



# 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)

INTERIM REPORT 2018



Unaudited loss attributable to shareholders of the Group was approximately RMB161.0 million for the six months ended 30 June 2018, which represents an increase of loss of RMB89.3 million as compared to that of the same period last year.

For the six months ended 30 June 2018, the Group's unaudited cash generated from operating activity before tax amounted to approximately RMB112,000,000, representing an increase of RMB56,000,000 as compared to that in the corresponding period last year.

For the six months ended 30 June 2018, the Group's unaudited turnover was approximately RMB1,993 million, which represents an increase of approximately 11.7% as compared to the same period last year.

Unaudited basic loss per share of the Group was approximately RMB3.75 cents for the six months ended 30 June 2018.

The Directors do not recommend to pay any interim dividend for the six months ended 30 June 2018.



## 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 2018 together with the unaudited comparative figures for the corresponding periods in 2017 are as follows:

### Unaudited Condensed Consolidated Profit and Loss Account

For the six months ended 30 June 2018 and 30 June 2017

	Notes	Six months ended 30 June	
		2018 RMB'000	2017 RMB'000
Turnover	3	<b>1,992,651</b>	1,784,701
Cost of sales		<b>(1,876,359)</b>	(1,736,990)
Gross profit		<b>116,292</b>	47,711
Interest income		<b>39</b>	867
Distribution costs		<b>(17,367)</b>	(24,030)
Administrative expenses		<b>(158,399)</b>	(43,772)
Other (loss)/income		<b>(38,354)</b>	2,996
Operating profit		<b>(97,789)</b>	(16,228)
Finance costs		<b>(77,342)</b>	(62,714)
(Loss)/Profit before taxation	4	<b>(175,131)</b>	(78,942)
Taxation	5	<b>14,067</b>	7,221
(Loss)/Profit for the period		<b>(161,064)</b>	(71,721)
Attributable to:			
Equity holders of the Company		<b>(161,014)</b>	(71,695)
Non-controlling interests		<b>(50)</b>	(26)
		<b>(161,064)</b>	(71,721)
Basic (loss)/earning per share (RMB cents)	6	<b>(3.75)</b>	(1.67)
Diluted (loss)/earnings per share (RMB cents)	6	<b>(3.75)</b>	(1.67)
Declared dividends per share (HK cents)	7	<b>Nil</b>	Nil

# Condensed Consolidated Balance Sheet

As at 30 June 2018 and 31 December 2017

	Notes	(Unaudited) As at 30 June 2018 RMB'000	(Audited) As at 31 December 2017 RMB'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment		2,968,594	3,066,352
Deferred income tax assets	11	113,518	99,451
Investment properties		11,618	11,618
Mining right		297,300	297,300
Intangible assets		8,619	8,619
Land use rights		112,151	114,460
		<b>3,511,800</b>	3,597,800
<b>Current assets</b>			
Inventories		78,731	70,824
Trade and other receivables	8	242,386	216,669
Derivative financial assets		–	41,670
Pledged bank deposits		16,828	11,596
Cash and bank deposits		9,025	16,312
		<b>346,970</b>	357,071
<b>Total assets</b>		<b>3,858,770</b>	3,954,871
<b>EQUITY</b>			
Share capital		368,394	368,394
Reserves Others		403,102	563,221
Shareholders' funds		<b>771,496</b>	931,615
<b>Non-controlling interest</b>		<b>1,832</b>	1,882
<b>Total equity</b>		<b>773,328</b>	933,497



# Condensed Consolidated Balance Sheet (Continued)

As at 30 June 2018 and 31 December 2017

	Notes	(Unaudited) As at 30 June 2018 RMB'000	(Audited) As at 31 December 2017 RMB'000
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	9	814,761	736,364
Short-term borrowings, secured	10	1,254,734	1,302,854
Provision for tax		26,997	1,152
Current portion of long term borrowings	10	101,061	345,960
		<b>2,197,553</b>	2,386,330
<b>Non-current liabilities</b>			
Long-term borrowings	10	690,910	437,961
Convertible bonds		124,191	124,191
Deferred subsidy income		1,172	1,276
Deferred income tax liabilities	11	71,616	71,616
		<b>887,889</b>	635,044
<b>Total liabilities</b>		<b>3,085,442</b>	3,021,374
<b>Total equity and liabilities</b>		<b>3,858,770</b>	3,954,871
<b>Net current liabilities</b>		<b>(1,850,583)</b>	(2,029,259)
<b>Total assets less current liabilities</b>		<b>1,661,217</b>	1,568,541

