



准确 细致 谨慎 果断

2014 Interim Report



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)





HIGHLIGHTS

Unaudited loss attributable to shareholders of the Group was approximately RMB23.1 million for the six months ended 30 June 2014, which represents a drop of RMB48.5 million as compared to that of the same period last year.

For the six months ended 30 June 2014, unaudited turnover was approximately RMB738 million, which represents an increase of approximately 8.4% as compared to the same period last year.

Unaudited basic loss per share of the Group was approximately RMB0.32 cents for the six months ended 30 June 2014.

The Directors do not recommend to pay any interim dividend for the six months ended 30 June 2014.

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 2014 together with the unaudited comparative figures for the corresponding periods in 2013 are as follows:

UNAUDITED CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30 June 2014

	Notes	Six months ended 30 June	
		2014 RMB'000	2013 RMB'000
Turnover	3	738,166	680,756
Cost of sales		(686,160)	(570,467)
Gross profit		52,006	110,289
Interest income		22,203	21,343
Distribution costs		(38,094)	(29,464)
Administrative expenses		(26,485)	(33,669)
Other income		690	3,417
Operating profit	4	10,320	71,916
Finance costs		(37,574)	(41,227)
(Loss)/Profit before taxation		(27,254)	30,689
Taxation	5	4,172	(5,259)
(Loss)/Profit attributable to shareholders		(23,082)	25,430
Basic (loss)/earning per share (RMB cents)	6	(0.32)	0.35
Diluted (loss)/earnings per share (RMB cents)	6	(0.32)	0.35
Declared dividends per share (HK cents)	7	Nil	Nil

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2014 and 31 December 2013

		(Unaudited) As at 30 June 2014 RMB'000	(Audited) As at 31 December 2013 RMB'000
	Notes		
ASSETS			
Non-current assets			
Property, plant and equipment		2,723,538	2,568,621
Deferred income tax assets	11	14,454	10,208
Investment properties		13,438	13,654
Mining right		334,306	334,306
Intangible assets		10,547	10,898
Land use rights		153,123	53,027
		3,249,406	2,990,714
Current assets			
Inventories		47,370	43,259
Trade and other receivables	8	310,270	360,905
Prepaid income tax, net		–	7,300
Pledged bank deposits		1,500,530	1,726,298
Cash and bank deposits		117,008	116,683
Non-current assets held for sale		198,784	198,784
		2,173,962	2,453,229
Total assets		5,423,368	5,443,943
EQUITY			
Share capital		138,618	138,618
Reserves Others		907,332	930,414
Shareholders' funds		1,045,950	1,069,032
Non-controlling interest		4,167	3,267
Total equity		1,050,117	1,072,299

CONDENSED CONSOLIDATED BALANCE SHEET (Continued)

As at 30 June 2014 and 31 December 2013

		(Unaudited) As at 30 June 2014 RMB'000	(Audited) As at 31 December 2013 RMB'000
	Notes		
LIABILITIES			
Current liabilities			
Trade and other payables	9	526,250	419,606
Short-term borrowings, secured	10	2,632,151	2,583,575
Current portion of long term borrowings, secured	10	168,031	207,510
Derivative financial liabilities		30,491	30,491
		3,356,923	3,241,182
Non-current liabilities			
Long-term borrowings, secured	10	926,189	1,040,218
Deferred subsidy income		3,787	3,892
Deferred income tax liabilities	11	86,352	86,352
		1,016,328	1,130,462
Total liabilities		4,373,251	4,371,644
Total equity and liabilities		5,423,368	5,443,943
Net current liabilities		(1,182,961)	(787,953)
Total assets less current liabilities		2,066,445	2,202,761

