



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)



2015 INTERIM REPORT



HIGHLIGHTS

Unaudited loss attributable to shareholders of the Group was approximately RMB49.7 million for the six months ended 30 June 2015, which represents an increase of loss of RMB26.6 million as compared to that of the same period last year.

For the six months ended 30 June 2015, unaudited turnover was approximately RMB835 million, which represents an increase of approximately 13.2% as compared to the same period last year.

Unaudited basic loss per share of the Group was approximately RMB1.28 cents for the six months ended 30 June 2015.

The Directors do not recommend to pay any interim dividend for the six months ended 30 June 2015.

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 2015 together with the unaudited comparative figures for the corresponding periods in 2014 are as follows:

UNAUDITED CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30 June 2015 and 30 June 2014

	Notes	Six months ended 30 June	
		2015 RMB'000	2014 RMB'000
Turnover	3	835,434	738,166
Cost of sales		(799,042)	(686,160)
Gross profit		36,392	52,006
Interest income		3,380	22,203
Distribution costs		(20,886)	(38,094)
Administrative expenses		(27,191)	(26,485)
Other income		740	690
Operating profit	4	(7,565)	10,320
Finance costs		(48,890)	(37,574)
(Loss)/Profit before taxation		(56,455)	(27,254)
Taxation	5	6,774	4,172
(Loss)/Profit attributable to shareholders		(49,681)	(23,082)
Basic (loss)/earning per share (RMB cents)	6	(1.28)	(1.60)
Diluted (loss)/earnings per share (RMB cents)	6	(1.04)	(1.60)
Declared dividends per share (HK cents)	7	Nil	Nil

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2015 and 31 December 2014

		(Unaudited) As at 30 June 2015 RMB'000	(Audited) As at 31 December 2014 RMB'000
	Notes		
ASSETS			
Non-current assets			
Property, plant and equipment		3,176,851	2,992,283
Deferred income tax assets	11	45,643	38,869
Investment properties		13,438	13,145
Mining right		334,306	334,306
Intangible assets		10,628	10,628
Land use rights		50,716	51,838
		3,631,582	3,441,069
Current assets			
Inventories		89,172	62,327
Trade and other receivables	8	624,093	435,820
Prepaid income tax, net		–	7,555
Pledged bank deposits		998,317	689,603
Cash and bank deposits		129,999	498,099
Non-current assets held for sale		198,784	198,784
		2,040,365	1,892,188
Total assets		5,671,947	5,333,257
EQUITY			
Share capital		307,130	302,960
Reserves Others		1,411,899	1,450,264
Shareholders' funds		1,719,029	1,753,224
Non-controlling interest		3,434	3,434
Total equity		1,722,463	1,756,658

CONDENSED CONSOLIDATED BALANCE SHEET (Continued)

As at 30 June 2015 and 31 December 2014

		(Unaudited) As at 30 June 2015 RMB'000	(Audited) As at 31 December 2014 RMB'000
	Notes		
LIABILITIES			
Current liabilities			
Trade and other payables	9	897,585	690,430
Short-term borrowings, secured	10	1,991,044	1,719,041
Current portion of long term borrowings, secured	10	427,619	286,572
		3,316,248	2,696,043
Non-current liabilities			
Long-term borrowings, secured	10	413,280	648,822
Convertible bonds		135,956	147,629
Deferred subsidy income		3,133	3,238
Deferred income tax liabilities	11	80,867	80,867
		633,236	880,556
Total liabilities		3,949,484	3,576,599
Total equity and liabilities		5,671,947	5,333,257
Net current liabilities		(1,275,883)	(803,855)
Total assets less current liabilities		2,355,699	2,637,214

