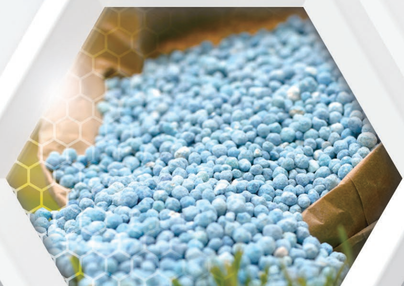
玖源化工(集團)有限公司

Ko Yo Chemical (Group) Limited

(incorporated in the Cayman Islands with limited liability)
(Stock code: 00827)

INTERIM REPORT 2022



Highlights

Unaudited gain attributable to shareholders of the Group was approximately RMB226.4 million for the six months ended 30 June 2022, which represented an increase of gain of RMB72.4 million and 47.0% as compared to that of the same period last year.

For the six months ended 30 June 2022, the Group's unaudited net cash inflow from operating activities before working capital changes, profit tax and interest payment was approximately RMB532.8 million, representing an increase of RMB246.3 million as compared to that of RMB286.5 million in the corresponding period last year.

For the six months ended 30 June 2022, the Group's unaudited turnover was approximately RMB1,671 million, which represents an increase of approximately 24.1% as compared to the same period last year. The increase in turnover was mainly due to the increase in selling price of products. The total sales volume (excluding the trading portion) of the Group reached approximately 566,496 tonnes, representing an increase of 0.03% as compared with that of the same period last year.

Unaudited basic gain per share of the Group was approximately RMB3.96 cents for the six months ended 30 June 2022.

The Directors do not recommend to pay any interim dividend for the six months ended 30 June 2022.

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 2022 together with the unaudited comparative figures for the corresponding periods in 2021 are as follows:

Unaudited Condensed Consolidated Profit and Loss Account

For the six months ended 30 June 2022 and 30 June 2021

		Six months ended 30 June	
	Notes	**2022 RMB'000**	2021 RMB'000
Turnover	3	**1,670,741**	1,347,031
Cost of sales		**(1,155,069)**	(1,056,292)
Gross profit		**515,672**	290,739
Interest income		**982**	10
Distribution costs		**(23,433)**	(12,410)
Administrative expenses		**(99,236)**	(60,477)
Other (expenses)/income — net		**(2,653)**	5,251
Operating profit		**391,332**	223,113
Finance costs		**(77,675)**	(63,852)
Profit before taxation	4	**313,657**	159,261
Taxation	5	**(87,225)**	(5,262)
Profit for the period		**226,432**	153,999
Attributable to:			
Equity holders of the Company		**226,438**	154,009
Non-controlling interests		**(6)**	(10)
		226,432	153,999
Basic earnings per share (RMB cents)	6	**3.96**	2.81
Diluted earnings per share (RMB cents)	6	**1.79**	2.18
Declared dividends per share (HK cents)	7	**Nil**	Nil

Condensed Consolidated Balance Sheet

As at 30 June 2022 and 31 December 2021

	Notes	(Unaudited) As at 30 June 2022 RMB'000	(Audited) As at 31 December 2021 RMB'000
ASSETS			
Non-current assets			
Right-of-use assets		**103,143**	104,668
Property, plant and equipment		**1,799,110**	1,857,363
Investment properties		**10,925**	10,925
Mining right		**334,306**	334,306
Prepayments		**925,593**	635,228
Deferred income tax assets	11	**37,580**	38,658
		3,210,657	2,981,148
Current assets			
Inventories		**122,299**	112,041
Trade and other receivables	8	**278,552**	531,010
Restricted bank balances		**250**	250
Cash and bank deposits		**571,626**	413,259
		972,727	1,056,560
Total assets		**4,183,384**	4,037,708
EQUITY			
Share capital		**494,865**	491,449
Other reserves		**557,335**	330,622
Shareholders' funds		**1,052,200**	822,071
Non-controlling interest		**1,511**	1,517
Total equity		**1,053,711**	823,588

Condensed Consolidated Balance Sheet (Continued)

As at 30 June 2022 and 31 December 2021

	Notes	(Unaudited) As at 30 June 2022 RMB'000	(Audited) As at 31 December 2021 RMB'000
LIABILITIES			
Current liabilities			
Trade and other payables	9	**337,741**	411,005
Contract liabilities		**108,141**	117,322
Short-term borrowings, secured	10	**1,425,410**	1,783,709
Provision for tax		**100,248**	46,939
Current portion of long term borrowings	10	**5,000**	–
Lease liabilities		**2,018**	1,483
		1,978,558	2,360,458
Non-current liabilities			
Long-term borrowings	10	**301,041**	–
Convertible bonds		**768,181**	771,869
Deferred income tax liabilities	11	**80,867**	80,867
Lease liabilities		**1,026**	926
		1,151,115	853,662
Total liabilities		**3,129,673**	3,214,120
Total equity and liabilities		**4,183,384**	4,037,708
Net current liabilities		**(1,005,831)**	(1,303,898)
Total assets less current liabilities		**2,204,826**	1,677,250