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2014 and 30 June 2013

	Six months ended 30 June	
	2014 RMB'000	2013 RMB'000
Net cash generated from operating activities	180,438	96,652
Interest paid	(37,574)	(41,227)
Net cash inflow from operating activities	142,864	55,425
Investing activities		
Purchases of fixed assets and payments for construction-in-progress	(286,478)	(323,596)
Proceeds from sale of equity interest of a subsidiary	900	–
Interest received	22,203	21,343
Net cash outflow from investing activities	(263,375)	(302,253)
Net cash outflow before financing activities	(120,511)	(246,828)
Financing activities		
Decrease/(Increase) in pledged bank deposits	225,768	(296,400)
New loans payable	2,015,843	934,931
Repayment of bank loans	(2,120,775)	(325,351)
Net cash inflow from financing activities	120,836	313,180
Increase/(Decrease) in cash and cash equivalents	325	66,352
Cash and cash equivalents at 1 January	116,683	350,752
Cash and cash equivalents at 30 June	117,008	417,104

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2014 and 30 June 2013

	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 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	138,618	550,133	(22,041)	21,181	44,952	1,131	420,123	(3,600)	3,600	1,154,097
At 1 January 2014 (audited)	138,618	550,133	(22,041)	22,202	45,273	1,131	337,316	(3,600)	3,267	1,072,299
Net loss for the 6 Months ended 30 June 2014	-	-	-	-	-	-	(23,082)	-	-	(23,082)
Sales of equity interest to non-controlling interests ("NCI")	-	-	-	-	-	-	-	-	900	900
At 30 June 2014	138,618	550,133	(22,041)	22,202	45,273	1,131	314,234	(3,600)	4,167	1,050,117

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 2013. 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 RMB1,182,961,000 as at 30 June 2014. 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 2014 on the basis that the commence production of Guangan plant in lower half of 2014, the proposed transaction on issue of new shares and convertible bonds (details set out on the header Event After the Balance Date), 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 2014 (unaudited)		Six months ended 30 June 2013 (unaudited)	
	RMB'000	%	RMB'000	%
BB & complex fertilizers	29,973	4.1	33,423	4.9
Urea	337,629	45.7	427,486	62.8
Ammonia	108,062	14.6	105,684	15.5
Others (Note)	262,502	35.6	114,163	16.8
	738,166	100	680,756	100

Note: Others are carbon dioxide and the trading of urea, phosphate fertilizers, potash fertilizers, sodium carbonate, ammonia and methanol.

4. Operating Profit

Operating profit is stated after crediting and charging the following:

	Six months ended 30 June	
	2014 RMB'000	2013 RMB'000
Charging:		
Staff costs (including directors' emoluments)		
— Salaries, wages and other benefits	29,053	27,074
— Contributions to retirement scheme	3,957	4,634
Cost of inventories	686,160	570,467
Loss on disposal of fixed assets	11	245
Operating leases for buildings	415	719
Depreciation and amortization charges	32,022	35,107
Fair value of share options granted	—	6,995
Auditors' remuneration	1,089	1,159

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 2014.

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. ("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 Ko Yo Agrochem for the six months ended 30 June 2014 was approximately RMB74,000. The income tax benefit made for Dazhou Ko Yo for the six months ended 30 June 2014 was approximately RMB4,272,000.

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 2014.

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

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Current tax in the PRC	74	5,233
Deferred income tax (Note 11)	(4,246)	(26)
	(4,172)	5,259

NOTES OF FINANCIAL STATEMENTS (Continued)

6. Earnings per Share

The calculation of the basic and diluted earnings per share for the six months ended 30 June 2014 and 2013 were based on:

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
(Loss)/Profit for the period	(23,082)	25,430
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	–	56,511
Weighted average number of shares for calculation of diluted earnings per share	7,195,284,615	7,195,341,126

7. Dividend

The Board does not recommend the payment of any dividend for the six months ended 2014.