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2015 and 30 June 2014

	Six months ended 30 June	
	2015	2014
	RMB'000	RMB'000
Net cash generated from operating activities	30,363	180,438
Interest paid	(48,890)	(37,574)
Net cash (outflow)/inflow from operating activities	(18,527)	142,864
Investing activities		
Purchases of fixed assets and payments for construction-in-progress	(225,560)	(286,478)
Proceeds from sale of equity interest of a subsidiary	–	900
Interest received	3,380	22,203
Net cash outflow from investing activities	(222,180)	(263,375)
Net cash outflow before financing activities	(240,707)	(120,511)
Financing activities		
(Increase)/Decrease in pledged bank deposits	(308,714)	225,768
Issue of ordinary shares	15,486	–
New loans payable	1,608,517	2,015,843
Repayment of bank loans	(1,442,682)	(2,120,775)
Net cash (outflow)/inflow from financing activities	(127,393)	120,836
(Decrease)/Increase in cash and cash equivalents	(368,100)	325
Cash and cash equivalents at 1 January	498,099	116,683
Cash and cash equivalents at 30 June	129,999	117,008

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2015 and 30 June 2014

	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 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
At 1 January 2015 (audited)	302,960	1,214,162	(22,041)	367,979	45,273	1,131	(152,731)	(3,509)	3,434	1,756,658
Net loss for the 6 Months ended 30 June 2015	-	-	-	-	-	-	(49,681)	-	-	(49,681)
Issue of new shares	4,170	11,316	-	-	-	-	-	-	-	15,486
At 30 June 2015	307,130	1,225,478	(22,041)	367,979	45,273	1,131	(202,412)	(3,509)	3,434	1,722,463

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 2014. 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 RMB1,275,883,000 as at 30 June 2015. 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 2015 on the basis that the commence production of Guangan plant, 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 2015 (unaudited)		Six months ended 30 June 2014 (unaudited)	
	RMB'000	%	RMB'000	%
BB & complex fertilizers	32,367	3.9	29,973	4.1
Urea	341,420	40.9	337,629	45.7
Ammonia	58,749	7.0	108,062	14.6
Others (Note)	402,898	48.2	262,502	35.6
	835,434	100	738,166	100

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

4. Operating Profit

Operating profit is stated after crediting and charging the following:

	Six months ended 30 June	
	2015 RMB'000	2014 RMB'000
Charging:		
Staff costs (including directors' emoluments)		
— Salaries, wages and other benefits	25,959	29,053
— Contributions to retirement scheme	3,467	3,957
Cost of inventories	799,042	686,160
Loss on disposal of fixed assets	72	11
Operating leases for buildings	411	415
Depreciation and amortization charges	41,749	32,022
Auditors' remuneration	1,330	1,089

NOTES OF FINANCIAL STATEMENTS (Continued)



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 2015.

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 2015 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%.

The income tax benefit made for Dazhou Ko Yo for the six months ended 30 June 2015 was approximately RMB6,800,000.

Chengdu Ko Yo Compound, Chengdu Ko Yo Chemical, Ko Yo Agrochem and Qingdao Ko Yo Chemical Co., Ltd. did not have current income tax provision for the six months ended 30 June 2015.

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

	Six months ended 30 June	
	2015	2014
	RMB'000	RMB'000
Current tax in the PRC	–	74
Deferred income tax (Note 11)	(6,774)	(4,246)
	(6,774)	(4,172)

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 2015 and 2014 were based on:

	Six months ended 30 June	
	2015	2014
	RMB'000	RMB'000
(Loss)/Profit for the period	(49,681)	(23,082)
Weighted average number of shares for calculation of basic earnings per share	3,886,600,094	1,439,056,923
Effect of dilutive potential shares on the outstanding share options and convertible bonds	903,308,788	11,302
Weighted average number of shares for calculation of diluted earnings per share	4,789,908,882	1,439,068,225

Note: The figures in 2014 regarding the number of shares and the loss per share had been adjusted for the effect of share consolidation of 5 into 1 on 14 October 2014.

7. Dividend

The Board does not recommend the payment of any dividend for the six months ended 2015.