Unaudited Condensed Consolidated Cash Flow Statement

As at 30 June 2022 and 31 December 2021

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Net cash generated from operating activities	**659,678**	157,145
Interest paid	**(90,406)**	(18,603)
Net cash inflow from operating activities	**569,272**	138,542
Investing activities		
Purchases of fixed assets and payments for construction-in-progress	**(360,723)**	(103,974)
Proceeds from disposal of fixed assets	**467**	467
Interest received	**982**	10
Net cash outflow from investing activities	**(359,274)**	(103,497)
Net cash inflow before financing activities	**209,998**	35,045
Financing activities		
Issue of new shares	**3,691**	–
(Increase)/Decrease in pledged bank deposits	**–**	10,114
Proceeds from borrowings	**99,349**	89,726
Repayment of borrowings	**(154,671)**	(105,500)
Net cash outflow from financing activities	**(51,631)**	(5,660)
Increase in cash and cash equivalents	**158,367**	29,385
Cash and cash equivalents at 1 January	**413,259**	14,539
Cash and cash equivalents at 30 June	**571,626**	43,924

Unaudited Consolidated Statement of Changes In Equity

For the six months ended 30 June 2022 and 30 June 2021

	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 2021 (audited)	474,879	1,519,172	(22,041)	437,544	45,273	1,131	(2,435,466)	(3,509)	1,534	18,517
Net gain for the 6 Months ended 30 June 2021	–	–	–	–	–	–	154,009	–	(10)	153,999
At 30 June 2021	474,879	1,519,172	(22,041)	437,544	45,273	1,131	(2,281,457)	(3,509)	1,524	172,516
At 1 January 2022 (audited)	491,449	1,528,776	(22,041)	837,223	45,273	1,131	(2,056,231)	(3,509)	1,517	823,588
Issue of new shares	3,416	275	–	–	–	–	–	–	–	3,691
Net gain for the 6 Months ended 30 June 2022	–	–	–	–	–	–	226,438	–	(6)	226,432
At 30 June 2022	494,865	1,529,051	(22,041)	837,223	45,273	1,131	(1,829,793)	(3,509)	1,511	1,053,711

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 2021. 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 RMB1,005,831,000 as at 30 June 2022. 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 2022 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 restructure 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 2022 (unaudited)		Six months ended 30 June 2021 (unaudited)	
	RMB'000	**%**	RMB'000	%
BB & complex fertilizers	**–**	**–**	3,845	0.3
Urea	**518,269**	**31.0**	401,313	29.8
Ammonia	**675,014**	**40.4**	468,998	34.8
Methanol	**468,156**	**28.0**	372,186	27.6
Others (Note)	**9,302**	**0.6**	100,689	7.5
	1,670,741	**100**	1,347,031	100

Note: Others are trading of various chemical products and fertilizers.

Notes of Financial Statements (Continued)

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

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Gain before tax	**313,657**	159,261
Depreciation of property, plant and equipment	**102,864**	103,494
Depreciation of right-of-use assets	**1,525**	3,647
Interest income	**(982)**	(10)
Interest expense	**90,406**	18,603
Loss on disposal of fixed assets	**25,281**	1,517
Operation cash flow before working capital change	**532,751**	286,512
(Increase)/decrease in inventories	**(10,258)**	(41,636)
(Increase)/decrease in trade and other receivables	**252,459**	(61,221)
Increase/(decrease) in trade an other payables	**(28,049)**	(21,248)
Cash generated from operating activities	**746,903**	162,407
Income tax	**(87,225)**	(5,262)
Net cash generated from operating activities after tax	**659,678**	157,145

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 2022.

The applicable income tax rate of all subsidiaries located in Mainland China in 2022 is 25%.

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

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
PRC Corporate Income Tax in Mainland China	**86,147**	1,990
Deferred income tax (Note 11)	**1,078**	3,272
	87,225	5,262

6. Earnings per Share

The calculation of the basic and diluted earnings per share for the six months ended 30 June 2022 and 2021 were based on:

	Six months ended 30 June	
	2022	2021
Profit	**RMB'000**	RMB'000
Profit for the period	**226,438**	154,009
Finance cost saving on conversion of convertible bonds outstanding	**62,138**	26,813
Profit for calculation diluted earnings per share	**288,576**	180,822
Number of shares	**'000**	'000
Weighted average number of shares for calculation of basic earnings per share	**5,721,413**	5,488,043
Effect of dilutive potential shares on outstanding share options and convertible bonds	**10,442,062**	2,812,675
Weighted average number of shares for calculation of diluted earnings per share	**16,163,475**	8,300,718

Notes of Financial Statements (Continued)

7. Dividend

The Board does not recommend the payment of any dividend for the six months ended 2022.

8. Trade and Other Receivables

	(Unaudited) As at 30 June 2022 RMB'000	(Audited) As at 31 December 2021 RMB'000
Trade receivables	3,103	1,891
Prepayments, purchase deposits and other deposits	237,845	61,664
Notes receivable	22,069	35,087
Loan receivables	–	240,000
Other receivables	15,535	192,368
	278,552	531,010

8. Trade and Other Receivables *(Continued)*

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

	(Unaudited) As at 30 June 2022 RMB'000	(Audited) As at 31 December 2021 RMB'000
Aged:		
Less than 3 months	3,103	1,891
More than 3 months but not exceeding 1 year	–	–
More than 1 year but not exceeding 2 years	–	–
More than 2 years but not exceeding 3 years	–	–
More than 3 years	–	–
	3,103	1,891
Less: provision for doubtful receivables	–	–
	3,103	1,891

Notes of Financial Statements (Continued)

9. Trade and Other Payables

	(Unaudited) As at 30 June 2022 RMB'000	(Audited) As at 31 December 2021 RMB'000
Trade payables	25,551	27,671
Construction payable	116,752	114,539
Accruals and other payables	195,438	268,795
	337,741	411,005