8. Trade and Other Receivables

	(Unaudited) As at 30 June 2014 RMB'000	(Audited) As at 31 December 2013 RMB'000
Trade receivables	6,927	5,207
Prepayments, purchase deposits and other deposits	110,666	217,219
Notes receivable	–	3,285
Other receivables	192,677	135,194
	310,270	360,905

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 2014 RMB'000	(Audited) As at 31 December 2013 RMB'000
Aged:		
Less than 3 months	5,297	5,207
More than 3 months but not exceeding 1 year	1,630	–
More than 1 year but not exceeding 2 years	–	–
More than 2 years but not exceeding 3 years	–	–
More than 3 years	5,241	5,241
	12,168	10,448
Less: provision for doubtful receivables	(5,241)	(5,241)
	6,927	5,207

NOTES OF FINANCIAL STATEMENTS (Continued)

9. Trade and Other Payables

	(Unaudited)	(Audited)
	As at	As at
	30 June	31 December
	2014	2013
	RMB'000	RMB'000
Trade payables	79,807	20,075
Construction payable	123,818	101,384
Deposits from customers	164,599	91,475
Accruals and other payables	158,026	206,672
	526,250	419,606

The aging analysis of trade payables is as follows:

	(Unaudited)	(Audited)
	As at	As at
	30 June	31 December
	2014	2013
	RMB'000	RMB'000
Aged:		
Less than 1 year	78,974	16,681
More than 1 year but not exceeding 2 years	833	2,096
More than 2 years but not exceeding 3 years	–	1,006
More than 3 years	–	292
	79,807	20,075

10. Borrowings

	(Unaudited) As at 30 June 2014 RMB'000	(Audited) As at 31 December 2013 RMB'000
Short-term borrowings, secured	2,632,151	2,583,575
Long-term borrowings repayable:		
Less than 1 year	168,031	207,510
Between 1 and 2 years	234,351	346,073
Between 2 and 5 years	691,838	694,145
Over 5 years	–	–
	1,094,220	1,247,728
Within 1 year included in current liabilities	(168,031)	(207,510)
	926,189	1,040,218

As at 30 June 2014, 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 4.85% to 9.00% (2013: 4.96% to 9.00%) per annum.

NOTES OF FINANCIAL STATEMENTS (Continued)

11. Deferred Income Tax

There were no offsetting of deferred income tax assets and liabilities in 2013 and in six months period ended 2014.

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 2013	9,161	679	368	10,208
Charged to income statement	4,272	–	(26)	4,246
At 30 June 2014	13,433	679	342	14,454

Deferred income tax liabilities:

	Evaluation and exploration assets RMB'000	withholding tax RMB'000	Total RMB'000
At 31 December 2013	(80,867)	(5,485)	(86,352)
At 30 June 2014	(80,867)	(5,485)	(86,352)

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Performance

For the six months ended 30 June 2014, the Group recorded a turnover of approximately RMB738 million, representing an increase of approximately 8.4% as compared with approximately RMB681 million for the corresponding period last year. Loss attributable to shareholders was approximately RMB23.1 million (2013: first half year profit of approximately RMB25.4 million), representing a decrease of approximately RMB48.5 million as compared with the corresponding period last year. Basic loss per share was approximately RMB0.32 fen (2013: first half year basic earnings per share of approximately RMB0.35 fen).

During the period under review, the total sales volume (excluding the trading portion) of the Group reached approximately 285,000 tonnes (2013: 274,000 tonnes), representing an increase of 4% as compared with that of the corresponding period last year.

For the period under review, the gross profit margin of the Group decreased from approximately 16.2% to 7.0% as compared with the corresponding period last year, which was mainly due to the decrease in selling price of products as a result of market downturn and an increase in trading volume portion that have a lower gross profit margin. Cost of sales amounted to approximately RMB686 million, representing an increase of approximately 20.3% as compared with the corresponding period last year. Distribution costs increased by approximately 29.3% and the administrative expenses decreased by approximately 21.3% as compared with the corresponding period last year.

Business Review

For the six months ended 30 June 2014, the Group is engaged in the manufacturing and distribution of urea, liquid ammonia, BB Fertilizers and complex fertilizers.

