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 2024

Highlights

Unaudited loss attributable to shareholders of the Group was approximately RMB129.7 million for the six months ended 30 June 2024, which represented an increase of loss of approximately RMB26.9 million as compared to that of the same period last year.

For the six months ended 30 June 2024, the Group's unaudited net cash inflow from operating activities before working capital changes, profit tax and interest payment was approximately RMB62.9 million, representing an increase of approximately RMB46.1 million as compared to that of approximately RMB16.8 million in the corresponding period last year.

For the six months ended 30 June 2024, the Group's unaudited turnover was approximately RMB1,430 million, which represents an increase of approximately 1.9% as compared to the same period last year. The slightly increase in turnover was mainly due to the increase in selling of N-methylpyrrolidone and N,N-dimethylformamide. The total sales volume (excluding the trading portion) of the Group reached approximately 539,000 tonnes, representing an increase of approximately 3.5% as compared with that of the same period last year.

Unaudited basic loss per share of the Group was approximately RMB2.15 cents for the six months ended 30 June 2024.

The Directors do not recommend to pay any interim dividend for the six months ended 30 June 2024.

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 2024 together with the unaudited comparative figures for the corresponding periods in 2023 are as follows:

Unaudited Condensed Consolidated Profit and Loss Account

For the six months ended 30 June 2024 and 30 June 2023

		Six months ended 30 June	
	Notes	**2024 RMB'000**	2023 RMB'000
Turnover	3	**1,429,617**	1,403,423
Cost of sales		**(1,350,350)**	(1,279,941)
Gross profit		**79,267**	123,482
Interest income		**7,403**	338
Distribution costs		**(13,542)**	(21,209)
Administrative expenses		**(84,873)**	(96,224)
Other income/(expenses) — net		**6,283**	10,261
Operating profit		**(5,462)**	16,648
Finance costs		**(110,385)**	(114,468)
Loss/profit before taxation	4	**(115,847)**	(97,820)
Taxation	5	**(19,226)**	(5,397)
Loss/profit for the period		**(135,073)**	(103,217)
Attributable to:			
Equity holders of the Company		**(129,665)**	(102,831)
Non-controlling interests		**(5,408)**	(386)
		(135,073)	(103,217)
Basic (loss)/earnings per share (RMB cents)	6	**(2.15)**	(1.71)
Diluted (loss)/earnings per share (RMB cents)	6	**(2.15)**	(1.71)
Declared dividends per share (HK cents)	7	**Nil**	Nil

Condensed Consolidated Balance Sheet

As at 30 June 2024 and 31 December 2023

	Notes	(Unaudited) As at 30 June 2024 RMB'000	(Audited) As at 31 December 2023 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		3,309,799	3,386,449
Investment properties		7,861	7,861
Right-of-use assets		241,105	242,790
Mining right		334,306	334,306
Other intangible assets		69,619	69,619
Prepayments		806,290	788,029
Deferred income tax assets	11	23,443	16,411
		4,792,423	4,845,465
Current assets			
Inventories		262,264	216,104
Trade and other receivables	8	333,082	239,946
Restricted bank balances		31	31
Pledged bank deposits		576,600	901,856
Cash and cash equivalents		52,754	62,928
		1,224,731	1,420,865
Total assets		6,017,154	6,266,330
EQUITY			
Equity attributable to owners of the Company			
Share capital		520,569	520,569
Reserves		259,732	387,533
		780,301	908,102
Non-controlling interests		(1,695)	3,713
Total equity		778,606	911,815

Condensed Consolidated Balance Sheet (Continued)

As at 30 June 2024 and 31 December 2023

	Notes	(Unaudited) As at 30 June 2024 RMB'000	(Audited) As at 31 December 2023 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	10	316,481	406,332
Convertible bonds		588,998	549,457
Deferred income tax liabilities	11	115,459	115,459
Lease liabilities		2,701	2,678
		1,023,639	1,073,926
Current liabilities			
Trade and other payables	9	1,090,253	785,907
Contract liabilities		60,031	61,963
Due to a related company		713,291	683,041
Provision for tax		5,724	17,667
Borrowings	10	2,092,958	2,387,146
Lease liabilities		2,254	2,211
Convertible bonds		250,398	342,654
		4,214,909	4,280,589
Total liabilities		5,238,548	5,354,515
Total equity and liabilities		6,017,154	6,266,330
Net current liabilities		(2,990,178)	(2,859,724)
Total assets less current liabilities		1,802,245	1,985,741