# Unaudited Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2018 and 31 December 2017

	Six months ended 30 June	
	2018 RMB'000	2017 RMB'000
Net cash generated from operating activities	<b>125,963</b>	62,850
Interest paid	<b>(77,342)</b>	(62,714)
Net cash inflow/(outflow) from operating activities	<b>48,621</b>	136
Investing activities		
Purchases of fixed assets and payments for construction-in-progress	<b>(12,842)</b>	(9,958)
Proceeds from disposal of fixed assets	<b>1</b>	2
Interest received	<b>39</b>	867
Net cash outflow from investing activities	<b>(12,802)</b>	(9,089)
Net cash inflow/(outflow) before financing activities	<b>35,819</b>	(8,953)
Financing activities		
(Increase)/Decrease in pledged bank deposits	<b>(5,232)</b>	1,800
Issue of ordinary shares	<b>—</b>	1,103
New loans payable	<b>229,440</b>	485,840
Repayment of bank loans	<b>(268,209)</b>	(497,353)
Reserve fund change	<b>895</b>	—
Net cash inflow/(outflow) from financing activities	<b>(43,106)</b>	(8,610)
(Decrease)/Increase in cash and cash equivalents	<b>(7,287)</b>	(17,563)
Cash and cash equivalents at 1 January	<b>16,312</b>	24,477
Cash and cash equivalents at 30 June	<b>9,025</b>	6,914



# Unaudited Consolidated Statement of Changes In Equity

For the six months ended 30 June 2018 and 30 June 2017

	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 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
At 1 January 2018 (audited)	368,394	1,406,950	(22,041)	255,287	45,273	1,131	(1,119,870)	(3,509)	1,882	933,497
Net loss for the 6 Months ended 30 June 2018	-	-	-	-	-	-	(161,014)	-	(50)	(161,064)
Movement of reserve fund	-	-	-	-	895	-	-	-	-	895
At 30 June 2018	368,394	1,406,950	(22,041)	255,287	46,168	1,131	(1,280,884)	(3,509)	1,832	773,328

# 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”) on 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 2017. 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 RMB1,850,583,000 as at 30 June 2018. 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 2018 on the basis that the positive cash flow from Guangan plant and Dazhou 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 2018 (unaudited)		Six months ended 30 June 2017 (unaudited)	
	RMB'000	%	RMB'000	%
BB & complex fertilizers	<b>18,397</b>	<b>0.9</b>	12,955	0.7
Urea	<b>268,330</b>	<b>13.5</b>	299,025	16.8
Ammonia	<b>166,446</b>	<b>8.3</b>	256,727	14.4
Methanol	<b>320,429</b>	<b>16.1</b>	456,438	25.6
Polyphenylene Sulfide	<b>39,624</b>	<b>2.0</b>	58,938	3.3
Others (Note)	<b>1,179,425</b>	<b>59.2</b>	700,618	39.2
	<b>1,992,651</b>	<b>100</b>	1,784,701	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	
	2018 RMB'000	2017 RMB'000
Loss before tax	<b>(175,131)</b>	(78,942)
Depreciation of property, plant and equipment	<b>108,852</b>	103,872
Amortisation of land us rights	<b>2,309</b>	1,621
Interest income	<b>(39)</b>	(867)
Interest expense	<b>77,342</b>	62,714
Loss/(gain) on disposal of fixed assets	<b>1,747</b>	—
*Fair value change of derivative financial assets	<b>41,670</b>	—
Operation cash flow before working capital change	<b>56,750</b>	88,398
(Increase)/decrease in inventories	<b>(7,907)</b>	(52,757)
(Increase)/decrease in trade and other receivables	<b>(25,717)</b>	(103,247)
Increase/(decrease) in trade an other payables	<b>88,874</b>	123,339
Increase/(decrease) in deferred subsidy income	<b>(104)</b>	(104)
Cash generated from/(used in) operating activities	<b>111,896</b>	55,629
Income tax	<b>14,067</b>	7,221
Net cash generated from/(used in) operating activities	<b>125,963</b>	62,850

\* The fair value change of derivative financial assets was due to the loss of RMB41.7 million from the expiry of put option agreement entered between the Company and Asia Pacific Resources Development Investment Limited on 18 January 2015.



## 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 2018.

The applicable income tax rate of all subsidiaries located in Mainland China in 2018 is 25%.