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

	(Unaudited) As at 30 June 2022 RMB'000	(Audited) As at 31 December 2021 RMB'000
Aged:		
Less than 1 year	25,340	27,460
More than 1 year but not exceeding 2 years	211	211
More than 2 years but not exceeding 3 years	–	–
More than 3 years	–	–
	25,551	27,671

10. Borrowings

	(Unaudited) As at 30 June 2022 RMB'000	(Audited) As at 31 December 2021 RMB'000
Short-term borrowings	**1,425,410**	1,783,709
Long-term borrowings repayable:		
Less than 1 year	**5,000**	–
Between 1 and 2 years	**190,055**	–
Between 2 and 5 years	**110,986**	–
Over 5 years	**–**	–
Total long-term borrowings	**306,041**	–
Within 1 year included in current liabilities	**5,000**	–
Long term portion of long term borrowings	**301,041**	–

As at 30 June 2022, 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 3.70% to 8.70% (2021: 4.35% to 8.70%) per annum.

11. Deferred Income Tax

There were no offsetting of deferred income tax assets and liabilities in 2021 and in six months period ended 2022.

Deferred income tax assets:

	Loss available for offsetting future taxable profits RMB'000
At 31 December 2021	38,658
Charged to income statement	(1,078)
At 30 June 2022	**37,580**

Deferred income tax liabilities:

	Evaluation and exploration assets RMB'000
At 31 December 2021	(80,867)
At 30 June 2022	**(80,867)**

Management Discussion and Analysis

Financial Performance

For the six months ended 30 June 2022, the Group recorded a turnover of approximately RMB1,671 million, representing an increase of approximately 24.1% as compared with approximately RMB1,347 million for the corresponding period last year. The increase in turnover was mainly due to the increase in selling price of products. Gain attributable to shareholders was approximately RMB226.4 million (2021: first half year gain of approximately RMB154.0 million), representing an increase in gain of approximately RMB72.4 million and 47.0% as compared with the corresponding period last year. Basic gain per share was approximately RMB3.96 fen (2021: first half year basic gain per share of approximately RMB2.81 fen).

During the period under review, the total sales volume (excluding the trading portion) of the Group reached approximately 566,496 tonnes (2021: 566,319 tonnes), representing an increase of 0.03% 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 21.6% to 30.9% as compared with the corresponding period last year, which was mainly due to the increase in selling price of the products. Cost of sales amounted to approximately RMB1,155 million, representing an increase of approximately 9.4% as compared with the corresponding period last year due to the increase in production cost. Distribution costs increased by approximately 88.8% due to increase in transportation cost. The administrative expenses increased by approximately 64.1% as compared with the corresponding period last year, due to the preparation for the new production lines. The increase in net other expenses of approximately RMB7.9 million as compared with the net other income in corresponding period last year was mainly due to the increase of loss in disposal of assets.

Business Review

During the period under review, the Group and its subsidiaries have been operating actively and steadily with business objectives of focusing on efficiency and changing its management model. The Group's various incentive policies remained vigorous and optimized during the operation, which ensured a concerted effort on the whole of the Group, with its all levels staff pulled together. This has substantially raised team dynamics and created remarkable economic benefits. A variety of actions were taken to make innovation and generate revenue. The sales model continued to be adjusted, customer structure has been greatly optimized, and the proportion of direct sales to customers has increased significantly. In the post-pandemic era, the Group ensured the safe and smooth operation of units on the premise of effective pandemic prevention and control measures. In general, the overall operating situation of the Group has continuously improved during the first half of 2022. It moved to a higher level in safety, environmental protection, production, consumption, operating revenue control and other aspects from the best level in 2021. In the first half of 2022, natural gas supply was tight and natural gas prices rose. Meanwhile, the market condition of our products continued to improve. Affected by the aforesaid complex external environment, the Group made concerted efforts internally, so as to achieve profitability as a whole and the operating conditions were better than expected.

Guang'an Plant

Restrained by the supply of natural gas during the heating season, the methanol-ammonia co-production units and KAM units at Guang'an Plant resumed production on 16 January, but their output and energy consumption reached a new record based on the historical highest level in 2021. The Guang'an Plant has been unable to operate at full capacity in the first half of the year because of natural gas supplies. During the period, the Guang'an Plant increased the production of synthetic ammonia by means of technological adjustment, which contributed extra profits to the Company. The outbreak of the Guangan Linshui Epidemic in May had a direct impact on the Guang'an Plant. With the joint efforts of the Company and all the staff of Guang'an Plant, all the above difficulties were overcome. A safe, stable and continuous operation of the units was ensured. The products were sold out of the warehouse normally, which made a significant contribution to the profitability of the Group.

Dazhou Plant

Restrained by the supply of natural gas during the heating season, the synthetic ammonia units and urea units in Dazhou Plant resumed production on 30 January 2022 and 6 February 2022 respectively, but their output and energy consumption reached a new record based on the historical highest level in 2021. In the first half of 2022, Dazhou Plant realized the dual-source gas supply of PetroChina and Sinopec, and successfully avoided the risk of forced shutdown due to the overhaul of Sinopec Puguang gas mine. In May and June, the Group switched over its gas sources successfully without shutting down the units, which ensured a safe, stable and continuous operation of the units and made great contribution to the economic benefits of the Group.