Unaudited Condensed Consolidated Cash Flow Statement

As at 30 June 2024 and 31 December 2023

	Six months ended 30 June	
	2024	2023
	RMB'000	RMB'000
Net cash generated from operating activities	**113,343**	266,458
Interest paid	**(35,835)**	(35,217)
Net cash inflow from operating activities	**77,508**	231,241
Investing activities		
Purchases of fixed assets and payments for construction-in-progress	**(15,702)**	(311,686)
Proceeds from disposal of fixed assets	**–**	2,363
Interest received	**7,403**	338
Net cash outflow from investing activities	**(8,299)**	(308,985)
Net cash outflow/inflow before financing activities	**69,209**	(77,744)
Financing activities		
Decrease in pledged and restricted bank deposits	**325,256**	383,788
Advance from a related company	**30,250**	–
Proceeds from borrowings	**270,204**	343,120
Repayment of borrowings	**(654,242)**	(602,925)
Repayment of convertible bonds	**(52,715)**	–
Reserve fund change	**1,864**	–
Net cash inflow/outflow from financing activities	**(79,383)**	123,983
Increase/decrease in cash and cash equivalents	**(10,174)**	46,239
Cash and cash equivalents at 1 January	**62,928**	224,058
Cash and cash equivalents at 30 June	**52,754**	270,297

Unaudited Consolidated Statement of Changes In Equity

For the six months ended 30 June 2024 and 30 June 2023

	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 2023 (audited)	520,569	1,548,019	(22,041)	824,265	45,273	1,131	(1,854,668)	(3,509)	1,087	1,060,126
Net loss for the 6 Months ended 30 June 2023	–	–	–	–	–	–	(102,831)	–	(386)	(103,217)
At 30 June 2023	520,569	1,548,019	(22,041)	824,265	45,273	1,131	(1,957,499)	(3,509)	701	956,909
At 1 January 2024 (audited)	520,569	1,548,019	(22,041)	825,669	54,262	1,131	(2,015,998)	(3,509)	3,713	911,815
Net loss for the 6 Months ended 30 June 2024	–	–	–	–	–	–	(129,665)	–	(5,408)	(135,073)
Reserve fund change	–	–	–	–	1,864	–	–	–	–	1,864
At 30 June 2024	520,569	1,548,019	(22,041)	825,669	56,126	1,131	(2,145,663)	(3,509)	(1,695)	778,606

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 2023. 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 RMB2,990,178,000 as at 30 June 2024. 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 2024 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 2024 (unaudited)		Six months ended 30 June 2023 (unaudited)	
	RMB'000	**%**	RMB'000	%
Urea	**355,449**	**24.9**	488,642	34.8
Ammonia	**431,285**	**30.2**	368,300	26.2
Methanol	**419,183**	**29.3**	390,831	27.9
N-methylpyrrolidone ("NMP")	**2,149**	**0.1**	–	–
N,N-dimethylformamide ("DMF")	**3,013**	**0.2**	–	–
Others (Note)	**218,538**	**15.3**	155,650	11.1
	1,429,617	**100**	1,403,423	100

Note: Others are trading of ethyl trifluoroacetate and other chemical products.

Notes of Financial Statements (Continued)

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

	Six months ended 30 June	
	2024	2023
	RMB'000	RMB'000
(Loss)/gain before tax	**(115,847)**	(97,820)
Depreciation of property, plant and equipment	**71,886**	73,590
Depreciation of right-of-use assets	**1,685**	5,225
Interest income	**(7,403)**	(338)
Interest expense	**110,385**	35,217
Loss on disposal of fixed assets	**2,207**	951
Operation cash flow before working capital change	**62,913**	16,825
(Increase)/decrease in inventories	**(46,159)**	60,070
(Increase)/decrease in trade and other receivables	**(93,135)**	(56,813)
Increase/(decrease) in trade an other payables	**210,882**	230,920
Increase/(decrease) in contract liabilities	**(1,932)**	15,702
Increase/(decrease) in advance from a related company	**–**	5,151
Cash generated from operating activities	**132,569**	271,855
Income tax	**(19,226)**	(5,397)
Net cash generated from operating activities after tax	**113,343**	266,458

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 2024.

The applicable income tax rate of all subsidiaries located in Mainland China in 2024 is 25%.

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

	Six months ended 30 June	
	2024	2023
	RMB'000	RMB'000
PRC Corporate Income Tax in Mainland China	**26,258**	12,615
Deferred income tax (Note 11)	**(7,032)**	(7,218)
	19,226	5,397

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 2024 and 2023 were based on:

	Six months ended 30 June	
	2024	2023
Loss	**RMB'000**	RMB'000
Loss for the period	**(129,665)**	(102,831)
Loss for calculation diluted earnings per share	**(129,665)**	(102,831)
Number of shares	**'000**	'000
Weighted average number of shares for calculation of basic earnings per share	**6,028,043**	6,028,043
Weighted average number of shares for calculation of diluted earnings per share	**6,028,043**	6,028,043

Notes of Financial Statements (Continued)

7. Dividend

The Board does not recommend the payment of any dividend for the six months ended 2024.