8. Trade and Other Receivables

	(Unaudited)	(Audited)
	As at	As at
	30 June	31 December
	2015	2014
	RMB'000	RMB'000
Trade receivables	25,454	17,899
Prepayments, purchase deposits and other deposits	408,543	396,669
Notes receivable	21,868	2,112
Other receivables	168,228	19,140
	624,093	435,820

NOTES OF FINANCIAL STATEMENTS (Continued)



8. Trade and Other Receivables (Continued)

In general, the credit terms granted by the Group ranged from 0 to 3 months. The aging analysis of trade receivables is as follows:

	(Unaudited)	(Audited)
	As at	As at
	30 June	31 December
	2015	2014
	RMB'000	RMB'000
Aged:		
Less than 3 months	23,828	17,899
More than 3 months but not exceeding 1 year	1,626	–
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
	30,695	23,140
Less: provision for doubtful receivables	(5,241)	(5,241)
	25,454	17,899

9. Trade and Other Payables

	(Unaudited)	(Audited)
	As at	As at
	30 June	31 December
	2015	2014
	RMB'000	RMB'000
Trade payables	35,012	108,156
Note payables	110,610	–
Construction payable	226,280	266,719
Deposits from customers	339,102	148,481
Accruals and other payables	186,581	167,074
	897,585	690,430

NOTES OF FINANCIAL STATEMENTS (Continued)



9. Trade and Other Payables (Continued)

The aging analysis of trade payables is as follows:

	(Unaudited)	(Audited)
	As at	As at
	30 June	31 December
	2015	2014
	RMB'000	RMB'000
Aged:		
Less than 1 year	33,601	102,322
More than 1 year but not exceeding 2 years	833	3,702
More than 2 years but not exceeding 3 years	578	1,059
More than 3 years	–	1,073
	35,012	108,156

10. Borrowings

	(Unaudited)	(Audited)
	As at	As at
	30 June	31 December
	2015	2014
	RMB'000	RMB'000
Short-term borrowings, secured	1,991,044	1,719,041
Long-term borrowings repayable:		
Less than 1 year	427,619	286,572
Between 1 and 2 years	256,640	433,885
Between 2 and 5 years	156,640	214,937
Over 5 years	–	–
	840,899	935,394
Within 1 year included in current liabilities	(427,619)	(286,572)
	413,280	648,822

As at 30 June 2015, 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 4.95% to 7.85% (2014: 4.85% 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 2014 and in six months period ended 2015.

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 2014	37,874	679	316	38,869
Charged to income statement	6,800	–	(26)	6,774
At 30 June 2015	44,674	679	290	45,643

Deferred income tax liabilities:

	Evaluation and exploration assets RMB'000	Withholding tax RMB'000	Total RMB'000
At 31 December 2014	(80,867)	–	(80,867)
At 30 June 2015	(80,867)	–	(80,867)

MANAGEMENT DISCUSSION AND ANALYSIS



Financial Performance

For the six months ended 30 June 2015, the Group recorded a turnover of approximately RMB835 million, representing an increase of approximately 13.2% as compared with approximately RMB738 million for the corresponding period last year. Loss attributable to shareholders was approximately RMB49.7 million (2014: first half year loss of approximately RMB23.1 million), representing an increase of loss of approximately RMB26.6 million as compared with the corresponding period last year. Basic loss per share was approximately RMB1.28 fen (2014: first half year basic loss per share of approximately RMB1.60 fen).

During the period under review, the total sales volume (excluding the trading portion) of the Group reached approximately 266,000 tonnes (2014: 285,000 tonnes), representing a decrease of 7% 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 7% to 4% as compared with the corresponding period last year, which was mainly due to the increase in natural gas price and the Guangan plant had not attained its maximum efficiency. Cost of sales amounted to approximately RMB799 million, representing an increase of approximately 16.5% as compared with the corresponding period last year. Distribution costs decreased by approximately 45.2% and the administrative expenses increased by approximately 2.7% as compared with the corresponding period last year.