Industry Overview and Outlook

I. Methanol

1. Industry Overview for H1 2022

In the first half of 2022, there was no obvious contradiction between supply and demand in methanol market as a whole. The main factors were from three aspects: energy aspect, macro-level aspect and domestic epidemic situation. The reason of accelerating the increase in methanol in the first quarter lies in the international oil price. At the end of February, the Russo-Ukrainian war broke out. The international crude oil price surged from US$90 per barrel to US$140 per barrel. The price of Methylazoxymethanol Acetate (MAM) rose from RMB2,700/tonne to nearly RMB3,380/tonne. In the second quarter, the situation in Russia and Ukraine began to ease, oil prices fell sharply, and price of overall chemical products were declining. In addition, as the PRC's National Development and Reform Commission issued a clear guidance on the policy of coal supply and price stability, coal prices began to move downwards. At the same time, the domestic epidemic broke out again and the terminal user demand was suppressed. Thus, the price of methanol dropped to around RMB2,600/tonne; Later on, as the PRC implemented the dual-pricing system of coal, price of methanol was wide-ranging influenced by the supportive valuation and less supply and demand shocks.

On the supply side, domestic production during the period from January to June was 38.35 million tonnes, increased by 2.43% as compared to the first half of 2021. In terms of facility operation, the average monthly facility operation rate of the first half of the year was 73.85%, increased by 0.18% compared to the average monthly facility operation rate of the first half of 2021. Imports of methanol in the first half of the year increased by 4.78% to 6.13 million tonnes from 5.85 million tonnes in the first half of last year, which were mainly from the Middle East, South America and a few European countries. In terms of demand, downstream consumption increased by 4.86% to approximately 35.34 million tonnes in the first half of 2022, as compared to that of the first half of 2021. The consumption of methanol-to-olefins in the main downstream sector has a limited increase over the same period of last year. The consumption of methoxymethane and DMF decreased year-on-year (i.e. consumption of DMF decreased by 26% year-on-year) under the sluggish traditional downstream market. The main reason of such decline included the limited terminal user consumption, decrease in facility operation rate of methoxymethane and the significant decrease in the consumption of methanol. In terms of inventories, the overall growth in the first half of 2022 was mostly increasing. In June, the inventories of coastal main ports increased to 1.1178 million tonnes, continuing to reach a new high within the coming year, which shall be higher than the same period last year. The inventory of enterprises in the PRC also almost rose to the one-year high in June, recording a more significant increase as compared to that of the first half of 2021. The continuous accumulation of inventory in the first half of the year has suppressed the price of methanol according to the data related to inventory. Especially, the goods arrival in port areas has increased since the second quarter. Affected by the rainy weather, the downstream pick-up volume has decreased. Thus, port inventory continued to be accumulated.

In summary, the methanol market in the PRC was going up and then falling back with volatility in the first half of 2022. Meanwhile, influenced by various factors (such as the change of macro-environment, the operation of high price of raw materials, the increase of supply and demand, and the inventory), the overall methanol market sentiment in the PRC went from strong to sluggish in the first half of 2022.

2. ***Outlook for H2 2022***

On the macro-level aspect, in order to achieve the annual GDP growth target of 5.5%, the PRC government has successively introduced policies and measures to stabilize the economy. In the second half of the year, it is expected that more macro-level policies shall be introduced. In the meantime, the epidemic prevention and control will be more effective. It is expected that the domestic economic growth rate will return to a stronger trend in the second half of the year. On the cost side, the crude oil supply and demand structure is still favorable. The overall price of coal will be higher in the later period, which may support the price of methanol. On the supply side, as maintenance plans will be reduced and total 2 million tonnes of new production capacity in Northwest China are expected to be commenced its production, growth in supply will be maintained. Entering the fourth quarter, there will be adequate new methanol production capacity. In addition, the maintenance during autumn (from September to October) and the end-of-year natural gas maintenance and gas rationing will also maintain the supply in stages. On the import side, with the high commencement of overseas methanol production in the second half of the year and the substantial increase in the import profits, it is highly probable that the domestic methanol import volume will remain high, and the expected import volume will remain at the average monthly level of about 1.1 million tonnes. On the demand side, although July-August will mark the traditional low season downstream, the rainy season and typhoon in summer will be beneficial to port business, motivating the market growth of in the PRC and slightly increase in prices; From the end of the third quarter to the fourth quarter (September to December), driven by the consumption peak season of "Golden September and Silver October" (金九銀十) and the expected gradual recovery of downstream demand, the trend of methanol demand will present a greater probability of sluggish and stronger thereafter in the second half of the year.

In conclusion, the trend of methanol market in the PRC will change from the weak to the strong in the second half of 2022 due to low valuated price and improving supply and demand expectations.

II. Synthetic ammonia

1. Industry Overview for H1 2022

In the first half of 2022, the average price of synthetic ammonia in the PRC was RMB4,382/tonne, increased by 27.42% year-on-year and 4.78% quarter-on-quarter. During the period from January to February, the transportation in certain areas was jammed, tightening the radius of market supply circulation. Under the premise that certain units were repaired or converted to urea production units, coupled with the strong increase in downstream demand from chemical fertilizer industry and chemical industry, the synthetic ammonia started its wide-range growth trend since March. The market reached a historical high in mid-May, but weakened subsequently. In June, the market entered a downward trend rapidly.