8. Trade and Other Receivables

	(Unaudited) As at 30 June 2024 RMB'000	(Audited) As at 31 December 2023 RMB'000
Trade receivables	4,848	1,337
Prepayments, purchase deposits and other deposits	181,000	160,692
Notes receivable	1,274	3,101
Other receivables	145,960	74,816
	333,082	239,946

Notes of Financial Statements (Continued)

8. Trade and Other Receivables *(Continued)*

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

	(Unaudited) As at 30 June 2024 RMB'000	(Audited) As at 31 December 2023 RMB'000
Aged:		
Less than 3 months	**4,848**	1,337
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	**–**	–
	4,848	1,337
Less: provision for doubtful receivables	**–**	–
	4,848	1,337

Notes of Financial Statements (Continued)

9. Trade and Other Payables

	(Unaudited) As at 30 June 2024 RMB'000	(Audited) As at 31 December 2023 RMB'000
Notes payable	**63,750**	–
Trade payables	**31,462**	31,717
Construction payable	**473,170**	426,390
Accruals and other payables	**521,871**	327,800
	1,090,253	785,907

9. Trade and Other Payables *(Continued)*

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

	(Unaudited) As at 30 June 2024 RMB'000	(Audited) As at 31 December 2023 RMB'000
Aged:		
Less than 1 year	**29,304**	29,559
More than 1 year but not exceeding 2 years	**2,158**	2,158
More than 2 years but not exceeding 3 years	**–**	–
More than 3 years	**–**	–
	31,462	31,717

Notes of Financial Statements (Continued)

10. Borrowings

	(Unaudited) As at 30 June 2024 RMB'000	(Audited) As at 31 December 2023 RMB'000
Borrowings are repayable as follows:		
Less than 1 year	**2,092,958**	2,387,146
Between 1 and 2 years	**165,696**	118,836
Between 2 and 5 years	**150,785**	287,496
Over 5 years	**–**	–
Total borrowings	**2,409,439**	2,793,478
Settlement within 1 year included in current liabilities	**(2,092,958)**	(2,387,146)
Settlement after 1 year included in non-current liabilities	**316,481**	406,332

As at 30 June 2024, 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 3.7% to 8.64% (2023: 3.3% to 8.70%) per annum.

11. Deferred Income Tax

There were no offsetting of deferred income tax assets and liabilities in 2023 and in six months period ended 2024.

Deferred income tax assets:

	Loss available for offsetting future taxable profits
	RMB'000
At 31 December 2023	16,411
Credit to income statement	7,032
At 30 June 2024	**23,443**

Deferred income tax liabilities:

	Evaluation and exploration assets
	RMB'000
At 31 December 2023	(115,459)
At 30 June 2024	**(115,459)**

Management Discussion and Analysis

Financial Performance

For the six months ended 30 June 2024, the Group recorded a turnover of approximately RMB1,430 million, representing an increase of approximately 1.9% as compared with approximately RMB1,403 million for the corresponding period last year. The slightly increase in turnover was mainly due to the increase in selling of NMP and DMF. Loss attributable to shareholders was approximately RMB129.7 million (2023: first half year loss of approximately RMB102.8 million), representing an increase in loss of approximately RMB26.9 million as compared with the corresponding period last year. The increase in loss was mainly due to the decrease in gross profit margin. Basic loss per share was approximately RMB2.15 cents (2023: first half year basic loss per share of approximately RMB1.71 cents).

During the period under review, the total sales volume (excluding the trading portion) of the Group reached approximately 539,000 tonnes (2023: 521,000 tonnes), representing a slightly increase of approximately 3.5% as compared with that of the corresponding period last year.

For the period under review, the gross profit margin of the Group decreased from approximately 8.8% to 5.5% as compared with the corresponding period last year, which was mainly due to the increase in natural gas price. Cost of sales amounted to approximately RMB1,350 million, representing an increase of approximately 5.5% as compared with the corresponding period last year mainly due to the increase in natural gas price. Distribution costs decreased by approximately 36.1% due to the decrease in transportation cost. The administrative expenses decreased by approximately 11.8% as compared with the corresponding period last year, due to the strict control in cost. The decrease in net other income of approximately RMB4.0 million as compared with the corresponding period last year was mainly due to decrease in the sales of scrap material.

