

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



Ko Yo Chemical (Group) Limited

玫源化工(集團)有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 0827)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2016

HIGHLIGHTS

Unaudited loss attributable to shareholders of the Group was approximately RMB127.7 million for the six months ended 30 June 2016, which represents an increase of loss of RMB78.0 million as compared to that of the same period last year.

For the six months ended 30 June 2016, unaudited turnover was approximately RMB716 million, which represents a decrease of approximately 14.3% as compared to the same period last year.

Unaudited basic loss per share of the Group was approximately RMB3.13 cents for the six months ended 30 June 2016.

The Directors do not recommend to pay any interim dividend for the six months ended 30 June 2016.

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 2016 together with the unaudited comparative figures for the corresponding periods in 2015 are as follows:

UNAUDITED CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30 June 2016 and 30 June 2015

	<i>Notes</i>	Six months ended 30 June	
		2016	2015
		RMB'000	RMB'000
Turnover	3	715,782	835,434
Cost of sales		(745,622)	(799,042)
Gross profit		(29,840)	36,392
Interest income		4,884	3,380
Distribution costs		(2,814)	(20,886)
Administrative expenses		(82,112)	(27,191)
Other income		3,747	740
Operating profit	4	(106,135)	(7,565)
Finance costs		(33,598)	(48,890)
(Loss)/Profit before taxation		(139,733)	(56,455)
Taxation	5	11,226	6,774
(Loss)/Profit for the period		(128,507)	(49,681)
Attributable to:			
Equity holders of the Company		(127,730)	(49,681)
Non-controlling interests		(777)	–
		(128,507)	(49,681)
Basic (loss)/earning per share (RMB cents)	6	(3.13)	(1.28)
Diluted (loss)/earnings per share (RMB cents)	6	(3.13)	(1.04)
Declared dividends per share (HK cents)	7	Nil	Nil

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2016 and 31 December 2015

		(Unaudited) As at 30 June 2016 RMB'000	(Audited) As at 31 December 2015 RMB'000
	<i>Notes</i>		
ASSETS			
Non-current assets			
Property, plant and equipment		3,493,373	3,539,026
Deferred income tax assets	11	84,833	73,607
Investment properties		12,636	12,636
Mining right		297,091	297,091
Intangible assets		9,366	9,366
Land use rights		49,527	50,649
		<u>3,946,826</u>	<u>3,982,375</u>
Current assets			
Inventories		118,528	78,487
Trade and other receivables	8	421,618	348,148
Prepaid income tax, net		–	3,562
Derivative financial assets		214,822	214,822
Pledged bank deposits		151,792	505,055
Cash and bank deposits		11,575	59,782
Non-current assets held for sale		–	142,000
		<u>918,335</u>	<u>1,351,856</u>
Total assets		<u><u>4,865,161</u></u>	<u><u>5,334,231</u></u>
EQUITY			
Share capital		357,441	342,822
Reserves Others		1,309,175	1,394,713
		<u>1,666,616</u>	<u>1,737,535</u>
Shareholders' funds		<u>1,666,616</u>	<u>1,737,535</u>
Non-controlling interest		<u>2,030</u>	<u>2,807</u>
Total equity		<u><u>1,668,646</u></u>	<u><u>1,740,342</u></u>

		(Unaudited) As at 30 June 2016 <i>RMB'000</i>	(Audited) As at 31 December 2015 <i>RMB'000</i>
	<i>Notes</i>		
LIABILITIES			
Current liabilities			
Trade and other payables	9	860,221	890,042
Short-term borrowings, secured	10	1,383,818	1,588,225
Current portion of long term borrowings, secured	10	2,400	281,680
		<u>2,246,439</u>	<u>2,759,947</u>
Non-current liabilities			
Long-term borrowings, secured	10	787,521	634,960
Convertible bonds		88,513	124,835
Deferred subsidy income		2,479	2,584
Deferred income tax liabilities	11	71,563	71,563
		<u>950,076</u>	<u>833,942</u>
Total liabilities		<u>3,196,515</u>	<u>3,593,889</u>
Total equity and liabilities		<u>4,865,161</u>	<u>5,334,231</u>
Net current liabilities		<u>(1,328,104)</u>	<u>(1,408,091)</u>
Total assets less current liabilities		<u>2,618,722</u>	<u>2,574,284</u>