On the supply side, the off-sales volume of synthetic ammonia in the major production areas was estimated at 2,182,800 tonnes in the first half of 2022, representing a year-on-year decrease of 11.67%. In the first half of 2022, regional transportation operation was slightly slackened, shipments of enterprises were blocked, and some co-production enterprises converted to production of urea and other easily stored products, reducing the pressure on shipments. At the same time, urea profit margin was greater than that of synthetic ammonia, enterprises deliberately focused on urea production, tightening the market supply. On the import side, according to information from the customs, total import of liquid ammonia of China was 90,400 tonnes during January to April 2022, decreased by 78.23% year-on-year, while exports were only 437 tonnes, decreased by 52.48% year-on -year. On the demand side, the average price of urea in China showed a gradual upward trend from January to May, and the demand for synthetic ammonia increased steadily. The facility operation rate of lactam industry was around 72%. In May, the lactam units entered into the centralized maintenance period — the maintenance capacity was over 1.2 million tonnes in April, approximately 1.15 million tonnes in May and approximately 1.5 million tonnes in June. Therefore, the demand for ammonia has been gradually reduced.

In summary, the average price of synthetic ammonia in the PRC reached a record high under the support of multiple favorable factors in the first half of 2022. Meanwhile, the market trend of synthetic ammonia in the PRC showed growth and suppressed thereafter under the influence of various factors (such as poor transportation, high profit margin and easy-storage nature of urea, the shift of urea production of enterprises, the decrease of liquid ammonia market supply, the significant decline of imports, as well as the delay of introducing new production capacity until the second half of the year.

2. *Outlook for H2 2022*

On the supply side, from June to October, most enterprises will resume its operation after the centralized maintenance in May (i.e. the first half of the year). On the other hand, the release of new production capacity will be concentrated in the second half of the year. From November to December, most manufacturers will be in shutdown maintenance. It is expected that the facility operation rate will be decreased. Therefore, the trend of overall synthetic ammonia supply will go from increasing to decreasing in the second half of the year. On the demand side, in July to October, agricultural cycle will be ended in Southern China, while the demand of wheat, corn and other crops in the Northern China will be keen. Therefore, demand for phosphate fertilizer and industrial demand will gradually recover. Further, under the keen demand for autumn agricultural reserves, coupled with the consumption peak season of "Golden September and Silver October" (金九銀十), another upward trend may be seen in the market; In November to December, with the expectation of high natural gas consumption in winter and the support of winter storage in the fertilizer market, the demand for synthetic ammonia may increase, and synthetic ammonia may assume a regional upward trend.

In summary, under supply and demand shocks and policy influencing factors in the second half of 2022, the market situation of synthetic ammonia in China will probably drop and rise thereafter in the second half of 2022.

III. Urea

1. Industry Overview for H1 2022

During the first half of 2022, urea price was driven mainly by the surge in international fertilizer prices and the downstream demand cycle resulting from the outbreak of the Russo-Ukrainian war. The average price of urea in China for the first five months showed a gradual rise, followed by with the continuing upward trend in early June. On 10 June, the average price of China's small particles urea was RMB3,210 tonne, increased by 21% year-on-year, and reaching a new high in nearly 10 years.

In terms of supply, China's average facility operation rate of urea industry reached 72.6% from January to May, with a cumulative production of 23.8 million tonnes, increased by 3.7% year-on-year. As on 16 June, the daily production had reached the level of 168,400 tonnes, significantly higher than the daily output level of 160,000 tonnes over the same period of the previous years. In terms of export, the law-regulated inspection policy has become more stringent as compared to that of last year, while the social inventory of urea has continued to drop to record lows. These reflected the strong domestic demand in the first half of the year. In terms of demand, most regions in China were in the low agricultural season during January to February. Demand was only found in the northern part of Jiangsu and Anhui for the winterizer fertilizer for wheat. The months of March to May showed strong demand of striking root fertilizer for wheat. At the same time, there were keen demand for stocked fertilizer and top-dressing fertilizer for rice yields in the Southern China, as well as keen demand for base fertilizer and stocked fertilizer for spring maizes in Eastern China and Central China (i.e. southern part of the Northeast China), which included mostly compound fertilizers. Such agricultural demand was vigorous. From mid-May to late-June, as the agricultural cycle of rice and corn in Southern China was stepping into the final stage, the demand was weak. Most of the Northern China regions were under wheat harvesting period, which was also known as the agricultural gap period. Small demand was only found among the Northeast China, Inner Mongolia, Jiangsu and Anhui for low- nitrogen fertilizer. As for the industrial aspect, the overall situation in the first half of the year was still affected by the national housing policy. As the property market sentiment remained sluggish, the demand for plywood was relatively weak; However, melamine export was tough during March to May, which supported the market of urea. From late-May to June, supply of urea increased, profits were low, and demand was weak under the passage of time. Therefore, the demand for urea was influenced by the seasonal cycle to a great extend. For the first half of the year, the demand for urea marked the trend of going from weak-to-strong and strong-to-weak thereafter.

In summary, urea price fluctuated greatly in the first half of 2022, and the overall urea market in China moved upwards with interval fluctuation due to macro-level changes, level of energy supply for supporting, increase of both supply and demand of urea, as well as subsequent weakening of urea demand.

