



**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)



**2017**

**INTERIM REPORT**

## Highlights

Unaudited loss attributable to shareholders of the Group was approximately RMB71.7 million for the six months ended 30 June 2017, which represents a decrease of loss of RMB56.0 million as compared to that of the same period last year.

For the six months ended 30 June 2017, unaudited turnover was approximately RMB1,785 million, which represents an increase of approximately 149% as compared to the same period last year.

Unaudited basic loss per share of the Group was approximately RMB1.67 cents for the six months ended 30 June 2017.

The Directors do not recommend to pay any interim dividend for the six months ended 30 June 2017.

## 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 2017 together with the unaudited comparative figures for the corresponding periods in 2016 are as follows:

### Unaudited Condensed Consolidated Profit and Loss Account

For the six months ended 30 June 2017 and 30 June 2016

	Notes	Six months ended 30 June	
		2017 RMB'000	2016 RMB'000
Turnover	3	<b>1,784,701</b>	715,782
Cost of sales		<b>(1,736,990)</b>	(745,622)
Gross profit		<b>47,711</b>	(29,840)
Interest income		<b>867</b>	4,884
Distribution costs		<b>(24,030)</b>	(2,814)
Administrative expenses		<b>(43,772)</b>	(82,112)
Other income		<b>2,996</b>	3,747
Operating profit		<b>(16,228)</b>	(106,135)
Finance costs		<b>(62,714)</b>	(33,598)
(Loss)/Profit before taxation	4	<b>(78,942)</b>	(139,733)
Taxation	5	<b>7,221</b>	11,226
(Loss)/Profit for the period		<b>(71,721)</b>	(128,507)
Attributable to:			
Equity holders of the Company		<b>(71,695)</b>	(127,730)
Non-controlling interests		<b>(26)</b>	(777)
		<b>(71,721)</b>	(128,507)
Basic (loss)/earning per share (RMB cents)	6	<b>(1.67)</b>	(3.13)
Diluted (loss)/earnings per share (RMB cents)	6	<b>(1.67)</b>	(3.13)
Declared dividends per share (HK cents)	7	<b>Nil</b>	Nil

## Condensed Consolidated Balance Sheet

As at 30 June 2017 and 31 December 2016

	Notes	(Unaudited) As at 30 June 2017 RMB'000	(Audited) As at 31 December 2016 RMB'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment		3,226,742	3,320,658
Deferred income tax assets	11	87,934	80,713
Investment properties		12,127	12,127
Mining right		289,298	289,298
Intangible assets		8,889	8,889
Land use rights		115,524	117,143
		<b>3,740,514</b>	3,828,828
<b>Current assets</b>			
Inventories		145,217	92,464
Trade and other receivables	8	411,307	308,060
Derivative financial assets		227,378	227,378
Pledged bank deposits		11,122	12,922
Cash and bank deposits		6,914	24,477
		<b>801,938</b>	665,301
<b>Total assets</b>		<b>4,542,452</b>	4,494,129
<b>EQUITY</b>			
Share capital		368,307	367,531
Reserves Others		946,016	1,017,384
Shareholders' funds		<b>1,314,323</b>	1,384,915
<b>Non-controlling interest</b>		<b>1,950</b>	1,976
<b>Total equity</b>		<b>1,316,273</b>	1,386,891

## Condensed Consolidated Balance Sheet (Continued)

As at 30 June 2017 and 31 December 2016

	Notes	(Unaudited) As at 30 June 2017 RMB'000	(Audited) As at 31 December 2016 RMB'000
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	9	946,022	814,310
Short-term borrowings, secured	10	1,307,503	1,316,013
Provision for tax		–	1,152
Current portion of long term borrowings	10	166,780	220,640
		<b>2,420,305</b>	2,352,115
<b>Non-current liabilities</b>			
Long-term borrowings	10	620,241	568,282
Convertible bonds		114,194	115,296
Deferred subsidy income		1,824	1,930
Deferred income tax liabilities	11	69,615	69,615
		<b>805,874</b>	755,123
<b>Total liabilities</b>		<b>3,226,179</b>	3,107,238
<b>Total equity and liabilities</b>		<b>4,542,452</b>	4,494,129
<b>Net current liabilities</b>		<b>(1,618,367)</b>	(1,686,814)
<b>Total assets less current liabilities</b>		<b>2,122,147</b>	2,142,014