In the first half of the year, China's economy steadily slow down and for a reasonable condition. However, the growing downward pressure on the economy showed little sign of easing. The trend for the chemical fertilizer industry in both demand and price continued from the second half of 2013. According to the data of National Bureau of Statistics, in the first quarter of the year, the national apparent consumption of chemical fertilizer declined by 6% as compared with the corresponding period last year, while the overall price level of chemical fertilizer manufacturing industry recorded an accumulative decline of 9.5% as compared with the corresponding period last year, the largest decline among all segments of the chemical industry. As a result of the reduction in demand and price across the industry, the Group failed to meet its operation targets in the first half of the year.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Business Review (Continued)

As to production, Dazhou plant continued to maintain stable production operations in the first half of the year, achieving a relatively high utilization rate on its devices and equipment. The unit energy consumption of synthetic ammonia products decreased by approximately 2% as compared with the corresponding period last year. For the second half of the year, the Company will firmly adhere to its policy in safety and environmental protection, equipment maintenance and technical innovation, and will promote energy conservation and emission reduction, striving to alleviate cost pressure on its production and management amid the increasingly competitive market environment. In the meantime, the Company will commit all its resources and efforts in terms of personnel, material and finance to the trial running of 1st Phase of the Project in Guangan Plant, ensuring successful operation of this set of equipment in a single final and striving to achieve a production rate of 85% by the end of 2014.

As to market, both the gross sales volume and sales amount of the Company's products for the first two quarters increased as compared with the corresponding period last year. This was mainly attributable to the fact that the Company capitalized on the rising demand for fertilizer in summer to boost sales for the second quarter. Besides, sales volume of trading products continued to show good momentum of growth. For the second half of the year, taking into account the construction progress of Guangan plant, the Company has conducted market deployment in advance for the sales and transportation of the newly-added methanol and liquid ammonia products. For the second half of the year, while maintaining its existing product sales network and customer base, the Company will gradually build up sales channels and network for its newly-added products in accordance with the actual output of Guangan plant and contracting customers.

On the quality, safety and environmental protection fronts, in June 2014, the quality and environmental management system of the Company once again by China Quality Certification Center's review approved. Over 99% of our urea products remained rated excellent, further evidencing the competitiveness of the Company's brand name. To comply with China's new laws for environmental protection and safety production, the Company conducted a series of safety skills training and emergency rescue drills for production and management staff at all levels this year, which has effectively enhanced the overall safety awareness across production all level in the Company and reduced risks associated with production.

In light of the Group's operating results for the period under review, the Board did not recommend the payment of any interim dividend for the six months ended 30 June 2014.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

The 1st Phase of the Project in Guangan to Commence Operation with Material Input in the Third Quarter

Thanks to coordination among various parties, the Company's project with an annual production of 300,000 tonnes of synthetic ammonia and 500,000 tonnes of methanol (the "1st Phase of the Project in Guangan") gained access to the supply of natural gas in June 2014 and trial operation has been formally commenced as scheduled and made progress. The management expects that the 1st Phase of the Project in Guangan will materialize trial production with material input in the third quarter of the year, and will achieve a production rate of 85% by the end of the year.

In terms of market deployment for new products, the Company has gradually established a sales network for the newly-added methanol and liquid ammonia products through discussion and trades on trial basis, and has entered into long-term supply agreements and strategic cooperation agreements with a number of domestic and international methanol purchasers. The aggregate annual purchases of the top 5 customers (methanol and liquid ammonia products) who have entered into supply agreements with the Company have exceeded the annual capacity of the facilities, ensuring the product sales of the Project in Guangan since the commencement of its operation.

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 of Sichuan Province, a state-level economic and technological development zone approved by the State Council and enjoying the benefits of a number of preferential policies and funding support from the state. The completion and commencement of operation of the Project marks the formation of two chemical production bases in Dazhou and Guangan of Sichuan, laying a solid foundation for diversifying the Company's business to new high technologies, new high-tech products and fine chemical industry in the future. With the operation of the 1st Phase of Guangan Project and the recovery of the methanol market, the Board expects the Project in Guangan will deliver a new growth driver for the Company's operations.