The income tax benefit made for Dazhou Ko Yo Chemical Industry Limited and Guangan Ko Yo Chemical Industry Company Limited for the six months ended 30 June 2018 was approximately RMB7,133,000 and RMB6,934,000 respectively.

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

	<b>Six months ended 30 June</b>	
	<b>2018</b>	2017
	<b>RMB'000</b>	RMB'000
Current tax in the PRC	–	–
Deferred income tax (Note 11)	<b>(14,067)</b>	(7,221)
	<b>(14,067)</b>	(7,221)

## 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 2018 and 2017 were based on:

	Six months ended 30 June	
	2018 RMB'000	2017 RMB'000
(Loss)/Profit for the period	(161,014)	(71,695)
Weighted average number of shares for calculation of basic earnings per share	4,298,042,599	4,297,507,378
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	4,298,042,599	4,297,507,378

### 7. Dividend

The Board does not recommend the payment of any dividend for the six months ended 2018.



## Notes of Financial Statements (Continued)

### 8. Trade and Other Receivables

	(Unaudited) As at 30 June 2018 RMB'000	(Audited) As at 31 December 2017 RMB'000
Trade receivables	5,093	9,271
Prepayments, purchase deposits and other deposits	158,771	117,381
Notes receivable	7,545	5,095
Other receivables	70,977	84,922
	<b>242,386</b>	216,669

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

	(Unaudited) As at 30 June 2018 RMB'000	(Audited) As at 31 December 2017 RMB'000
Aged:		
Less than 3 months	5,363	9,271
More than 3 months but not exceeding 1 year	101	–
More than 1 year but not exceeding 2 years	–	–
More than 2 years but not exceeding 3 years	–	286
More than 3 years	7,152	6,867
	<b>12,616</b>	16,424
Less: provision for doubtful receivables	<b>(7,523)</b>	(7,153)
	<b>5,093</b>	9,271

## Notes of Financial Statements (Continued)

### 9. Trade and Other Payables

	<b>(Unaudited)</b> <b>As at</b> <b>30 June</b> <b>2018</b> <b>RMB'000</b>	(Audited) As at 31 December 2017 RMB'000
Trade payables	<b>69,267</b>	61,006
Construction payable	<b>220,800</b>	246,747
Deposits from customers	<b>269,868</b>	301,517
Accruals and other payables	<b>254,826</b>	127,094
	<b>814,761</b>	736,364

The aging analysis of trade payables prepared on the basis of the relevant invoice date is as follows:

	<b>(Unaudited)</b> <b>As at</b> <b>30 June</b> <b>2018</b> <b>RMB'000</b>	(Audited) As at 31 December 2017 RMB'000
Aged:		
Less than 1 year	<b>69,142</b>	60,881
More than 1 year but not exceeding 2 years	–	3
More than 2 years but not exceeding 3 years	<b>125</b>	122
More than 3 years	–	–
	<b>69,267</b>	61,006



## Notes of Financial Statements (Continued)

### 10. Borrowings

	<b>(Unaudited)</b> <b>As at</b> <b>30 June</b> <b>2018</b> <b>RMB'000</b>	(Audited) As at 31 December 2017 RMB'000
Short-term borrowings	<b>1,254,734</b>	1,302,854
Long-term borrowings repayable:		
Less than 1 year	<b>101,061</b>	345,960
Between 1 and 2 years	<b>192,450</b>	162,961
Between 2 and 5 years	<b>498,460</b>	105,000
Over 5 years	–	170,000
	<b>791,971</b>	783,921
Within 1 year included in current liabilities	<b>(101,061)</b>	(345,960)
	<b>690,910</b>	437,961

As at 30 June 2018, 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% (2017: 4.35% 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 2017 and in six months period ended 2018.

Deferred income tax assets:

	<b>Loss available for offsetting future taxable profits</b>	<b>Impairment of assets</b>	<b>Deferred subsidy income</b>	<b>Total</b>
	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2017	99,291	–	160	99,451
Charged to income statement	14,093	–	(26)	14,067
At 30 June 2018	<b>113,384</b>	<b>–</b>	<b>134</b>	<b>113,518</b>

Deferred income tax liabilities:

	<b>Evaluation and exploration assets</b>	<b>Withholding tax</b>	<b>Total</b>
	RMB'000	RMB'000	RMB'000
At 31 December 2017	(71,616)	–	(71,616)
At 30 June 2018	<b>(71,616)</b>	<b>–</b>	<b>(71,616)</b>





# Management Discussion and Analysis

## Financial Performance

For the six months ended 30 June 2018, the Group recorded a turnover of approximately RMB1,993 million, representing an increase of approximately 11.7% as compared with approximately RMB1,785 million for the corresponding period last year. Loss attributable to shareholders was approximately RMB161.0 million (2017: first half year loss of approximately RMB71.7 million), representing an increase of loss of approximately RMB89.3 million as compared with the corresponding period last year. Basic loss per share was approximately RMB3.75 fen (2017: first half year basic loss per share of approximately RMB1.67 fen).