## Unaudited Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2017 and 30 June 2016

	Six months ended 30 June	
	2017 RMB'000	2016 RMB'000
Net cash generated from operating activities	<b>62,850</b>	(46,136)
Interest paid	<b>(62,714)</b>	(33,598)
Net cash inflow/(outflow) from operating activities	<b>136</b>	(79,734)
Investing activities		
Purchases of fixed assets and payments for construction-in-progress	<b>(9,958)</b>	(15,982)
Proceeds from disposal of fixed assets	<b>2</b>	142,000
Decrease in receipt in advance regarding the disposal of fixed assets	<b>–</b>	(142,000)
Interest received	<b>867</b>	4,884
Net cash outflow from investing activities	<b>(9,089)</b>	(11,098)
Net cash outflow before financing activities	<b>(8,953)</b>	(90,832)
Financing activities		
(Increase)/Decrease in pledged bank deposits	<b>1,800</b>	353,263
Issue of ordinary shares	<b>1,103</b>	56,811
New loans payable	<b>485,840</b>	666,131
Repayment of bank loans	<b>(497,353)</b>	(1,033,580)
Net cash inflow/(outflow) from financing activities	<b>(8,610)</b>	42,625
(Decrease)/Increase in cash and cash equivalents	<b>(17,563)</b>	(48,207)
Cash and cash equivalents at 1 January	<b>24,477</b>	59,782
Cash and cash equivalents at 30 June	<b>6,914</b>	11,575

# Unaudited Consolidated Statement of Changes In Equity

For the six months ended 30 June 2017 and 30 June 2016

	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 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	357,441	1,424,442	(22,041)	249,986	45,273	1,131	(386,107)	(3,509)	2,030	1,668,646
At 1 January 2017 (audited)	367,531	1,406,774	(22,041)	255,287	45,273	1,131	(665,531)	(3,509)	1,976	1,386,891
Net loss for the 6 Months ended 30 June 2017	-	-	-	-	-	-	(71,695)	-	(26)	(71,721)
Issue of new shares	775	328	-	-	-	-	-	-	-	1,103
At 30 June 2017	368,306	1,407,102	(22,041)	255,287	45,273	1,131	(737,226)	(3,509)	1,950	1,316,273

# 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 2016. 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 RMB1,618,367,000 as at 30 June 2017. 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 2017 on the basis that the positive cash flow from Guangan plant 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 2017 (unaudited)		Six months ended 30 June 2016 (unaudited)	
	RMB'000	%	RMB'000	%
BB & complex fertilizers	12,955	0.7	15,676	2.2
Urea	299,025	16.8	–	–
Ammonia	256,727	14.4	39,265	5.5
Methanol	456,438	25.6	113,632	15.9
Polyphenylene Sulfide	58,938	3.3	9,135	1.3
Others (Note)	700,618	39.2	538,074	75.1
	<b>1,784,701</b>	<b>100</b>	715,782	100

Note: Others are trading of urea, potash fertilizers, methanol, ammonia and compound fertilizers.