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2016 and 30 June 2015

	Six months ended 30 June	
	2016 RMB'000	2015 RMB'000
Net cash generated from operating activities	(46,136)	30,363
Interest paid	(33,598)	(48,890)
Net cash (outflow)/inflow from operating activities	<u>(79,734)</u>	<u>(18,527)</u>
Investing activities		
Purchases of fixed assets and payments for construction-in-progress	(15,982)	(225,560)
Proceeds from disposal of fixed assets	142,000	–
Decrease in receipt in advance regarding the disposal of fixed assets	(142,000)	–
Interest received	4,884	3,380
Net cash outflow from investing activities	<u>(11,098)</u>	<u>(222,180)</u>
Net cash outflow before financing activities	<u>(90,832)</u>	<u>(240,707)</u>
Financing activities		
(Increase)/Decrease in pledged bank deposits	353,263	(308,714)
Issue of ordinary shares	56,811	15,486
New loans payable	666,131	1,608,517
Repayment of bank loans	(1,033,580)	(1,442,682)
Net cash inflow/(outflow) from financing activities	<u>42,625</u>	<u>(127,393)</u>
(Decrease)/Increase in cash and cash equivalents	(48,207)	(368,100)
Cash and cash equivalents at 1 January	<u>59,782</u>	<u>498,099</u>
Cash and cash equivalents at 30 June	<u>11,575</u>	<u>129,999</u>

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2016 and 30 June 2015

	Share Capital RMB'000	Share Premium RMB'000	Merger Reserve RMB'000	Share-based compensation RMB'000	Reserve Fund RMB'000	Enterprise Expansion Fund RMB'000	Retained Earnings RMB'000	Transaction to NCI RMB'000	NCI RMB'000	Total RMB'000
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	<u>307,130</u>	<u>1,225,478</u>	<u>(22,041)</u>	<u>367,979</u>	<u>45,273</u>	<u>1,131</u>	<u>(202,412)</u>	<u>(3,509)</u>	<u>3,434</u>	<u>1,722,463</u>
At 1 January 2016 (audited)	342,822	1,343,030	(22,041)	289,206	45,273	1,131	(258,377)	(3,509)	2,807	1,740,342
Net loss for the 6 Months ended 30 June 2016	-	-	-	-	-	-	(127,730)	-	(777)	(128,507)
Issue of new shares	14,619	81,412	-	(39,220)	-	-	-	-	-	56,811
At 30 June 2016	<u>357,441</u>	<u>1,424,442</u>	<u>(22,041)</u>	<u>249,986</u>	<u>45,273</u>	<u>1,131</u>	<u>(386,107)</u>	<u>(3,509)</u>	<u>2,030</u>	<u>1,668,646</u>

NOTES OF FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

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

The unaudited interim financial statements have been prepared in accordance with the Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the disclosure requirements set out in Appendix 16 of the Rules Governing the Listing of the Securities (the “Listing Rules”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies used in the unaudited interim financial statements are consistent with those followed in the Group’s financial statements for the year ended 31 December 2015. 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 RMB1,328,104,000 as at 30 June 2016. 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 2016 on the basis that the decrease in natural gas price 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.

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 2016 (unaudited)		Six months ended 30 June 2015 (unaudited)	
	RMB’000	%	RMB’000	%
BB & complex fertilizers	15,676	2.2	32,367	3.9
Urea	–	–	341,420	40.9
Ammonia	39,265	5.5	58,749	7.0
Methanol	113,632	15.9	–	–
Polyphenylene Sulfide	9,135	1.3	–	–
Others (<i>Note</i>)	538,074	75.1	402,898	48.2
	<u>715,782</u>	<u>100</u>	<u>835,434</u>	<u>100</u>

Note: Others are trading of urea, potash fertilizers, methanol, ammonia and compound fertilizers. The non-operation of Dazhou Plant lead to the zero sale volume of urea in the first half of year 2016.

4. OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Charging:		
Staff costs (including directors' emoluments)		
— Salaries, wages and other benefits	26,127	25,959
— Contributions to retirement scheme	5,175	3,467
Cost of inventories	745,622	799,042
Loss on disposal of fixed assets	—	72
Operating leases for buildings	437	411
Depreciation and amortization charges	62,759	41,749
Auditors' remuneration	1,618	1,330
	<u>1,618</u>	<u>1,330</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 2016.

The applicable income tax rate of all subsidiaries located in Mainland China in 2016 is 25%.

The income tax benefit made for Dazhou Ko Yo for the six months ended 30 June 2016 was approximately RMB11,226,000.

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

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Current tax in the PRC	—	—
Deferred income tax (<i>Note 11</i>)	(11,226)	(6,774)
	<u>(11,226)</u>	<u>(6,774)</u>

6. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share for the six months ended 30 June 2016 and 2015 were based on:

	Six months ended 30 June	
	2016 RMB'000	2015 RMB'000
(Loss)/Profit for the period	(127,730)	(49,681)
Weighted average number of shares for calculation of basic earnings per share	4,087,278,165	3,886,600,094
Effect of dilutive potential shares on the outstanding share options and convertible bonds	—	903,308,788
Weighted average number of shares for calculation of diluted earnings per share	<u>4,087,278,165</u>	<u>4,789,908,882</u>

7. DIVIDEND

The Board does not recommend the payment of any dividend for the six months ended 2016.

8. TRADE AND OTHER RECEIVABLES

	(Unaudited)	(Audited)
	As at 30 June 2016 RMB'000	As at 31 December 2015 RMB'000
Trade receivables	9,493	13,442
Prepayments, purchase deposits and other deposits	205,681	312,784
Notes receivable	—	—
Other receivables	206,444	21,922
	<u>421,618</u>	<u>348,148</u>

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

	(Unaudited) As at 30 June 2016 RMB'000	(Audited) As at 31 December 2015 RMB'000
Aged:		
Less than 3 months	9,207	13,442
More than 3 months but not exceeding 1 year	286	–
More than 1 year but not exceeding 2 years	1,626	1,626
More than 2 years but not exceeding 3 years	–	–
More than 3 years	5,241	5,241
	<u>16,360</u>	<u>20,309</u>
Less: provision for doubtful receivables	(6,867)	(6,867)
	<u><u>9,493</u></u>	<u><u>13,442</u></u>

9. TRADE AND OTHER PAYABLES

	(Unaudited) As at 30 June 2016 RMB'000	(Audited) As at 31 December 2015 RMB'000
Trade payables	171,454	171,903
Note payables	–	–
Construction payable	277,241	375,526
Deposits from customers	4,022	147,895
Accruals and other payables	407,504	194,718
	<u>860,221</u>	<u>890,042</u>

The aging analysis of trade payables is as follows:

	(Unaudited) As at 30 June 2016 RMB'000	(Audited) As at 31 December 2015 RMB'000
Aged:		
Less than 1 year	158,425	156,769
More than 1 year but not exceeding 2 years	6,255	14,180
More than 2 years but not exceeding 3 years	2,788	4
More than 3 years	3,986	950
	<u>171,454</u>	<u>171,903</u>

10. BORROWINGS

	(Unaudited) As at 30 June 2016 RMB'000	(Audited) As at 31 December 2015 RMB'000
Short-term borrowings, secured	1,383,818	1,588,225
Long-term borrowings repayable:		
Less than 1 year	2,400	281,680
Between 1 and 2 years	181,960	126,640
Between 2 and 5 years	223,561	328,320
Over 5 years	382,000	180,000
	<u>789,921</u>	<u>916,640</u>
Within 1 year included in current liabilities	<u>(2,400)</u>	<u>(281,680)</u>
	<u><u>787,521</u></u>	<u><u>634,960</u></u>

As at 30 June 2016, 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 4.79% to 15.00% (2015: 4.95% to 7.85%) per annum.

11. DEFERRED INCOME TAX

There were no offsetting of deferred income tax assets and liabilities in 2015 and in six months period ended 2016.