Progress of the 2nd Phase of the Project in Dazhou

During the period under review, the project in Dazhou with "an annual production of 300,000 tonnes of urea and 40,000 tonnes of melamine" (the 2nd Phase of the Project in Dazhou) completed the optimization of urea production technology as well as the perfection and optimization of melamine production technology. At present, the project has been fully initiated.

Melamine, a high value-added chemical product with urea as its raw material, is widely used in such products as laminated board, core stock (wood chipboard), tableware and flame retardants.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Progress of the Project of Phosphate Mine

With the approval of the Ministry of Land and Resources, we obtained the mining rights for a phosphate mine located at Qingping Township, Mianzhu City, Sichuan Province and owned by Sichuan Chengyuan Chemical Industry Co., Ltd. ("Sichuan Chengyuan"), a wholly-owned subsidiary of the Group, in 2010. Sichuan Chengyuan is now responsible for the exploitation and related work at the phosphate mine.

The Group incorporated in May 2012 a new holding company, namely Sichuan Ko Chang Technology Co., Ltd. (四川玖長科技有限公司), which focuses on the research and development of the technology to produce industrial-grade phosphoric acid with medium- and low-grade phosphate as materials. In 2013, Sichuan Ko Chang Technology Co., Ltd. applied to the Chinese State Intellectual Property Office for patent authorisations of ten technologies. The application was duly accepted for scrutiny. Currently the research and development of mineral processing technology and direct application of kiln process in respect of medium- and low-grade phosphate mine and medium- and low-grade collophanite mine have been stipulated in the development strategies of the comprehensive utilisation of state resources. Once the patent authorisations are granted, the Company will secure the intellectual property rights of the patented kiln process for producing phosphoric acid which will become new core competitiveness.

At present, the feasibility report in pursuant to the patented kiln process for producing phosphoric acid has been completed, and the design of the project, which is located at Xinqiao Energy and Chemical Park in Guangan, is expected to complete and construction will commence in the second half of the year accordingly.

New Materials Projects

Building on its existing business, the Company established this segment to materialize its vision to develop new high technologies and high value-added products. In March 2013, the Group incorporated Guangan Ko Yo New Materials Co., Limited to initiate a preliminary research on products and technologies. New materials are listed in the Category of the Encouraged Industry of the State. The Company has completed the product research of new materials and preparations for preliminary operation is now under way.

Industry Review and Prospect

During January to May 2014, economic efficiency of both the oil and petrochemical sectors remained steady. Rising costs and flattening prices gave rise to a slowdown in profit growth. It is literally the continuation of the doldrums seen in the latter half of 2013.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Industry Review and Prospect (Continued)

Affected by the low utilization rate (71-74% on average) in the industry for the first half of the year, total capacity of urea declined by 700,000 tonnes as compared to 2013 and the output dropped for five consecutive months. Given the lower inventory levels across various sectors (distributors' inventory levels recorded an year-on-year decrease of 30%), anticipated growth in demand from agricultural and industrial sectors during the second half of the year (demand for urea is expected to increase by approximately 2 million tonnes for the second half of the year) and the significant increase in demand for export (214% year-on-year growth from January to May plus the second half of the year being the low-tariff window period), the urea market is expected to improve during the second half of the year.

For the first half of the year, the methanol market kicked off the year with uprising trend but the growth weakened afterwards. Considering demand, output, production costs and market sentiments, the methanol market is expected to remain steady for the rest of the year when demand for new forms of methanol and the price trend of the international methanol markets play a critical role. Methanol to olefins ("MTO") and methanol gasoline are the 2 major segments that experience faster growth in demand. For the second half of 2014, the annual consumption of methanol by the imported MTO start-ups will be 3.57 million tonnes in aggregate.

To address the downward adjustment of the economy, over the past few months the government has been introducing a series of "mini stimulus" measures to ensure a soft landing. Being bulk chemical products, methanol and urea will be benefited from the improvement of the economic environment at home.