## Notes of Financial Statements (Continued)

### 4. Reconciliation of loss before taxation to cash generated from operating activities

	Six months ended 30 June	
	2017 RMB'000	2016 RMB'000
Loss before tax	<b>(78,942)</b>	(139,733)
Depreciation of property, plant and equipment	<b>103,872</b>	61,636
Amortisation of land us rights	<b>1,621</b>	1,123
Interest income	<b>(867)</b>	(4,884)
Interest expense	<b>62,714</b>	33,598
Operation cash flow before working capital change	<b>88,398</b>	(48,260)
(Increase)/decrease in inventories	<b>(52,757)</b>	(40,041)
(Increase)/decrease in trade and other receivables	<b>(103,247)</b>	(73,471)
Increase/(decrease) in trade an other payables	<b>123,339</b>	104,514
Increase/(decrease) in deferred subsidy income	<b>(104)</b>	(104)
Cash generated from/(used in) operating activities	<b>55,629</b>	(57,362)
Income tax	<b>7,221</b>	11,226
Net cash generated from/(used in) operating activities	<b>62,850</b>	(46,136)

## 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 2017.

The applicable income tax rate of all subsidiaries located in Mainland China in 2017 is 25%.

The income tax benefit made for Dazhou Ko Yo for the six months ended 30 June 2017 was approximately RMB7,221,000.

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

	<b>Six months ended 30 June</b>	
	<b>2017</b>	2016
	<b>RMB'000</b>	RMB'000
Current tax in the PRC	–	–
Deferred income tax (Note 11)	<b>(7,221)</b>	(11,226)
	<b>(7,221)</b>	(11,226)

## 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 2017 and 2016 were based on:

	Six months ended 30 June	
	2017 RMB'000	2016 RMB'000
(Loss)/Profit for the period	<b>(71,695)</b>	(127,730)
Weighted average number of shares for calculation of basic earnings per share	<b>4,297,507,378</b>	4,087,278,165
Effect of dilutive potential shares on the outstanding share options and convertible bonds	–	–
Weighted average number of shares for calculation of diluted earnings per share	<b>4,297,507,378</b>	4,087,278,165

### 7. Dividend

The Board does not recommend the payment of any dividend for the six months ended 2017.

## Notes of Financial Statements (Continued)

### 8. Trade and Other Receivables

	(Unaudited) As at 30 June 2017 RMB'000	(Audited) As at 31 December 2016 RMB'000
Trade receivables	20,017	36,392
Prepayments, purchase deposits and other deposits	209,035	220,396
Notes receivable	12,507	–
Other receivables	169,748	51,272
	<b>411,307</b>	308,060

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 2017 RMB'000	(Audited) As at 31 December 2016 RMB'000
Aged:		
Less than 3 months	19,731	36,106
More than 3 months but not exceeding 1 year	–	–
More than 1 year but not exceeding 2 years	286	286
More than 2 years but not exceeding 3 years	1,626	1,626
More than 3 years	5,241	5,241
	<b>26,884</b>	43,259
Less: provision for doubtful receivables	<b>(6,867)</b>	(6,867)
	<b>20,017</b>	36,392

## Notes of Financial Statements (Continued)

### 9. Trade and Other Payables

	<b>(Unaudited)</b> <b>As at</b> <b>30 June</b> <b>2017</b> <b>RMB'000</b>	(Audited) As at 31 December 2016 RMB'000
Trade payables	<b>109,809</b>	154,249
Construction payable	<b>216,741</b>	356,481
Deposits from customers	<b>228,387</b>	159,437
Accruals and other payables	<b>391,085</b>	144,143
	<b>946,022</b>	814,310

The aging analysis of trade payables is as follows:

	<b>(Unaudited)</b> <b>As at</b> <b>30 June</b> <b>2017</b> <b>RMB'000</b>	(Audited) As at 31 December 2016 RMB'000
Aged:		
Less than 1 year	<b>102,879</b>	87,495
More than 1 year but not exceeding 2 years	<b>1,715</b>	61,297
More than 2 years but not exceeding 3 years	<b>3,099</b>	2,084
More than 3 years	<b>2,116</b>	3,373
	<b>109,809</b>	154,249

