Man Au Vivian	19,000,000	—	—	—	19,000,000	23 September 2003	0.124	19,000,000	—	—	
Li Shengdi	21,000,000	—	—	—	21,000,000	23 September 2003	0.124	21,000,000	—	—	
Hu Xiaoping	2,000,000	—	—	—	2,000,000	23 September 2003	0.124	2,000,000	—	—	
Woo Che-wor Alex	2,000,000	—	—	—	2,000,000	23 September 2003	0.124	2,000,000	—	—	
Qian Laizhong	2,100,000	—	—	—	2,100,000	16 May 2006	0.150	—	2,100,000	—	
Employees											
	57,000,000	—	—	—	57,000,000	23 September 2003	0.124	57,000,000	—	—	
	48,500,000	—	—	—	48,500,000	11 April 2006	0.150	—	48,500,000	—	
	30,000,000	—	—	—	30,000,000	10 September 2007	0.116	—	—	30,000,000	
Total	206,700,000	—	—	—	206,700,000			122,000,000	54,700,000	30,000,000	

DISCLOSURE OF INTERESTS

(a) Interests of the Directors in the Company

As at 30 June 2008, 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 minimum standards of dealings by directors referred to in Rule 5.46 of the GEM Listing Rules were as follows:

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

Directors	Personal long position in shares (beneficial owner)	Personal long position in share options (beneficial owner)	Aggregate long position in shares and underlying shares	Interests in the issued share capital
Li Weiruo	2,924,440,000	2,100,000	2,926,540,000	45.77%
Yuan Bai	366,464,000	2,000,000	368,464,000	5.76%
Chi Chuan	62,640,000	21,000,000	83,640,000	1.31%
Man Au Vivian	31,320,000	19,000,000	50,320,000	0.79%
Li Shengdi	—	21,000,000	21,000,000	0.33%
Hu Xiaoping	—	2,000,000	2,000,000	0.03%
Woo Che-wor, Alex	—	2,000,000	2,000,000	0.03%
Qian Laizhong	—	2,100,000	2,100,000	0.03%

DISCLOSURE OF INTERESTS (Continued)

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

(ii) Interests in shares of an associated corporation of the Company

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

Note: a wholly-owned subsidiary of the Company

(iii) Short positions in the shares of an associated corporation of the Company

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

DISCLOSURE OF INTERESTS *(Continued)*

(b) Interests of the substantial shareholders in the Company

As at 30 June 2008, 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
Pinpoint Asset Management Group	Beneficial Owner	790,000,000	12.35%

(c) Interests of other persons in the Company

As at 30 June 2008, so far as is known to any Director or chief executive of the Company, no person 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 2008, the Directors are not aware of any other person (other than the Directors and chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the Directors or the management shareholders of the Company and their respective associates (as defined under the GEM 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 2008, the Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company also had made specific enquiry of 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

The Company established an audit committee on 10 June 2003 with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. 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 2008.

CORPORATE GOVERNANCE

The Board practices and procedures set out in Rules 5.35 to 5.45 of the GEM Listing Rules were replaced by the Code on Corporate Governance Practices (the "Code") as set out in Appendix 15 to the GEM Listing Rules, which has been effective for accounting period commencing on or after 1 January 2005. Appropriate actions have been taken by the Company for complying with the Code on Corporate Governance Practices 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, 8 August 2008