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 2015	73,343	–	264	73,607
Charged to income statement	<u>11,252</u>	<u>–</u>	<u>(26)</u>	<u>11,226</u>
At 30 June 2016	<u><u>84,595</u></u>	<u><u>–</u></u>	<u><u>238</u></u>	<u><u>84,833</u></u>

Deferred income tax liabilities:

	Evaluation and exploration assets RMB'000	Withholding tax RMB'000	Total RMB'000
At 31 December 2015	<u>(71,563)</u>	<u>–</u>	<u>(71,563)</u>
At 30 June 2016	<u><u>(71,563)</u></u>	<u><u>–</u></u>	<u><u>(71,563)</u></u>

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Performance

For the six months ended 30 June 2016, the Group recorded a turnover of approximately RMB716 million, representing a decrease of approximately 14.3% as compared with approximately RMB835 million for the corresponding period last year. Loss attributable to shareholders was approximately RMB127.7 million (2015: first half year loss of approximately RMB49.7 million), representing an increase of loss of approximately RMB78.0 million as compared with the corresponding period last year. Basic loss per share was approximately RMB3.13 fen (2015: first half year basic loss per share of approximately RMB1.28 fen).

During the period under review, the total sales volume (excluding the trading portion) of the Group reached approximately 114,200 tonnes (2015: 266,000 tonnes), representing a decrease of 57.1% 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 4% to -4% as compared with the corresponding period last year, which was mainly due to the low selling price of products. Cost of sales amounted to approximately RMB746 million, representing a decrease of approximately 6.7% as compared with the corresponding period last year. Distribution costs decreased by approximately 86.5% as compared with the corresponding period last year, due to the non-operation of Dazhou Plant and therefore there was no distribution cost from Dazhou Plant. The administrative expenses increased by approximately 202% as compared with the corresponding period last year, due to the depreciation charge from Dazhou Plant amounting to approximately RMB38 million and the commencement of production of Guangan Plant and Polyphenylene Sulfide Plant.

Business Review

During the period under review, the Group launched its new polyphenylene sulfide products in the market on schedule and our devices achieved their targeted production capacity and standard. The Guangan Plant resumed operations and achieved the expected net operating cash flows. The Dazhou Company made progress in its resumption of operations and continued to carry out various fundamental management works. However, due to the impact of external business environment, excessive supply in the traditional large scale chemical products market resulted in a persistent fall in both sales volume and selling prices of products. Prices of raw materials continued to stand firm and production cost remained high. As the price of natural gas significantly exceeded the market price of the product, the Dazhou Plant was not able to resume production and the Guangan Plant was only able to maintain its operation for two months. Although the polyphenylene sulfide products were launched, as such products are fairly new, it takes time for them to be received by and integrated into the market. OEM and trading business record a year-on-year decrease due to lack of funds, resulting in a significant decrease in the operating results of the Company and falling short of our operation targets.

During the period under review, due to the unfavourable macro-economic conditions, prolonged weakness of the chemical fertilizer and chemicals industry, shortage of working capital and pending financial arrangements for the project, the construction of all new projects of the Group remained on hold.

1. Targeted Production Capacity and Standard of Polyphenylene Sulfide Project was Achieved on 24 May 2016

Installation of facilities of the fiber polyphenylene sulfide project of the Group with annual production capacity of 3,000 tonnes was completed on 31 December 2015. Normal production of qualified polyphenylene sulfide products commenced on 30 January 2016. After nearly four months of production and commissioning, targeted production capacity and standard of polyphenylene sulfide project was achieved on 24 May 2016. The production capacity and consumption benchmarks of the project have been reached, and some of them even outperformed the originally designed level. Its product quality is reliable, and each of its product indicators meets the standard of fiber grade products, satisfying the demands of downstream customers to full extent and enjoying a certain degree of competitiveness in the international market. The polyphenylene sulfide products of such production facilities is fiber grade polyphenylene sulfide mainly used as raw materials for the production of filter-bags environmental protection usages in thermal power plants, cement factory, metallurgy and incineration plants, representing more than 90% of the overall usage. Multi-vulcanization (多水硫化法) used in the production of fiber grade polyphenylene sulfide is a proprietary technique in China with the characteristics of high reaction efficiency and solution recovery but low energy consumption. Achieving targeted production capacity and standard of polyphenylene sulfide project created a new profit growth point for the Group.