## Notes of Financial Statements (Continued)

### 10. Borrowings

	<b>(Unaudited)</b> <b>As at</b> <b>30 June</b> <b>2017</b> <b>RMB'000</b>	(Audited) As at 31 December 2016 RMB'000
Short-term borrowings	<b>1,307,503</b>	1,316,013
Long-term borrowings repayable:		
Less than 1 year	<b>166,780</b>	220,640
Between 1 and 2 years	<b>70,280</b>	128,320
Between 2 and 5 years	<b>257,961</b>	349,962
Over 5 years	<b>292,000</b>	90,000
	<b>787,021</b>	788,922
Within 1 year included in current liabilities	<b>(166,780)</b>	(220,640)
	<b>620,241</b>	568,282

As at 30 June 2017, 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 4.35% to 15.00% (2016: 4.79% to 15.00%) per annum.

## Notes of Financial Statements (Continued)

### 11. Deferred Income Tax

There were no offsetting of deferred income tax assets and liabilities in 2016 and in six months period ended 2017.

Deferred income tax assets:

	<b>Loss available for offsetting future taxable profits</b> RMB'000	<b>Impairment of assets</b> RMB'000	<b>Deferred subsidy income</b> RMB'000	<b>Total</b> RMB'000
At 31 December 2016	80,501	–	212	80,713
Charged to income statement	7,247	–	(26)	7,221
At 30 June 2017	<b>87,748</b>	<b>–</b>	<b>186</b>	<b>87,934</b>

Deferred income tax liabilities:

	<b>Evaluation and exploration assets</b> RMB'000	<b>Withholding tax</b> RMB'000	<b>Total</b> RMB'000
At 31 December 2016	(69,615)	–	(69,615)
At 30 June 2017	<b>(69,615)</b>	<b>–</b>	<b>(69,615)</b>



# Management Discussion and Analysis

## Financial Performance

For the six months ended 30 June 2017, the Group recorded a turnover of approximately RMB1,785 million, representing an increase of approximately 149% as compared with approximately RMB716 million for the corresponding period last year. Loss attributable to shareholders was approximately RMB71.7 million (2016: first half year loss of approximately RMB127.7 million), representing a decrease of loss of approximately RMB56.0 million as compared with the corresponding period last year. Basic loss per share was approximately RMB1.67 fen (2016: first half year basic loss per share of approximately RMB3.13 fen).

During the period under review, the total sales volume (excluding the trading portion) of the Group reached approximately 597,215 tonnes (2016: 114,200 tonnes), representing an increase of 423% as compared with that of the corresponding period last year.

For the period under review, the gross profit margin of the Group increased from approximately -4% to 3% as compared with the corresponding period last year, which was mainly due to the increase in selling price of products. Cost of sales amounted to approximately RMB1,737 million, representing an increase of approximately 133% as compared with the corresponding period last year due to the increase in sales. Distribution costs increased by approximately 754%, due to the resume operation of Dazhou Plant and the increase in sales. The administrative expenses decreased by approximately 47% as compared with the corresponding period last year, due to the depreciation charge from Dazhou Plant amounting to approximately RMB38 million in the corresponding period last year.

# Management Discussion and Analysis (Continued)

## Business Review

During the period under review, facilities of Guangan Company had been running steadily and smoothly, and continued to hit new records in daily production indicators. Meanwhile, the facilities at Dazhou Company had also successfully resumed production and achieved high level of safety and reliability in operation. As to our entity in the new materials division, the PPS facilities also had its operation conditions optimised, with significant enhancement in both single-kettle and daily production volumes, and substantial reduction in consumption and cost. Its products were well-received in the market. Our agrochemical division was also on the offensive in full scale. With its channel adjustment and optimisation and reinforced co-operation, the division recorded 100% growth in both product delivery and trade receivable collections on the front of product sale, meeting the expectation in net operating cash flow. In general, the management of the Group had been strengthened, and the Group's operation as a whole was heading towards the right track. However, its overall operating performance was restrained by an external macro-economic and business environment characterised by tightening liquidity and credit, continuing excessive supply over demand in the conventional chemicals and fertilizers market, sustaining inflation in raw material costs, and ongoing downward trend in selling prices of certain products. Hence, the overall operating performance still fell short of expectations and remained in loss-making. Our goal and envisaged results had yet been materialised.