Business Review

Industry Overview

For the first half of 2015, with the favourable support of government policy and driven by the strong export performance, price in the domestic urea market showed a stable increasing trend. The overall operation situation of the industry improved as compared with the corresponding period last year. Affected by the relatively weak demand during the traditional low season for downstream products, fluctuation of the crude oil price, sufficient supply in the market, methanol facilities commenced production and the higher pressure on supply etc., economic condition for the methanol industry was poor, coupled with weak performance of the liquid ammonia market in the first half of 2015.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)



Business Review (Continued)

Industry Overview (Continued)

According to the latest information from the National Bureau of Statistics, from January to June 2015, the output of nitrogen fertilizers of China amounted to 24.3226 million tonnes (nutrients, the same below), representing an increase of 3.7% compared with the corresponding period of last year. Accumulated production volume of urea was 16.7987 million tonnes, representing an increase of 6.1% compared with production volume of 15.8367 million tonnes in 2014. Production capacity of urea in the PRC increased 2.1 million tonnes in the first half of the year, reaching 82.80 million tonnes. The utilization rate in the urea industry remained at above 60%. Based on the statistics from the Customs, from January to June 2015, China exported 6.7444 million tonnes of urea, an increase of 61.63% tonnes as compared with 4.1725 million tonnes for the corresponding period in 2014. Export amounted to USD1,987.3558 million. According to the 2015 Tariff Implementation Plan, the exchange rate was adjusted downward for the export of nitrogen fertilizers in 2015, and the transition period between peak season and low season was cancelled. Export tariff for the whole year was RMB80. Although export price stayed at a low level, its premium over the international price was removed and it is practically in line with the global level. China has begun to play an important part in the determination of the price of urea. In respect of demand, it is expected that the agricultural needs for urea will remain stable in 2015, and the growth rate of demands for industrial purpose will remain at 6%-8%. The demand of urea for industrial use in 2015 is estimated to be 16 million tonnes, a year-on-year increase of 1 million tonnes.

In the first half of 2015, market price of methanol showed a trend of “recovery from fluctuation after slump”. From January to June, the domestic production volume of methanol was 19.2366 million tonnes, an increase of 9.4% as compared with 17.5877 million tonnes in the corresponding period last year. Accumulated export volume was 137,400 tonnes, a decrease of 72.06% as compared with the corresponding period last year. Average export price was USD300.88/tonne, a decrease of USD196.66/tonne as compared with the corresponding period last year. Accumulated import volume was 2.6057 million tonnes, an increase of 71.96% as compared with the corresponding period last year. From January to June 2015, overall national apparent consumption was approximately 21.683 million tonnes. According to statistics, the total production capacity of the methanol facilities in the PRC is currently 68 million tonnes. Average utilization rate of the industry in the first half of the year was approximately 56.44%. Price of the traditional downstream methanol and the utilization rate is staying at a low level. As the methanol market was affected by various factors, and the frequent speculative activities by the futures dealers and merchants, the market record experienced deviant fluctuation.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)



Business Review (Continued)

Industry Overview (Continued)

According to the latest information from the National Bureau of Statistics, from January to June 2015, the output of synthetic ammonia amounted to 28.8124 million tonnes, representing an increase of 1.44% as compared with the corresponding period last year. Accumulated export was 29,699 tonnes, which was 103 times of the export volume in the corresponding period last year. Accumulated export amounted to USD15.1666 million, an increase of 52.18 times as compared with the corresponding period last year. The growth of export eased the pressure of the long-term weak demand in the liquid ammonia market.

Future Objectives and Strategies

According to China Nitrogen Fertiliser Industry Association, the excessive production capacity of nitrogen fertilizers will be improved this year. Demand in the agricultural industry will remain stable, demand in the industrial field will increase and the room for export will be expanded. Currently, the price of urea reflects that the majority of the enterprises are able to maintain their profitability. Based on the profit situation generally recorded in the industry, the overall utilization rate in the industry would increase in the coming period. On the basis of smooth operation in the export field, it is expected that the sales of the nitrogen fertilizers will be improved in the second half of the year.

In the second half of 2015, under the stable development of new downstream methanol-to-olefin and methanol vehicle as well as the demand for methanol and acetic acid increase in the peak season during the second half of the year, a better atmosphere for the methanol market is expected.