2. The Guangan Plant resumed operations in May 2016

The Guangan Plant resumed operations in May 2016 and has been running smoothly in terms of its production device, daily output of each of methanol and synthetic ammonia exceeding the record level while each of its consumption benchmarks was higher than that of the corresponding period. As natural gas price decreased to RMB1.516 per cubic meter since 1 May 2016, a drop of approximately 35% as compared with the natural gas price of RMB2.35 per cubic meter for the same period last year, coupled with the preferential treatment afforded by the policy for absorption of surplus electricity, the production and operation costs of the Company were further reduced. The sales team of the Group made every effort to adjust and optimize the distribution channels and strengthen the cooperation with its strategic partners, core customers and key customers. All products were sold in local markets and the ex-factory prices of the products were enhanced. Meanwhile, the Group strived to maximize product sales and realize full recovery of account receivables.

Industry Overview

In 2016, the effective production capacity of urea in China amounted to 78.92 million tonnes. Idle capacity in short or long term amounted to 5.66 million tonnes. Withdrawn capacity amounted to 2.79 million tonnes. Daily output of urea amounted to 0.196 million tonnes, and the capacity utilization of production was above 70%, resulting in substantial oversupply in the market. In the first half of 2016, the domestic price of urea slumped after some upward fluctuations. In the first half of 2016, price of urea in China fell below the lowest level in 2014, hitting a record low since 2012. As at the end of June, price of urea in China was RMB1,283 per ton, representing a decrease of over RMB100 or 9.33% as compared with RMB1,415 per ton at the beginning of the year. The ever-falling ex-factory prices of urea have basically disproportioned the production costs of over 90% of the enterprises. The abolishment of preferential electricity price for chemical fertilizers industry and increase in production cost accelerated the elimination of excess capacity. Additional production capacity around the globe overshadowed China's advantage in export and further intensified the oversupply of production capacity in China. The downward adjustment of rail freight in the region of Sichuan and Chongqing made it difficult to push up the price of urea in peak season, resulting in sluggish growth and even a drop in the price of urea during peak season in the first half of the year.

From January to May 2016, the total domestic output of methanol was 17.43 million tonnes, an increase of 14.2% as compared with the corresponding period last year. Accumulated import volume of methanol was 3.35 million tonnes, representing a substantial increase of 55.06% as compared with the corresponding period last year. In the first half of 2016, overall apparent consumption of methanol was 20.69 million tonnes, representing an increase of 37.50% as compared with the corresponding period last year. The increase was mainly driven by the increase in output of olefin. Each of Inner Mongolia Mengda and Shenhua Yulin commenced olefin projects with production capacity of 0.60 million tonnes while production of olefin in the east of Shandong Province of northern China and in the eastern China has been running smoothly, despite the traditional downstream industry contributed little to the growth of demands for olefin. In the first half of 2016, the average domestic market price of methanol was RMB1,730.81 per ton, representing a decrease of 14.84% as compared with the corresponding period last year. As compared to the first half of 2015, the market price of methanol decreased throughout the first half of 2016, mainly due to the drop of price of methanol caused by the slump of oil price at the end of 2015 and the continued sluggish economic environment.

Future Objectives and Strategies

It is expected that there will be limited improvement in the nitrogen fertilizer industry and sluggishness will continue in the second half of 2016. However, as some enterprises downsized or even suspended production, supply and demand situation might vary. Together with launch of national supporting economic policy, this may gradually contribute to the slow recovery of the market.

In 2016, large-scale methanol-to-olefin projects commenced production and downstream demand might increase. Under the new landscape after the introduction of the “Thirteen Five-Year Plan”, methanol is directly used as fuels (such as methanol gasoline, marine fuels and methanol boilers, etc.), whereas the development of methanol-fuelled battery vehicles may bring new business opportunities and further stimulate the consumption of methanol. Therefore, the consumption pattern of methanol may have a fresh round of changes.