During the period under review, due to unfavourable macro-economic conditions and the uncertain outlook of fertilizers and chemicals industry as a whole (notwithstanding some preliminary signs of recovery), the Group remained in loss-making position (albeit the operating conditions had somewhat improved) and tight in working capital. Compounded with the fact that some project financing arrangements had not yet been finalised, constructions of all new projects of the Group remained on hold.

## Management Discussion and Analysis (Continued)

### 1. Operation of Guangan Plant was stable with its daily production repeatedly hitting new records

Guangan Plant has now been in operation for 14 months since its resumption in May 2016. All of the daily production and consumption data of the facilities had either reached their designed level or exceeded their historical records. In particular, the highest production output figure registered by the facility for synthetic ammonia purge gas had successfully hit the daily production target set by the Board i.e.  $\geq 500$  tonnes (501.94 tonnes). It had also set several records in operation included 35 consecutive days of consistent operation at high production level, 505.93 tonnes in average daily ammonia production volume, 508.71 tonnes in highest daily ammonia production volume, bringing about excellent economic efficiency. Since 28 May 2017, natural gas price has been able to enjoy the preferential volume-price-linking policy. Coupled with the benefit of direct power purchases and preferential treatment afforded by the policy for absorption of surplus electricity, the production and operation costs were further reduced.

### 2. Production had resumed at Dazhou Plant and the facilities were running steadily and smoothly

Since the resumption of its production in December 2016, the facilities at Dazhou Plant had been running smoothly and steadily. Daily production volume of both synthetic ammonia and urea products had quickly returned to their normal levels, with each set of consumption indicators hitting the historical standard for the same period of time. Dazhou Plant was also able to enjoy the benefits from the policy of concerted price movement for natural gas and urea as well as the direct power purchase policy, which gave an opportunity for Dazhou Plant to successfully navigate through the turmoil period. The sales team of the Group was in full force striving to adjust and optimise the distribution channels and increase the ratio of domestic sales of our products, and eventually to achieve higher pricing for products, maximise product sales and realise full recovery of account receivables.

## Management Discussion and Analysis (Continued)

### 3. Production capacity increased at Guangan's polyphenylene sulfide (PPS) plant and its products were well received by market

Having gone through the steps of technology reform, commissioning, and optimisation of operation conditions, Guangan's PPS plant had, since January 2017, made significant advancement both in single-kettle and daily production volumes, while consumption and cost had been substantially reduced. Its product quality was reliable and widely recognised by the market. However, affected by traditional seasonal factors in consumption of the market, operation of the facilities had been put to a halt since 20 April 2017. Production of the plant could be resumed depending on market conditions.

### Industry Overview and Outlook

In 2017, there are more than 200 sets of methanol facilities in China, with total production capacity of 83.00 million tonnes. Newly set up facilities in 2017 such those by Zhongtian Hechuang (中天合創) and Hualu Hengsheng (華魯恒升) had added 4.60 million tonnes of new capacity into the industry. From January to June 2017, the total output of methanol was 23,276,900 tonnes, an increase of 6.39% as compared with the corresponding period last year. Accumulated import volume of methanol was 5,261,800 tonnes, representing a substantial increase of 19.11% as compared with the corresponding period last year. In the first half of 2017, average domestic market price of methanol was RMB2,467 per tonne, representing a year-on-year increase of 30.45%. Comparing to the first half of 2016, the market price of methanol had risen remarkably during the first half of 2017. Consumption of methanol fuel products increased significantly and stood at more than 500,000 barrels/day as of to date. Similar as to how ethanol was blended into petrol products by the United States, China had also been gradually scaling up the approach of adding methanol and its derivatives into petrol and liquified petroleum gas (LPG). At the same time, consumption of methyl tert-butyl ether (MTBE) which was a derivative of methanol and other derived consumption reached 230,000 barrels/day in 2016. Going forward, consumption of methanol used as fuel additives should expand further. In contrast, the contribution from conventional downstream segment towards the demand for methanol would be immaterial.