Targeted Standard and Output for the 1st Phase of the Project in Guangan will Achieve

Our Guangan's project commenced operation successfully on 13 June 2014. Its annual production capacity is 300,000 tonnes of synthetic ammonia and 500,000 tonnes of methanol. Currently, the production capacity of the facility reached its designated capacity, and laid a solid foundation for our future expansion into refined chemicals and new materials from base chemicals. In the second half of 2015, the Company will further optimize the production workflow in order to achieve our targeted standard and output of the KAM devices in Guangan factory as soon as possible.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)



Business Review (Continued)

The 2nd Phase of the Project of Urea and Melamine in Dazhou is Expected to be Completed in the Fourth Quarter of 2015

During the period under review, planning for the Company's production project with an annual production of 300,000 tonnes of urea and 40,000 tonnes of melamine (the 2nd Phase of the Project in Dazhou), which is based on the new production proposal, was commenced. Our new production technology has won numerous technology awards and its performance in energy-saving, environmental protection and circular economy is highly efficient and outstanding. Currently, the project is applying for the supplemental approval for the change in production technology from the relevant government authority and waiting for the final approval. Preparation for construction of the project has been completed and orders for most equipment have been placed.

Melamine is a downstream product for urea. The production of melamine will further extend the product chain, enhance the products' added value, and optimise the product mix and profitability of the Company. Through the expansion in both capacity and technology of Dazhou plant at the 2nd Phase of the Project, it is expected that the annual productivity of Dazhou plant will finally reach 500,000 tonnes of synthetic ammonia, 800,000 tonnes of urea, and 40,000 tonnes of melamine, respectively.

The Project of Kiln Process for Producing Phosphoric Acid is Expected to be Completed in the Fourth Quarter of 2015

In the period under review, the preliminary approval for the Group's project of kiln process for producing phosphoric acid has been obtained, and the construction work was commenced on 19 January 2015. Currently, the construction diagram of the key facilities of the project has been completed; part of the floor plan of the civil work of the factory has been completed, and majority of the heavy equipment and non-standard equipment has been ordered. Civil engineering work of the factory and workshop was underway.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)



Business Review (Continued)

The Project of Kiln Process for Producing Phosphoric Acid is Expected to be Completed in the Fourth Quarter of 2015 (Continued)

The project of kiln process for producing phosphoric acid is located at Xinqiao Energy and Chemical Park in Guangan. It can produce 100,000 tonnes 85% industrial phosphoric acid (including food-grade and electronic-grade), 60,000 tonnes sodium tripolyphosphate, 20,000 tonnes industrial ammonium polyphosphate, 20,000 tonnes monoammonium phosphate, 519,200 tonnes byproducts of slagging ball and ceramic proppants and 3,600 tonnes industrial sodium fluorosilicate. The first phase of the project includes a demonstrative facility with a production capacity of 50,000 tonnes 85% industrial phosphoric acid with an investment amounting to approximately RMB315 million. Phosphate from low grade phosphate mine will be used by the project directly in response to the government policy. The production technology used will allow an energy-saving, environmentally friendly, clean and highly efficient production of phosphoric acid. Upon completion, the facility will become the first phosphoric acid facility in China and even in the world, which will become a new growth point for the business of the Company.

Polyphenylene Sulfide Project is Expected to be Completed in the Fourth Quarter of 2015

The construction of fiber polyphenylene sulfide project, a project located at the chemical production base in Guang'an of the Group with 3,000 tons annual production capacity, commenced on 15 August 2014. The Group has ordered standard equipment and primary non-standard equipment and some of the equipment has been in place. The design department has submitted all the floorplan and the construction of the main factory has been completed. In the second half of the year, we will mainly carry out the installation and testing work. It is expected that the project will be completed in the fourth quarter of 2015. Upon completion, the vacancy of polyphenylene sulfide in domestic market will be filled, representing an important step of the Company in new material segment and a new growing point of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)



APPRECIATION

Looking back to the past half year, amid the complicated economic situation at home and abroad and the difficult dilemma of the industry, the Group has further lowered the energy consumption of the Dazhou Plant, and reached the designated production capacity of the synthetic ammonia of Guangan's project and the methanol facilities under the leadership of all members of our management. In the second half of the year, we will continue to make breakthroughs and pursue transformation in light of the decisions and development ideas of the management of the Company, adjust the industrial and product mix of the Company, and use all efforts to respond to the development and trend of the industry and market, so as to continuously enhance the comprehensive competitiveness of the Company in the future.