Finally, the Company will explore investment opportunities in respect of mining resources both at home and abroad.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 June 2014, the Group had net current liabilities of approximately RMB1,182,961,000. Current assets as at 30 June 2014 comprised cash and bank deposits of approximately RMB117,008,000, pledged bank deposits of approximately RMB1,500,530,000, inventories of approximately RMB47,370,000, non-current assets held for sale of approximately RMB198,784,000, trade and other receivables of approximately RMB310,270,000. Current liabilities as at 30 June 2014 comprised short-term loans of approximately RMB2,632,151,000, current portion of long term loans of approximately RMB168,031,000, trade and other payables of approximately RMB526,250,000 and derivative financial liabilities of approximately RMB30,491,000.

CAPITAL COMMITMENTS

As at 30 June 2014, the Group had outstanding capital commitments of approximately RMB129 million.

FINANCIAL RESOURCES

As at 30 June 2014, the Group had cash and bank balances of approximately RMB117,008,000 and standby bank facilities of approximately RMB70,000,000. 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 66.8% and 65.0% as at 30 June 2014 and 31 December 2013 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 2014.

MATERIAL ACQUISITIONS/DISPOSALS

The Group had no material acquisitions/disposals during the six months ended 30 June 2014.



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 2014.

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 2014, the Group had a total workforce of 778 (2013: 894), of which 6 (2013: 6) were responsible for management, 122 (2013: 142) for finance and administration, 597 (2013: 698) for production and 53 (2013: 48) for sales and marketing. Of these employees, 772 (2013: 888) were stationed in the PRC and 6 (2013: 6) in Hong Kong.

CHARGES ON THE GROUP'S ASSETS

As at 30 June 2014, certain land use rights and buildings with a total net book value of approximately RMB120,849,000 (2013: RMB121,489,000), plant and machinery with a total net book value of approximately RMB1,097,890,000 (2013: RMB538,868,000) and bank deposits of approximately RMB1,500,530,000 (2013: RMB1,525,247,000) 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 2014 were disclosed in the following table:

	Held at 1 Jan 2014 (‘000)	Held at 30 Jun 2014 (‘000)	Number of share options						
			Share options B (‘000)	Share options C (‘000)	Share options D (‘000)	Share options E (‘000)	Share options F (‘000)	Share options G (‘000)	Share options H (‘000)
Directors									
Li Weiruo	6,500	6,500	–	2,100	–	4,400	–	–	–
Yuen Bai	17,000	17,000	–	2,000	–	4,000	–	11,000	–
Chi Chuan	23,000	23,000	–	–	–	2,000	–	21,000	–
Man Au Vivian	23,000	23,000	–	–	–	4,000	–	19,000	–
Li Shengdi	25,000	25,000	–	–	–	4,000	–	21,000	–
Hu Xiaoping	6,000	6,000	–	–	–	–	4,000	2,000	–
Woo Che-wor Alex	6,000	6,000	–	–	–	–	4,000	2,000	–
Qian Laizhong	6,100	6,100	–	2,100	–	–	4,000	–	–
Sun Tongchuan	6,000	6,000	–	–	–	–	–	–	6,000
Employees	170,500	170,500	32,500	–	23,000	27,500	–	87,500	–
Total	289,100	289,100	32,500	6,200	23,000	45,900	12,000	163,500	6,000

SHARE OPTION SCHEME (Continued)

* No share options granted, exercised or forfeited during the six months ended 30 June 2014.

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.

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.

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

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 28 March 2013, exercisable from grant date until 27 March 2023 with exercise price HK\$0.119.

Share Options H: 6,000,000 were granted on 15 November 2013, exercisable from grant date until 14 November 2023 with exercise price HK\$0.095.