## Management Discussion and Analysis (Continued)

In 2017, the effective production capacity of urea in China amounted to approximately 80 million tonnes. Idle capacity in short or long term amounted to 5.90 million tonnes. Withdrawn capacity amounted to 3 million tonnes. From January to May 2017, the total domestic output of urea was 26,291,900 tonnes, a decrease of 18.73% as compared with the corresponding period last year. Daily output amounted to 156,900 tonnes, a decrease of 36,300 tonnes or 18.9% as compared with the corresponding period last year. The capacity utilization was around 59.63%. Urea imports amounted to 153,900 tonnes, representing a year-on-year increase of 96.12%, while urea exports were 2,545,800 tonnes, representing a year-on-year decrease of 50.5%. The apparent consumption of urea was 21,613,000 tonnes, a decrease of 12.2% as compared with the corresponding period last year. As of the end of June 2017, domestic The domestic average ex-factory price of urea was RMB1,561/tonnes, representing a year-on-year increase of RMB238 or 18.08%.

In the second half of the year, despite similar unfavourable factors such as decreasing agriculture demand, weak oil price and fragile chemicals industry due to the policy of structural change in cultivation and replacement of organic fertilizer, the urea market will be optimistic as compared to 2016 in general. Following the elimination of facilities with production capacity of more than 5.5 million tonnes, which are small-scale and obsolete-processing, urea inventory in China for the year saw a low level according to statistics from Industry Association. As at the third week of June, urea inventory dropped by 299 thousand tonnes from 584.9 thousand tonnes for the corresponding period of 2016 to only 280.95 thousand tonnes, representing a decrease of 50.5%. Therefore, the nitrogen fertilizer industry will continue to face a series of challenges in the second half of the year. However, as the price of raw materials such as natural gas and coal will continue to hover at high level, it is expected to be optimistic about the market condition in the second half of the year while economic operation of the nitrogen fertilizer industry in 2017 should be better in general.

# Management Discussion and Analysis (Continued)

## Strategies

Given the unfavorable macro-economy and sluggish recovery of the chemical fertilizer and chemicals industry, the Group will seize the opportunities to overcome the challenges and weather the storm by the following strategies and measures:

1. Centralising management and allocation of capital of the Group to ensure optimum use of limited capital.
2. Striving to ensure safe and stable economic operations achieved by facilities in Guangan Plant, Dazhou Plant and new material plant by way of initial cost-effectiveness estimation before commencement of production coupled with daily monitoring, calculation and prediction; and optimisation of operational efficiency by prompt adjustment and optimisation to production organisation and operation workload.
3. Seizing quality core end client and exploring market potential by our sales team to increase local sales volume and the number of sales regions with higher pricing potential.
4. Initiating production operation competition to further enhance the initiative of all the staff members, while securing stable production and exploring potential with a view to achieving higher operation goal.
5. Adhering to the “annual goal of turnaround” and continuing to implement various measures under the philosophy of “increasing income, minimising cost and maximising efficiency” to reduce operational costs and cash outflow.
6. Maximising OEM and trading business by utilising channels and resources to strive for the best operation scale and efficiency.
7. Taking the initiatives to seek funding for timely launch of Phos-chemical project.

## Management Discussion and Analysis (Continued)

### Appreciation

Looking back to the past six months, chemical fertilizer and chemicals industries experienced stagnant recovery despite volatile market condition. Under the leadership of the Board and our management and the dedication of our staff, we adhered to a market-oriented approach in our production operation to capture the opportunities of recovery, development and production, achieving long-term and stable operation. For the second half of the year, we will strive for stable development of basic chemicals industries and expansion on new material and new technology businesses in accordance with decisions and strategies devised by the Board and under the leadership of the management in order to seize market opportunities and get through the hardship.