During the period under review, the total sales volume (excluding the trading portion) of the Group reached approximately 354,782 tonnes (2017: 597,215 tonnes), representing a decrease of 40.6% 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 2.7% to 5.8% 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 RMB1,876 million, representing an increase of approximately 8.0% as compared with the corresponding period last year due to the increase in sales. Distribution costs decreased by approximately 27.7% due to the effective cost control. The administrative expenses increased by approximately 261.9% as compared with the corresponding period last year, due to the operation cost of Dazhou Plant and Guangan Plant charge to the administrative expenses during the suspension of gas in January 2018. The other loss increase due to the loss of RMB41.7 million from the expiry of put option agreement entered between the Company and Asia Pacific Resources Development Investment Limited on 18 January 2015.

# Management Discussion and Analysis (Continued)

## Business Review

During the period under review, restrained by the supply of natural gases, the facilities at Dazhou Plant and Guangan Plant failed to achieve the expected modes of operation and capacities. However, the Group managed to seize sales opportunities to maintain a high operation level. Efforts were made to strengthen the management and control of the Group, resulting in gradual improvements on its operation. The overall operation of the Group fell short of expectations for the first half of 2018 due to some difficulties encountered. As certain project financing arrangements have not yet been finalised, the construction works of new projects of the Group remained on hold.

### 1. Guangan Plant

Restrained by the supply of natural gases, the facilities at Guangan Plant have resumed production since 30 January 2018. The Company squeezed the most out of the limited supply with reasonable adjustment of modes of production and coordination. Both the production volume and energy consumption of methanol-ammonia co-production improved over the corresponding period last year. Through the concerted effort of all staff members, our methanol facilities achieved 100-day uninterrupted operation for the second time, and we are now working towards the target of 200-day operation.

### 2. Dazhou Plant

Restrained by the supply of natural gases, the facilities at Dazhou Plant have resumed production since 19 February 2018. Under the Company's delicate coordination and operation, the facilities have been running smoothly and steadily with a better energy consumption level than that for the corresponding period last year.

### 3. Guangan's polyphenylene sulfide (PPS) plant

Affected by the market and others factors, Guangan's PPS plant recorded a loss from its operation.



## Management Discussion and Analysis (Continued)

### Industry Overview and Outlook

According to the statistics from An Yun Si, from January to June 2018, influenced by the natural gas restriction and environmental protection, some urea enterprises reduced their production level significantly. The total production volume of urea from January to June is expected to be 24.78 million tonnes, representing a decrease of 3 million tonnes from 27.78 million tonnes for the same period in 2017. The average operating rate of domestic urea enterprises was 57.7% from January to June. From January to June 2018, the amount of imported urea was 83,100 tonnes, representing a year-on-year decrease of 25.8%, while the amount of exported urea was 720,000 tonnes, representing a year-on-year decrease of 74%.

In the first half of 2018, due to the impacts of natural gas supply, environmental protection policy, fertilizer demand and domestic inventory changes, the market condition of urea demonstrated a V-shaped trend with market prices fluctuating in the range of RMB1,800 per tonne to RMB2,000 per tonne. After the end of June, as the springtime agricultural demand fades, the procurement of agricultural and industrial compound fertilizer will be affected. Further, the beginning of July also marks the start of an off season for rubber sheet factories. Thus, the price in the second half of the year will decrease compared to that of the first half. However, due to the effects of various factors on the urea market in 2018, including the upward trend of crude oil demand, limited capacity of coal trains, increase in natural gas consumption, widening gap between supply and demand for natural gas, continuous de-capacity scheme for urea, growing demand from downstream industries and enhanced environmental protection efforts, the overall market condition of urea is expected to be better in 2018 than in 2017.