I would like to take this opportunity to express my sincere appreciation on behalf of all fellow members of the Board to all shareholders, our clients, the management and the staff. Thank you for your undeviated full support. We will strive to bring more benefits and returns to our shareholders and the society.

Li Weiruo

Chairman

25 August 2015



LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 June 2015, the Group had net current liabilities of approximately RMB1,275,883,000. Current assets as at 30 June 2015 comprised cash and bank deposits of approximately RMB129,999,000, pledged bank deposits of approximately RMB998,317,000, inventories of approximately RMB89,172,000, non-current assets held for sale of approximately RMB198,784,000, trade and other receivables of approximately RMB624,093,000. Current liabilities as at 30 June 2015 comprised short-term loans of approximately RMB1,991,044,000, current portion of long term loans of approximately RMB427,619,000, trade and other payables of approximately RMB897,585,000.

CAPITAL COMMITMENTS

As at 30 June 2015, the Group had outstanding capital commitments of approximately RMB52.5 million.

FINANCIAL RESOURCES

As at 30 June 2015, the Group had cash and bank balances of approximately RMB129,999,000 and standby bank facilities of approximately RMB20 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 51.6% and 47.9% as at 30 June 2015 and 31 December 2014 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 2015.

MATERIAL ACQUISITIONS/DISPOSALS

The Group had no material acquisitions/disposals during the six months ended 30 June 2015.



PUT OPTION AND POTENTIAL ISSUE OF CONVERTIBLE BONDS

On 18 January 2015, the Company and Asia Pacific Resources Development Investment Limited (the "Subscriber") entered into the put option agreement pursuant to which the Subscriber has unconditionally and irrevocably granted the put option to the Company entitling the Company, at any time during the period between 18 January 2015 and 17 January 2018, on one or more than one occasion, to require the Subscriber to subscribe from the Company the convertible bonds in the aggregate principal amount of no more than HK\$1,440,000,000. The Convertible Bonds, when issued, will bear an interest of 7% per annum with a conversion price of HK\$1.80 for each shares of the Company and will mature on the tenth anniversary of the date of issue.

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 2015.

DETAILS OF FUTURE PLANS FOR MATERIAL INVESTMENT OR CAPITAL ASSETS

Other than the phase II of the Dazhou Plant of Sichuan, the phase I of Guangan Plant, the phosphoric acid plant and the polyphenylene sulfide project as per circular dated 22 September 2014, the Directors do not have any future plans for material investment or capital assets.

EMPLOYEE INFORMATION

As at 30 June 2015, the Group had a total workforce of 955 (2014: 778), of which 8 (2014: 6) were responsible for management, 134 (2014: 122) for finance and administration, 754 (2014: 597) for production and 59 (2014: 53) for sales and marketing. Of these employees, 947 (2014: 772) were stationed in the PRC and 8 (2014: 6) in Hong Kong.

CHARGES ON THE GROUP'S ASSETS

As at 30 June 2015, certain land use rights and buildings with a total net book value of approximately RMB259,108,000 (2014: RMB120,849,000), plant and machinery with a total net book value of approximately RMB1,211,431,000 (2014: RMB1,097,890,000) and bank deposits of approximately RMB998,317,000 (2014: RMB1,500,530,000) 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 2015 were disclosed in the following table:

	Held at 1 Jan 2015 (‘000)	Exercised during period (‘000)	Held at 30 Jun 2015 (‘000)	Number of share options						
				Share options A (‘000)	Share options B (‘000)	Share options C (‘000)	Share options D (‘000)	Share options E (‘000)	Share options F (‘000)	Share options G (‘000)
Directors										
Li Weiruo	-	-	-	-	-	-	-	-	-	-
Yuan Bai	3,400	-	3,400	-	400	-	800	-	2,200	-
Chi Chuan	3,800	-	3,800	-	-	-	-	-	3,800	-
Man Au Vivian	800	(800)	-	-	-	-	-	-	-	-
Li Shengdi	-	-	-	-	-	-	-	-	-	-
Li Ciping	1,600	-	1,600	-	-	-	1,600	-	-	-
Zhang Fubo	-	-	-	-	-	-	-	-	-	-
Hu Xiaoping	1,200	-	1,200	-	-	-	-	800	400	-
Woo Che-wor Alex	1,200	-	1,200	-	-	-	-	800	400	-
Qian Laizhong	1,220	(1,220)	-	-	-	-	-	-	-	-
Sun Tongchuan	1,200	(1,200)	-	-	-	-	-	-	-	-
Employees	11,400	(3,300)	8,100	1,800	-	800	2,300	-	3,200	-
Total	25,820	(6,520)	19,300	1,800	400	800	4,700	1,600	10,000	-

SHARE OPTION SCHEME (Continued)



- * No share options granted or forfeited during the six months ended 30 June 2015.

Share Options A: Grant on 11 April 2006, exercisable from grant date until 10 April 2016 with exercise price HK\$0.750.

Share Options B: Grant on 16 May 2006, exercisable from grant date until 10 April 2016 with exercise price HK\$0.750, where 420,000 share options B were exercised during the 1st half of 2015.

Share Options C: Grant on 10 September 2007, exercisable from grant date until 9 September 2017 with exercise price HK\$0.580.

Share Options D: Grant on 14 January 2010, exercisable from grant date until 13 January 2020 with exercise price HK\$1.150, where 1,000,000 share options D were exercised during the 1st half of 2015.

Share Options E: Grant on 23 November 2010, exercisable from grant date until 22 November 2020 with exercise price HK\$1.100, where 800,000 share options E were exercised during the 1st half of 2015.

Share Options F: Granted on 28 March 2013, exercisable from grant date until 27 March 2023 with exercise price HK\$0.595, where 3,100,000 share options F were exercised during the 1st half of 2015.

Share Options G: Granted on 15 November 2013, exercisable from grant date until 14 November 2023 with exercise price HK\$0.480, where 1,200,000 share options G were exercised during the 1st half of 2015.

During the six month ended 30 June 2015, 6,520,000 share options were exercised and the weighted average closing price of the Company's share immediately before the dates of which the options were exercised was approximately HK\$1.98.

DISCLOSURE OF INTERESTS

(A) Interests of the Directors in the Company

As at 30 June 2015, 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 and convertible bonds (beneficial owner)	Aggregate long position in shares and underlying shares	Interests in the issued share capital
Li Weiruo	586,188,000	154,400,000	740,588,000	18.81%
Yuan Bai	71,292,800	3,400,000	74,692,800	1.90%
Chi Chuan	13,300,000	3,800,000	17,100,000	0.43%
Li Shengdi	4,000,000	–	4,000,000	0.10%
Li Ciping	800,000	1,600,000	2,400,000	0.06%
Zhang Fubo	5,000,000	–	5,000,000	0.13%
Hu Xiaoping	–	1,200,000	1,200,000	0.03%
Woo Che-wor, Alex	–	1,200,000	1,200,000	0.03%
Sun Tongchuan	1,200,000	–	1,200,000	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

Number 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

Number 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 2015, 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
Cheng Kin Ming*	Beneficial Owner	800,000,000	20.32%

* As at 30 June 2015, Asia Pacific Resources Development Investment Limited which is wholly owned by Mr. Cheng Kin Ming held a total amount of HK\$320,440,000 convertible bonds of the Company which can be converted into 1,001,375,000 shares of the Company.

(C) Interests of Other Persons in the Company

As at 30 June 2015, 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.

Save as disclosed above, as at 30 June 2015, 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 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 2015, 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 four members comprising the four independent non-executive Directors, namely, Mr. Hu Xiaoping, Mr. Woo Che-wor, Alex, Mr. Qian Laizhong and Mr. Sun Tongchuan.

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 2015.

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, 25 August 2015