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 sticking with us during the hard time. We will strive to bring more benefits and returns to our shareholders and the society.

**Wu Tianran**

*Chairman*

28 August 2017

## Liquidity, Financial Resources and Capital Structure

As at 30 June 2017, the Group had net current liabilities of approximately RMB1,618,367,000. Current assets as at 30 June 2017 comprised cash and bank deposits of approximately RMB6,914,000, pledged bank deposits of approximately RMB11,122,000, inventories of approximately RMB145,217,000, derivative financial assets of approximately RMB227,378,000, trade and other receivables of approximately RMB411,307,000. Current liabilities as at 30 June 2017 comprised short-term loans of approximately RMB1,307,503,000, current portion of long term loans of approximately RMB166,780,000, trade and other payables of approximately RMB946,022,000.

## Capital Commitments

As at 30 June 2017, the Group had outstanding capital commitments of approximately RMB226,255,000.

## Financial Resources

As at 30 June 2017, the Group had cash and bank balances of approximately RMB6,914,000 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 61% and 61% as at 30 June 2017 and 31 December 2016 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 2017.

## Material Acquisitions/Disposals

The Group had no material acquisitions/disposals during the six months ended 30 June 2017.



## 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 2017.

## Details of Future Plans for Material Investment or Capital Assets

Other than the phase II of the Dazhou Plant of Sichuan, 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 2017, the Group had a total workforce of 781 (2016: 835), of which 5 (2016: 8) were responsible for management, 96 (2016: 118) for finance and administration, 634 (2016: 660) for production and 46 (2016: 49) for sales and marketing. Of these employees, 779 (2016: 827) were stationed in the PRC and 2 (2016: 5) in Hong Kong.

## Charges on the Group's Assets

As at 30 June 2017, certain land use rights and buildings with a total net book value of approximately RMB266,255,000 (2016: RMB256,899,000), plant and machinery with a total net book value of approximately RMB2,227,074,000 (2016: RMB2,263,291,000) and bank deposits of approximately RMB11,122,000 (2016: RMB151,792,000) 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 2017 were disclosed in the following table:

	Number of share options								
	Held at	Grant	Exercised	Forfeited	Held at	Shares	Shares	Shares	Shares
	1 Jan	during	during	during	30 Jun	Options	Options	Options	Options
	2017	period	period	period	2017	A	B	C	D
	('000)	('000)	('000)	('000)	('000)	('000)	('000)	('000)	('000)
<b>Directors</b>									
Wu Tianran	-	-	-	-	-	-	-	-	-
Li Weiruo	-	-	-	-	-	-	-	-	-
Yuan Bai	3,400	-	-	-	3,400	800	-	2,200	400
Wan Congxin	-	-	-	-	-	-	-	-	-
Zhang Fubo	-	-	-	-	-	-	-	-	-
Hu Xiaoping	1,200	-	-	-	1,200	-	800	400	-
Shi Lei	-	-	-	-	-	-	-	-	-
Employees	13,600	-	-	-	13,600	3,900	800	7,400	1,500
<b>Total</b>	<b>18,200</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>18,200</b>	<b>4,700</b>	<b>1,600</b>	<b>10,000</b>	<b>1,900</b>

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

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

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

Share Options D: 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 2017, no share options were exercised.