According to the statistics from JLC, the production capacity of methanol in the PRC has reached over 82 million tonnes, of which 1.8 million tonnes of capacity were newly added in the first half of 2018. The PRC's total methanol output from January to June 2018 amounted to 24.81 million tonnes, up 11% over the same period last year. The amount of imported methanol from January to June was 3.7089 million tonnes, 4.75% lower than that of the same period last year. In respect of downstream demand, the increase is still limited. Influenced by such factors as consecutive inspection of domestic methanol production equipment in spring, increase in olefin operating rate, sustained low inventory level of imported goods and the development of domestic alcohol-based fuel, the overall domestic methanol market fluctuated violently at a high level in the first half of the year, showing a N-shaped trend as a whole with the market price hovering around RMB800 per tonne.

## Management Discussion and Analysis (Continued)

The methanol market faces different challenges and opportunities in the second half of 2018. Challenges mainly come from domestic and foreign supply pressure on methanol and commissioning of newly established production capacity in the third and fourth quarters. Other factors include limited additions of large equipment downstream. Meanwhile, opportunities stem from several major favourable factors, which include: (1) Yan'an Energy and Chemical's olefin equipment has commenced production in June; (2) traditionally, the methanol industry enters its peak season in the third and fourth quarters, and the operation rate of the traditional industry is expected to remain stable; (3) the environmental policies in the fourth quarter limit the production of coke oven gas methanol; (4) the demand for alcohol-based fuels increases in the fourth quarter; and (5) the price of crude oil remains high, which supports the price of chemicals futures. It is expected that the overall performance of methanol will continue to be positive in the second half of the year.

According to the statistics of Sublime China Information, in the first half of 2018, there were around 300 sets of synthetic ammonia equipment in the PRC, with a total production capacity of 72 million tonnes and newly acquired production capacity of 1.2 million tonnes. Total production volume of synthetic ammonia from January to June 2018 was about 23 million tonnes, representing a year-on-year decrease of approximately 9.3%. Due to the effect of the examination and inspection of domestic natural gas suppliers, environmental supervision and the de-capacity policy of the PRC government, the production volume of synthetic ammonia demonstrated a slight decline in the first half of 2018. As for downstream segments, affected by factors such as natural gas supply and environmental protection, the overall performance of ammonium phosphate and urea facilities improved as compared to that of the previous year. In the first half of the year, although the price in the synthetic ammonia market fluctuated frequently, overall it hovered at a high level and the market price experienced a W-shaped trend from January to June.



## Management Discussion and Analysis (Continued)

In the second half of 2018, the synthetic ammonia market will encounter a series of positive factors and also some short-term negative factors. For the main positive factors, to implement regular atmospheric control, the Ministry of Environmental Protection continues to carry out the “protect the blue sky” mission and focuses on the enhancement and monitoring of “looking back”, while production will be limited to prevent winter smog. Further, the operating rate in the south-west region will be hindered by the tight supply of natural gas. Coal and carbon prices will maintain at a high level, thus supporting the cost. As for the negative factors, seasonality may create short-term fluctuation for the performance of downstream urea and ammonium phosphate markets, which may neutralize part of the positive factors resulting from the decrease of synthetic ammonia supply. Overall, supply remains the dominant factor for the prevailing market trend. Given that supply will be slightly tight for a long period, the performance of synthetic ammonia is expected to be optimistic in the second half of the year.

### Strategies

Given the modest recovery of the chemical fertilizer and chemical industry and the limited supply of natural gas, the Group will seize the opportunities to bring the Group’s operation back to the right track through the following strategies and measures:

1. Centralising management and allocation of capital of the Group to ensure optimum use of limited capital.
2. Utilizing existing resource advantages to explore potential of and improve production structure.
3. Our sales team seize quality core end client and explore market potential to increase local sales volume and the number of sales regions with higher pricing potential.

## Management Discussion and Analysis (Continued)

4. Adjusting management structure and reducing non-productive expenses to reduce administrative fee; before profit is seen in the company, all executive directors of the Board to renounce remuneration and administrative senior management staff to receive limited salary until profit is seen, after which remuneration can be discussed.
5. Maximising OEM and trading business by utilising channels and resources to strive for the best operation scale and efficiency.

### Appreciation

The past six months saw the bouncing back of chemical fertilizer and chemical industries. Under the leadership of the Board and our management, and the dedication of the staff, we adhered to a market-oriented approach in our production operation to ascertain the best operation effectiveness of our facilities as opportunities arise from the market recovery. For the second half of the year, with decisions and strategies devised by the Board and under the leadership of the management, we are confident that in the second half of the year the company operation can reduce loss, improve significantly its situation and lead itself to a healthy development.