Amid the prolonged sluggish environment in the macroeconomy and difficulties in the chemical fertilizers and chemicals industries, the Group will adopt the following strategies and measures to overcome the challenges.

1. Centralising management and allocation of capital of the Group to ensure optimum use of limited capital.
2. Ensuring stable economic operations achieved by facilities in Guangan by the way of initial cost-effectiveness estimation before commencement of production coupled with daily monitoring, calculation and prediction; and optimisation of operational efficiency as a result of prompt adjustment and optimisation to the production organization and operation workload.
3. Seeking government and external support actively to create favourable conditions for resumption of production of Dazhou plant.
4. Seizing quality core end client and exploring market potential to increase local sales volume and the number of sales regions with higher pricing potential.
5. Continuing to implement various measures under the philosophy of “increasing income, minimizing cost and maximizing efficiency” to reduce operational costs and cash outflow.
6. Maximising OEM and trading business by utilizing channels and resources to strive for the best operation scale and efficiency.
7. Strengthening operation management of polyphenylene sulfide production and exploring internal potentials to enhance competitiveness of products will become the new economic growth driver of the Company. As polyphenylene sulfide project of the Group has achieved targeted production capacity and standard, the Company will further conduct technology modification in addition to stabilizing and optimizing the existing production in the second half of the year, aiming to further reduce costs and create better economic efficiency. Meanwhile, after gaining market awareness and recognition over time, the Company will strive to establish long-term relationship with reputable customers to increase our market share and prepare for the sales of products in the second phase.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 June 2016, the Group had net current liabilities of approximately RMB1,328,104,000. Current assets as at 30 June 2016 comprised cash and bank deposits of approximately RMB11,575,000, pledged bank deposits of approximately RMB151,792,000, inventories of approximately RMB118,528,000, derivative financial assets of approximately RMB214,822,000, trade and other receivables of approximately RMB421,618,000. Current liabilities as at 30 June 2016 comprised short-term loans of approximately RMB1,383,818,000, current portion of long term loans of approximately RMB2,400,000, trade and other payables of approximately RMB860,221,000.

CAPITAL COMMITMENTS

As at 30 June 2016, the Group had outstanding capital commitments of approximately RMB23,000,000.

FINANCIAL RESOURCES

As at 30 June 2016, the Group had cash and bank balances of approximately RMB11,575,000 and did not have any standby bank facilities. The Company intends to finance the Group's future operations, capital expenditure and other capital requirements with the existing bank balances and cash flow from operation.

GEARING RATIO

The Group's gearing ratios were 54.6% and 54.3% as at 30 June 2016 and 31 December 2015 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 2016.

MATERIAL ACQUISITIONS/DISPOSALS

Save as disclosed in notes 28 of the Company's annual report of year 2015, the Group had no material acquisitions/disposals during the six months ended 30 June 2016.

ISSUE OF CONVERTIBLE BONDS

As disclosed in the announcements dated 5 January 2016 and 15 January 2016, the Company and Partners Capital Securities Limited (the "Placing Agent") entered into the placing agreement on 5 January 2016 pursuant to which the Placing Agent agreed to use its best endeavours to procure the subscribers to subscribe for the 3 years non-interest bearing convertible bonds (the "Convertible Bonds") with initial conversion price of HK\$0.40. On 15 January 2016, the Convertible Bonds in the aggregate principle amount of HK\$23,200,000 have been successfully placed by the Placing Agent. The net proceeds of approximately HK\$22,500,000 from the issue of the Convertible Bonds had been used as general working capital of the Group.

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 2016.

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 2016, the Group had a total workforce of 835 (2015: 955), of which 8 (2015: 8) were responsible for management, 118 (2015: 134) for finance and administration, 660 (2015: 754) for production and 49 (2015: 59) for sales and marketing. Of these employees, 827 (2015: 947) were stationed in the PRC and 8 (2015: 8) in Hong Kong.