2. *Outlook for H2 2022*

On the supply side, the daily production of urea has reached 168,400 tonnes, significantly higher than that of previous years. In the second half of the year, the stock supply is expected to remain high due to high profits of urea and the policy of maintaining supply and stabilizing price; In terms of new production capacity, there are only two units will be newly operated in the second half year in China. One is Shandong Mingshui (with a capacity of 800,000 tonnes/year). It is expected to commence its trial production in September, which will increase the daily production by 0.2 million tonnes. Another one is Xinjiang Zhongneng (with a capacity of 520,000 tonnes/year), which may commence its production at the end of the year and have limited impact in this year. At the same time, it is expected to eliminate about 400,000 tonnes of fixed production capacity in Shanxi Jincheng region by the end of the year. Thus, domestic urea production for the second half year will be relatively low. Considering the factors such as the out-of-expectation facility maintenance, gas-limited maintenance for exhaust gas head device in the fourth quarter, urea production in the second half of the year was around 160,000 tonnes/day.

On the demand side: In respect of agriculture, as the rice harvesting period will be ended in July in Southern China and the agriculture of autumn corn, off-season rice and late rice will be stepping into the high top-dressing (mainly with low-nitrogen fertilizer) season among the year, the demand will be relatively weak. Further, August is the national off-season for agriculture; And, during the period from September to October, the demand for fall fertilizing and stocked fertilizer for wheat will be found mostly in the Henan region of Anhui Province, which led to the rise of the surrounding market. From November to December, the period of winter storage of chemical fertilizers will begin; In respect of industry: Due to the sluggish domestic real estate market and the winter environmental-friendly policy suppression, industrial market will be under relatively intense pressure and facility operation rate of plywood will gradually drop; As a result, demand in the second half of the year may be turning from weak to strong.

In terms of export: According to the information of export in April 2022, China's urea export volume was 149,600 tonnes, decreased by 56.84% quarter-on-quarter. It is not difficult to see that the export law-regulated inspection policy remained stern in the second half of the year.

Social inventory: The low inventory level of urea will be seen in the third quarter, and fluctuations and rebound in urea inventories will be seen in the fourth quarter and peak will be seen in late November.

In summary, the high valuation of urea price will be continued in the second half of the year. At the same time, it will be greatly influenced by supply and demand structure and policy factors. From a basic analysis, urea production capacity in the second half of the year was limited. However, under the policy of supply guaranteeing, the price of urea will maintain a high level; On the demand side, from the perspective of the demand cycle, domestic demand may be weak and turn into strong thereafter, while export demand may lack driving force. Thus, in the second half of 2022, the market of urea may begin to drop and rise thereafter.

Strategies

In the first half of 2022, due to the impact of the domestic and international environment and the post-epidemic era, the chemical fertilizer and chemical industry experienced drastic fluctuations, which increased the difficulty in product shipment and the high operation of storage tanks for a relatively long time, among other new circumstances. In the face of such difficulties, the Group has mainly implemented internal reforms and innovations: On the one hand, through the technical transformation, the production and operation cost is reduced, especially the loss of unplanned shutdown is controlled to the lowest in its historical record. On the other hand, through constantly adjusting the sales model, the Group increases the proportion of direct sales customers; The Group also controls the sales rhythm and seize opportunities in volatile market so as to increase the revenue of the Company. In the second half of 2022, the Group will seize the instantaneous changes in the fertilizer and chemical industries and adopt the following strategies and measures, so as to support the Company completely get rid of difficulties and embark on the track of healthy development.

I. Continuing to stabilize and optimize existing businesses, focusing on benefits, promoting refined management, and achieving safe, environmentally friendly, and long-term stable operation.

1. Continue to organise and coordinate the raw materials for production such as water, electricity and gas, and provide guarantee for the long-term and high-load operation of Dazhou Plant and Guang'an Plant; take safety and environmental protection as the bottom line, while ensuring the long-term and safe operation, carry out daily monitoring, accounting, issue early warnings, and timely adjust and optimise the production organisation and operational capacity to ensure the best operation benefits;

2. Continue to promote special improvement, and seek for and promote the implementation of various measures of "increasing revenue while reducing expenditure, cutting costs while increasing efficiency" to reduce operating costs and waste;

3. Continue to take measures such as performance appraisal, compensation reform, special rewards and skills evaluation, gather together all the staff in the Group to exercise unified leadership, and inspire the creativity and execution of the team, in a bid to achieve good operation results;

4. Strengthen staff training, and improve their skills and management ability;

5. Optimize the sales mode, increase the proportion of direct sales clients, and increase the sales scale of local clients. At the same time, optimize the efficiency of the signing contracts, establish the internal sales competition mechanism, realize the maximum sales benefit;

6. Prepare for the annual overhaul of equipment, reduce the number of unscheduled shutdowns within the year, increase production and reduce consumption; and explore the feasibility to reduce the equipment repair frequency from once a year to once every two years under the premise of gradual easing of natural gas supply;

7. Promote the reform of spare parts inventory, so as to gradually reduce the occupation of inventory funds. At the same time, safety stock and inventory management measures are established to improve safety factor and reduce costs.

8. Gradually reduce the proportion of sole suppliers to solve industrial difficulties, so as to reduce purchase cost and improve purchase quality;

9. Promote the reform on delegation of authority and improve decision-making efficiency of its subsidiaries;

10. Push forward the approval, commencement and construction of new projects, reactivate existing assets and gradually upgrade products to grow into a company that develops fine chemicals based on basic chemicals from one that just focuses on basic chemicals, in order to enhance the Group's competitiveness.