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 commitment and contribution. We will strive to bring more benefits and returns to our shareholders and the society.

**Tang Guoqiang**  
*Chairman*

28 August 2018



## Liquidity, Financial Resources and Capital Structure

As at 30 June 2018, the Group had net current liabilities of approximately RMB1,850,583,000. Current assets as at 30 June 2018 comprised cash and bank deposits of approximately RMB9,025,000, pledged bank deposits of approximately RMB16,828,000, inventories of approximately RMB78,731,000, trade and other receivables of approximately RMB242,386,000. Current liabilities as at 30 June 2018 comprised short-term loans of approximately RMB1,254,734,000, current portion of long term loans of approximately RMB101,061,000, trade and other payables of approximately RMB841,758,000.

## Capital Commitments

As at 30 June 2018, the Group had outstanding capital commitments of approximately RMB116,785,000.

## Financial Resources

As at 30 June 2018, the Group had cash and bank balances of approximately RMB9,025,000 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 74% and 70% as at 30 June 2018 and 31 December 2017 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 2018.

## Material Acquisitions/Disposals

The Group had no material acquisitions/disposals during the six months ended 30 June 2018.

## Proposed Issue of Convertible Bonds

As disclosed in the announcement dated 19 July 2018, the Company entered into the subscription agreement (“Subscription Agreement”) with Mr. Tang Guoqiang (the “Subscriber”), pursuant to which the Subscriber has conditionally agreed to subscribe for the convertible bonds (the “Convertible Bonds”) in the principal amount of HK\$270,000,000 with an initial conversion price of HK\$0.108, 4% annual interest rate and 5 years in tenor. The Subscription Agreement and the transactions, including the issue and allotment of the conversion shares upon exercise of the conversion rights attaching to the Convertible bonds under specific mandate, are subject to the approval of the independent shareholders at the extraordinary general meeting expected to be held in the second half of 2018.

## 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 2018.

## 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 2018, the Group had a total workforce of 771 (2017: 781), of which 5 (2017: 5) were responsible for management, 92 (2017: 96) for finance and administration, 627 (2017: 634) for production and 47 (2017: 46) for sales and marketing. Of these employees, 769 (2017: 779) were stationed in the PRC and 2 (2017: 2) in Hong Kong.





## **Charges on the Group's Assets**

As at 30 June 2018, certain land use rights and buildings with a total net book value of approximately RMB262,471,000 (2017: RMB266,255,000), plant and machinery with a total net book value of approximately RMB1,856,133,000 (2017: RMB2,227,074,000) and bank deposits of approximately RMB16,828,000 (2017: RMB11,122,000) 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 2018 were disclosed in the following table:

	Held at 1 Jan 2018 ('000)	Grant during period ('000)	Exercised during period ('000)	Forfeited during period ('000)	Number of share options				
					Held at 30 Jun 2018 ('000)	Shares Options A	Shares Options B	Shares Options C	Shares Options D
						('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 2018, no share options were exercised.

## Outstanding Convertible Securities

As at 30 June 2018, the outstanding convertible securities (the "Convertible Securities 1") issued on 13 November 2014 that can convert into 1,002,675,000 shares (the "Shares") of the Company and the outstanding convertible securities (the "Convertible Securities 2") issued on 15 January 2016 that can convert into 40,000,000 Shares. Assuming all outstanding convertibles securities converted into shares as at 30 June 2018, set out below is the shareholding structure of the Company before and after such conversion:

As at 30/06/2018	No. of shares before conversion of outstanding convertible securities		% of holdings	No. of shares from conversion of outstanding convertible securities		% of holdings
				No. of shares after conversion of outstanding convertible securities		
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 2018 assuming all outstanding convertible securities being converted was RMB0.030 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 2018 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	31-12-2018	31-12-2019	31-12-2020	31-12-2021	31-12-2022
Share price (HK\$)	0.312	0.320	0.328	0.340	0.351

#### Convertible Securities 2

Date	31-12-2018
Share price (HK\$)	0.331



## Disclosure of Interests

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

As at 30 June 2018, 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%
Hu Xiaoping	–	1,200,000	1,200,000	0.03%

Note: As at 30 June 2018, 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

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

Note: A wholly-owned subsidiary of the Company

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

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



## Disclosure of Interests (Continued)

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

As at 30 June 2018, 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 2018, 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 2018, 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 2018, 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 2018, 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 2018.





## **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, 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

**Tang Guoqiang**

*Chairman*

Chengdu, PRC, 28 August 2018