DISCLOSURE OF INTERESTS

(A) Interests of the Directors in the Company

As at 30 June 2014, 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	6,000,000	0.08%
Woo Che-wor, Alex	–	6,000,000	6,000,000	0.08%
Qian Laizhong	–	6,100,000	6,100,000	0.08%
Sun Tongchuan	–	6,000,000	6,000,000	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		Type of interest	Approximate interests in holding
		Capacity			
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		Type of interest	Approximate interests in holding of such class
		Capacity			
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 2014, 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

As at 30 June 2014, so far as is known to any Director or chief executive of the Company, the following persons (not being a Director or a chief executive of the Company) who had an interest or short positions in the shares or underlying shares of the Company which are required to be notified to the Company and the Stock Exchange under Divisions 2 and 3 of Part XV of the SFO and recorded in the register required to be kept under section 336 of the SFO, and who were directly or indirectly deemed to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company.

Name	Capacity	Number of warrants	Interests in issued share capital of the Company
PA International Opportunity VII Limited*	Beneficial Owner	750,000,000	10.42%

Save as disclosed above, as at 30 June 2014, 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.

* The 350,115,385 warrants shares held by International Finance Corporation were expired on 28 April 2014.

The 750,000,000 warrants held by PA International Opportunity VII Limited have an exercise price of HK\$0.16 and the expiry date is on 7 July 2015.



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.

EVENT AFTER THE BALANCE SHEET DATE

Reference is made to the announcement of the Company dated 14 August 2014 (the "Announcement") and capitalized terms used herein shall have the same meanings as defined in the Announcement.

Share Consolidation

The Board proposes to implement the Share Consolidation on the basis that every five issued and unissued Existing Shares of HK\$0.02 each in the share capital of the Company will be consolidated into one Consolidated Share of HK\$0.10 each. The Board also proposes to change the board lot size for trading from 20,000 Existing Shares to 4,000 Consolidated Shares upon the Share Consolidation becoming effective.

Issue of New Shares and Convertible Bonds

On 30 July 2014 (after trading hours), the Company and Asia Pacific Resources Development Investment Limited (the "Subscriber") entered into the Subscription Agreement pursuant to which the Company will allot and issue to the Subscriber (a) the New Shares at HK\$0.32 per New Share (equivalent to HK\$0.064 per Existing Shares) ; and (b) the Convertible Bonds in the principal amount of HK\$832,000,000 with an interest of 7% per annum, conversion price of HK\$0.32 per Conversion Shares (equivalent to HK\$0.064 per Existing Shares) and will mature on the ten anniversary of the date of issue.

The Loan Agreement

On 30 July 2014, the Subscriber and the Company entered into the Loan Agreement pursuant to which the Subscriber (or its subsidiary or affiliate) will advance a loan in the principal amount of HK\$200,000,000 to the Company (or its wholly-owned subsidiary). The Loan is interest-free and secured by the 100% equity interest in Sichuan Ko Yo and a personal guarantee from Mr. Li Weiruo. The maturity date of the Loan is 31 January 2015. As at the date of this report, the Company has received the loan.

Increase in Authorised Share Capital

The Board proposes to increase the authorised share capital of the Company from HK\$400,000,000 divided into 4,000,000,000 Consolidated Shares to HK\$800,000,000 divided into 8,000,000,000 Consolidated Shares by the creation of an additional 4,000,000,000 Consolidated Shares.

General

An extraordinary general meeting will be convened and held by the Company for Shareholders, or Independent Shareholders as appropriate, to consider and, if thought fit, pass an ordinary resolution to approve the Share Consolidation, the Specific Mandate, the Whitewash Waiver and the increase in the authorised share capital of the Company.



CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the six months ended 30 June 2014, 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, 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 2014.

CORPORATE GOVERNANCE

The Board practices and procedures had set out the Code as set out in Appendix 14 to the Listing Rules since 1 January 2005. Appropriate actions have been taken by the Company for complying with the Code and the Group has complied with the code provisions set out in the Code.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the period under review.

By Order of the Board

Li Weiruo

Chairman

Chengdu, the PRC, 26 August 2014