2. Proactively push forward the progress of new projects and assist Ko Yo Group to embark on a sound development track

1. For the Guang'an Plant Phase I project of 100,000 tonnes of PBAT, all preparations for trial production have been completed in the first half of the year. It is expected to complete the optimization of production in the third quarter of 2022 and formal production in the fourth quarter of 2022;

2. The Guang'an Plant projects of 100,000 tonnes of DMF and 100,000 tonnes of pyrrolidine are at the stage of project design and preliminary formalities;

3. The Guang'an Plant Phase I project of 400,000 tonnes/year hexamethylene diamine, which is at the stage of project design and preliminary formalities, shall officially commence construction in the first quarter of 2023;

4. The Dazhou Plant project with annual 300,000 tonnes/year dimethyl carbonate will go through all the examination and approval formalities within this year.

The new project not only fully utilized the existing resources of the Company, but also broadened the product range of the Company, extended the industrial chain and optimized the industrial strategies. The commencement of the projects will promote Ko Yo Group for turning a crisis into an opportunity, as well as keeping the track of sound development, and realizing the transformation of traditional chemical enterprises into large-scale modern fine chemical enterprises.

Management Discussion and Analysis (Continued)

Acknowledgement

The past six months saw certain fluctuations of chemical fertiliser 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 and operation, followed up market trends in a timely manner and conducted real-time calculation, so as to ascertain the best operation benefits of our facilities. The stable long-term operation of facilities was also achieved. For the second half of the year, with decisions and strategies devised by the Board and under the leadership of the management, we will successfully stabilise the basic chemical business, explore new projects and capitalise on market opportunities.

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 diligence and contribution. We will continue working hard to create more returns to our shareholders and the society.

Tang Guoqiang
Chairman

26 August 2022

Liquidity, Financial Resources and Capital Structure

As at 30 June 2022, the Group had net current liabilities of approximately RMB1,005,831,000. Current assets as at 30 June 2022 comprised cash and bank deposits of approximately RMB571,626,000, restricted bank deposits of approximately RMB250,000, inventories of approximately RMB122,299,000, trade and other receivables of approximately RMB278,552,000. Current liabilities as at 30 June 2022 comprised short-term loans of approximately RMB1,425,410,000, current portion of long term loans of approximately RMB5,000,000, trade and other payables and other current liabilities of approximately RMB548,148,000.

Capital Commitments

As at 30 June 2022, the Group had outstanding capital commitments of approximately RMB503,877,600.

Financial Resources

As at 30 June 2022, the Group had cash and bank balances of approximately RMB571,626,000 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 65% and 72% as at 30 June 2022 and 31 December 2021 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 2022.

Material Acquisitions/Disposals

Save as disclosed of the acquisitions stated in the circular dated 19 November 2021 (propose acquisition of a company which in the establishment of production line of propylene oxide), the Group had no material acquisitions/disposals during the six months ended 30 June 2022.

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 2022.

Details of Future Plans for Material Investment or Capital Assets

Save as disclosed in the plans of the chairman statement in this interim report, the Company's circular dated 4 December 2020 (the establishment of three new production lines in our Dazhou Plant, Guangan Chemical Plant and Guangan Material Plant) and the Company's circular dated 19 November 2021 (propose acquisition (the "Acquisition") of a company which in the establishment of production line of propylene oxide), there is no other material investment plans. As stated in the announcement dated 30 June 2022, the Long Stop Date for the completion of the Acquisition was extended to 30 September 2022 as additional time is required for obtaining the tuning results of the trial production of the Target Company's propylene oxide production line.

Employee Information

As at 30 June 2022, the Group had a total workforce of 700 (2021: 643), of which 3 (2021: 3) were responsible for management, 107 (2021: 102) for finance and administration, 573 (2021: 523) for production and 17 (2021: 15) for sales and marketing and research and development. Of these employees, 698 (2021: 641) were stationed in the PRC and 2 (2021: 2) in Hong Kong.

Charges on the Group's Assets

Fixed Asset were pledged as collateral for Group's borrowings and note payable

	As at 30 June	
	2022	2021
	('000)	('000)
Land use rights and buildings	**454,062**	469,385
Equipment and machinery	**879,509**	1,099,576
Mining right	**334,306**	318,000
Bank deposit	**–**	19,479

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

The share option schemes (the "Share Option Schemes") adopted on 18 September 2008 and 9 October 2020. The details of the Share Option Schemes can be found in the circular of the Company dated 29 August 2008 and 18 September 2020.

Details of options granted by the Company pursuant to the Share Option Scheme and options outstanding as at 30 June 2022 were disclosed in the following table:

	Number of share options								
	Held at 1 Jan 2022 ('000)	Grant during period ('000)	Exercised during period ('000)	Forfeited/ Lapsed during period ('000)	Held at 30 Jun 2022 ('000)	Shares Options A ('000)	Shares Options B ('000)	Shares Options C ('000)	Shares Options D ('000)
Directors									
Tang Guoqiang	–	–	–	–	–	–	–	–	–
Shi Jianmin	300,000	–	–	–	300,000	–	–	300,000	–
Zhang Weihua	–	–	–	–	–	–	–	–	–
Xu Congcai	–	–	–	–	–	–	–	–	–
Hu Xiaoping	400	–	–	–	400	400	–	–	–
Le Yiren	–	–	–	–	–	–	–	–	–
Employees	82,612	–	–	–	82,612	3,800	1,500	–	77,312
Total	383,012	–	–	–	383,012	4,200	1,500	300,000	77,312

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

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

Share Options C: Granted on 23 October 2020, exercisable from grant date until 22 October 2030 with exercise price HK$0.141.