## Outstanding Convertible Securities

As at 30 June 2017, the outstanding convertible securities (the "Convertible Securities 1") that issued on 13 November 2014 can convert into 1,002,675,000 shares (the "Shares") of the Company and the outstanding convertible securities (the "Convertible Securities 2") that issued on 15 January 2016 can convert into 40,000,000 Shares. Assuming all outstanding convertibles securities converted into shares as at 30 June 2017, set out below is the shareholding structure of the Company before and after such conversion:

As at 30/06/2017	No. of shares before conversion of outstanding convertible securities	% of holdings	No. of shares from conversion of outstanding convertible securities	No. of shares after conversion of outstanding convertible securities	% of holdings
Mr. Li Wei Ruo	410,392,000	9.55	–	410,392,000	7.68
Other Directors	90,592,800	2.11	–	90,592,800	1.70
Mr. Cheng Kin Ming	800,000,000	18.61	1,001,375,000	1,801,375,000	33.73
Public	2,997,057,799	69.73	41,300,000	3,038,357,799	56.89
<b>Total</b>	<b>4,298,042,599</b>	<b>100.00</b>	<b>1,042,675,000</b>	<b>5,340,717,599</b>	<b>100.00</b>

The diluted loss per shares for the year ended 30 June 2017 assuming all outstanding convertible securities being converted was RMB 0.0134 which is calculated by dividing the loss attribute to the shareholders of the Company by the total number of Shares after all outstanding convertible securities being converted. The calculation method of this diluted loss is not the same as those used in this interim report. According to Hong Kong Accounting Standard 33 paragraphs 43, potential ordinary shares are antidilutive when their conversion to ordinary shares would increase earnings per share or decrease loss per share from continuing operations. The calculation of diluted earnings per share does not assume conversion, exercise, or other issue of potential ordinary shares that would have an antidilutive effect on earnings per share. The conversion of outstanding convertible securities would have an antidilutive effect on earnings per share and therefore the calculation of diluted earnings per share in this interim report does not assume such conversion.

Base on the cash and cash equivalent as at 30 June 2017 and the cash flow from the operation of the Company, the Company has its ability to meet its redemption obligations under Convertible Securities 2 but not Convertible Securities 1. The maturity dates of Convertible Securities 1 and Convertible Securities 2 are 12 November 2024 and 14 January 2019 respectively.

Based on the implied internal rate of returns and other relevant parameters of Convertible Securities 1 and Convertible Securities 2, the Share prices at the future dates at which it would be equally financially advantageous for the securities holders to convert or redeem were as follows:

#### Convertible Securities 1

---

Date	31-12-2017	31-12-2018	31-12-2019	31-12-2010	31-12-2011
Share price (HK\$)	0.375	0.382	0.392	0.403	0.416

#### Convertible Securities 2

---

Date	31-12-2017	31-12-2018
Share price (HK\$)	0.421	0.468

---

## Disclosure of Interests

### (A) Interests of the Directors in the Company

As at 30 June 2017, 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
Wu Tianran	140,000	-	140,000	0.00%
Li Weiruo	410,392,000	-	410,392,000	9.55%
Yuan Bai	71,292,800	3,400,000	74,692,800	1.74%
Zhang Fubo	5,000,000	-	5,000,000	0.12%

Note: As at 30 June 2017, the spouse of Mr. Wu Tianran held 9,212,000 shares of the Company.

## 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%

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%

## Disclosure of Interests (Continued)

### (B) Interests of the Substantial Shareholders in the Company

As at 30 June 2017, 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	18.61%

\* As at 30 June 2017, 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 2017, 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 2017, 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 2017, 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. As at the date of this interim report, the audit committee has four members comprising one non-executive Director, namely, Mr. Zhang Fubo and the three independent non-executive Directors, namely, Mr. Hu Xiaoping, Mr. Shi Lei and Mr. Xu Congcai.

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 2017.



## 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 except for the period between the resignation of the independent non-executive director Mr. Ge Jun on 5 May 2017 and the appointment of the independent non-executive director Mr. Xu Congcai, the number of independent non-executive director of the Company fell below the requirement under Rules 3.10(1) and 3.10A of the Listing Rule, 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

**Wu Tianran**

*Chairman*

Chengdu, the PRC, 28 August 2017