CHARGES ON THE GROUP'S ASSETS

As at 30 June 2016, certain land use rights and buildings with a total net book value of approximately RMB256,899,000 (2015: RMB259,108,000), plant and machinery with a total net book value of approximately RMB2,263,291,000 (2015: RMB1,211,431,000) and bank deposits of approximately RMB151,792,000 (2015: RMB998,317,000) 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 HK 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 2016 were disclosed in the following table:

	Held at 1 Jan 2016 (‘000)	Grant during period (‘000)	Exercised during period (‘000)	Forfeited during period (‘000)	Held at 30 Jun 2016 (‘000)	Number of share options						
						Shares Options A (‘000)	Shares Options B (‘000)	Shares Options C (‘000)	Shares Options D (‘000)	Shares Options E (‘000)	Shares Options F (‘000)	Shares Options G (‘000)
Directors												
Li Weiruo	-	-	-	-	-	-	-	-	-	-	-	-
Yuan Bai	3,400	400	-	(400)	3,400	-	-	-	800	-	2,200	400
Chi Chuan	3,800	-	-	-	3,800	-	-	-	-	-	3,800	-
Man Au Vivian	-	-	-	-	-	-	-	-	-	-	-	-
Li Ciping	1,600	-	-	-	1,600	-	-	-	1,600	-	-	-
Zheng Fubo	-	-	-	-	-	-	-	-	-	-	-	-
Hu Xiaoping	1,200	-	-	-	1,200	-	-	-	-	800	400	-
Woo Che-wor Alex	1,200	-	-	-	1,200	-	-	-	-	800	400	-
Sun Tongchuan	-	-	-	-	-	-	-	-	-	-	-	-
Employees	<u>8,100</u>	<u>81,500</u>	<u>-</u>	<u>(2,600)</u>	<u>87,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,300</u>	<u>-</u>	<u>3,200</u>	<u>81,500</u>
Total	<u>19,300</u>	<u>81,900</u>	<u>-</u>	<u>(3,000)</u>	<u>98,200</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,700</u>	<u>1,600</u>	<u>10,000</u>	<u>81,900</u>

Share Options A: Grant on 11 April 2006, exercisable from grant date until 10 April 2016 with exercise price HK\$0.750, where 1,800,000 share options A were lapsed during the 1st half of 2016.

Share Options B: Grant on 16 May 2006, exercisable from grant date until 10 April 2016 with exercise price HK\$0.750, where 400,000 share options B were lapsed during the 1st half of 2016.

Share Options C: Grant on 10 September 2007, exercisable from grant date until 9 September 2017 with exercise price HK\$0.580, where 800,000 shares options C were forfeited during the 1st half of 2016.

Share Options D: Grant on 14 January 2010, exercisable from grant date until 13 January 2020 with exercise price HK\$1.150.

Share Options E: Grant on 23 November 2010, exercisable from grant date until 22 November 2020 with exercise price HK\$1.100.

Share Options F: Granted on 28 March 2013, exercisable from grant date until 27 March 2023 with exercise price HK\$0.595.

Share Options G: Granted on 22 June 2016, exercisable from grant date until 21 June 2026 with exercise price HK\$0.151.

During the six month ended 30 June 2016, no share options were exercised.

DISCLOSURE OF INTERESTS

(A) Interests of the Directors in the Company

As at 30 June 2016, 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	405,992,000	38,900,000	444,892,000	10.65%
Yuan Bai	71,292,800	3,400,000	74,692,800	1.79%
Chi Chuan	12,300,000	3,800,000	16,100,000	0.39%
Li Ciping	800,000	1,600,000	2,400,000	0.06%
Zhang Fubo	5,000,000	–	5,000,000	0.12%
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%

(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%

(B) Interests of the Substantial Shareholders in the Company

As at 30 June 2016, 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	19.15%

* As at 30 June 2016, 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 2016, 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 2016, 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 2016, 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. 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 2016.

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 2016

As at the date of this announcement, the Board of the Company comprises five executive directors, being Mr. Li Weiruo, Mr. Yuan Bai, Ms Chi Chuan, Ms Man Au Vivian and Mr. Li Ciping, one non-executive director being Mr. Zhang Fubo and three independent non-executive directors, being Mr. Hu Xiaoping, Mr. Woo Che-Wor, Alex and Mr. Sun Tongchuan.