Share Options D: Granted on 22 November 2021, 35% exercisable 1 year from grant date until 21 November 2031, 35% exercisable 2 years from grant date until 21 November 2031 and 30% exercisable 3 years from grant date until 21 November 2031 with exercise price HK$0.182.

The share options scheme adopted on 18 September 2008 had been expired on 17 September 2018. As at 30 June 2022, the Company had 171,492,259 share options not yet issued under the share option scheme adopted on 23 October 2020, which represented approximately 2.99% of the Company's shares as at 30 June 2022. The remaining life of the share option scheme adopted on 23 October 2020 was about 8.3 years as at 30 June 2022.

Outstanding Convertible Securities

The details of all the outstanding convertibles securities, the Company's ability to meet its redemption obligations of the outstanding convertible securities based on the financial position as at 30 June 2022 and the Share prices (the "Indifference 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:

Outstanding Convertible Securities Maturity Date	Conversion share price (HK$)	No. of shares can be converted	Indifference Share Price (HK$) as at 31/12/2022	31/12/2023	31/12/2024	Ability to redeem
1. 12/11/2024	0.320	1,002,675,000	0.341	0.351	–	No
2. 30/01/2024	0.108	320,000,000	0.219	0.224	–	Yes
3. 14/03/2024	0.108	950,000,000	0.209	0.214	–	Yes
4. 27/09/2025	0.141	300,000,000	0.241	0.247	0.253	Yes
5. 29/11/2026	0.108	7,700,000,000	0.151	0.154	0.158	No
	Total	10,272,675,000				

Assuming all outstanding convertibles securities converted into shares of the Company (the "Shares") as at 30 June 2022, the shareholding structure of the Company before and after such conversion for all the outstanding convertible securities is as follow:

As at 30/6/2022	No. of Shares before the conversion of outstanding convertible securities	% of holdings (approx)	No. of Shares from conversion of outstanding convertible securities	No. of Shares after the conversion of outstanding convertible securities	% of holdings (approx)
Directors					
Mr. Tang Guoqiang	169,800,000	2.96	8,080,000,000	8,249,800,000	51.56
Mr. Shi Jianmin	47,000,000	0.82	–	47,000,000	0.29
Mr. Zhang Weihua	500,000,000	8.73	1,020,000,000	1,520,000,000	9.50
Public Shareholders	5,011,242,599	87.49	1,172,675,000	6,183,917,599	38.65
Total	5,728,042,599	100.00	10,272,675,000	16,000,717,599	100.00

Note: As at 30 June 2022, China Mass Enterprises Limited is indirectly owned by Mr. Zhang Weihua through Jiangsu Kang Tai Holdings Group Limited which held 500,000,000 Shares and an amount of HK$110,160,000 convertible bonds of the Company which can be converted into 1,020,000,000 Shares, and among 69,800,000 out of 169,800,000 shares held by Mr. Tang Guoqiang was held by Coherent Gallery International Limited which was wholly owned by Mr. Tang Guoqiang.

The diluted gain per shares for the year ended 30 June 2022 assuming all outstanding convertible securities being converted was RMB1.42 cents which is calculated by dividing the gain attribute to the shareholders of the Company by the total number of Shares after all outstanding convertible securities being converted.

(A) Interests of the Directors in the Company

As at 30 June 2022, 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
Tang Guoqiang	169,800,000	8,080,000,000	8,249,800,000	144.02%
Shi Jianmin	47,000,000	300,000,000	347,000,000	6.06%
Zhang Weihua	500,000,000	1,020,000,000	1,520,000,000	26.54%
Hu Xiaoping	–	400,000	400,000	0.01%

Note: As at 30 June 2022, among 69,800,000 out of the 8,249,800,000 shares in the interest of Mr. Tang Guoqiang was held by Coherent Gallery International Limited which was wholly owned by Mr. Tang Guoqiang. As at 30 June 2022, China Mass Enterprises Limited is indirectly owned by Mr. Zhang Weihua through Jiangsu Kang Tai Holdings Group Limited which held a total amount of 500,000,000 shares of the Company and an amount of HK$110,160,000 convertible bonds of the Company which can be converted into 1,020,000,000 shares of the Company.

(B) Interests of the Substantial Shareholders in the Company

As at 30 June 2022, so far as is known to any Director or chief executive of the Company, no 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.

(C) Interests of Other Persons in the Company

As at 30 June 2022, so far as is known to any Director or chief executive of the Company, no person (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.

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.

Going Concern and Mitigation Measures

The Group had certain litigations with banks and a number of measures have been undertaken to improve the Group's liquidity and financial position as in the Company's annual report of year 2021. The Group is still actively negotiating with banks in renewing or restructuring the loans. On March 2022, the Group reached a settlement agreement with China Merchant Bank to extend the repayment schedule and the loan with Minsheng Bank had been settled. Furthermore, on August 2022, the Group reached settlement agreements with the Export-Import Bank of China to extend the repayment schedules. With the improvement in profitability of the Group in 2021 and in the first half of 2022 and the active measures in controlling the administrative costs, the Board are in confident that the Group can successfully complete and implement the Company's measures to improve the Group's financial position, to provide liquidity and cash flows, and therefore the disclaimer is expected to be removed in the coming financial statements.

Code of Conduct Regarding Securities Transactions by Directors

During the six months ended 30 June 2022, 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 three members comprising the three independent non-executive Directors, namely, Mr. Hu Xiaoping, Mr. Xu Congcai and Mr. Le Yiren.

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 2022.

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

Hong Kong, 26 August 2022