Business Review

During the period under review, the Group and its subsidiaries continued to operate proactively and steadily under the business objective of "focusing on efficiency and changing management mode". The incentive policies implemented in early stage have shown a conspicuous effect by continuous optimisation and adjustment in the course of operation. Across the Group, we work with cohesion and in unison, resulting in a significant increase in team dynamics and remarkable improvement in economic efficiency. In particular, the sales model continued to be adjusted and the bidding model became increasingly sophisticated to further sort out quality customers and improve the Company's efficiency. The Company's anti-risk capability continued to improve as a result of continuous technological transformation, safe and stable operation of equipment, and reduction in product consumption. New projects have been completed and successfully commissioned, extending the industrial chain and enhancing the Company's comprehensive strength. Standardisation work, such as technical standardisation, management standardisation, work standardisation, inspection standardisation, etc., was deeply rooted in our staff's minds and internalized into their action, continuously strengthening the management foundation, improving management standards, and constantly enhancing the Group's core competitiveness.

Overall, in the first half of 2024, safety, environmental protection, production, consumption and cost control were all at an all-time best level in 2023. In the first half of 2024, the natural gas supply situation improved, with usage largely ensured through ongoing coordination. However, natural gas prices rose sharply. Meanwhile, the product market sentiment oscillated downward and then remained at a relatively low level. Under the impact of the tough external environment mentioned above, the Group made concerted efforts internally to stabilise the overall operation. However, the operating conditions were lower than expected.

Management Discussion and Analysis (Continued)

Guang'an Ko Yo Plant

Subject to the impact of natural gas supply during the heating season, Guang'an Ko Yo Plant's methanol-ammonia co-production units and KAM units resumed production since 20 January and 21 February, respectively, and the production volume and energy consumption both recorded new high as compared to those at the best level in history in 2023. During the period, Guang'an Ko Yo Plant, through the overall transformation and management innovation in the past two years, realised for the first time the steam balance in the event of a rapid boiler shutdown. This is expected to contribute to an increase of over RMB20 million in annual revenue. Meanwhile, given the monthly product market prices, Guang'an Ko Yo Plant made additional contributions for the Company's profitability by producing more high-profit value-added products through process adjustment.

Guang'an Ko Yo New Material Plant

The 100,000 tonnes/year DMF (N,N-dimethylformamide) and 100,000 tonnes/year NMP (N-methylpyrrolidone) projects have been put into operation for three consecutive months following successful commissioning in May 2023. Given the actual operating costs and recent market conditions, the Company has decided on a comprehensive optimisation this year. At present, optimisation is being carried out in an orderly manner according to an established plan. Following the optimisation, production costs will significantly decrease from the current level, greatly enhancing product competitiveness.

Dazhou Ko Yo Plant

Dazhou Ko Yo Plant continued to implement "production before the year, overhaul after the year" production organisation mode this year. Subject to the basic guaranteed supply of the natural gas and taking into account the market condition forecast, it postponed the overhaul schedule as planned, making significant contributions for the Group's economic efficiency. After the year-end overhaul, synthetic ammonia units and urea units have resumed production since 26 March 2024, reaching new high in both production volume and energy consumption as compared to those at the best level in history in 2023.

Jiangsu Bluestar Plant

At present, the main construction of Jiangsu Bluestar Green Technology Co., Ltd.'s 400,000 tonnes/year propylene oxide project is basically completed and has entered into the commissioning, testing, and procedure handling stage. It is expected to enter trial production in the fourth quarter of 2024. Upon commissioning of the project, it is expected to generate annual sales of approximately RMB4.0 billion.

Industry Overview and Outlook

Dimethylformamide (DMF)

I. Industry overview for the first half of 2024

According to statistics, the nationwide DMF production capacity is 1.8 million tonnes in 2024, an increase of 7.14% compared to 2023. In January–June 2024, the DMF production volume amounted to 436,600 tonnes, an increase of 10.11% compared with the first half of 2023. In respect of operation, the average monthly rate of operation was at 45.83%, a decrease of 24.02% compared with that in the first half of 2023.

The DMF market in the first half of 2024 showcased a striking imbalance in supply and demand, resulting in fluctuating market trends at lower positions. From the demand perspective, both the downstream demand and upstream supply for DMF were higher in the first half of 2024 than they were in the first half of 2023. However, supply continued to outstrip demand. Demand did not visibly increase during the traditional peak season for pulp in March and April. The trading in the market became inactive again. Under cost pressure, main plants stimulated demand by slightly raising prices, but the prices fell short of what the industry expected given the difficulty in increasing the scale of their operations. While some downstream manufacturers entered the market as chances arose and increased their stock, there was constant pressure on corporate inventory levels. By June, the market remained fluctuant at lower levels due to factors such as ineffective cost control and gradually weakening demand. From the perspective of supply-demand structure, a clear contradiction between supply and demand arose due to shrinking downstream demand. This caused a downward shift in the focus of market transactions. Downstream, end-user companies kept pushing for lower prices, resulting in continued low-level operation of spot prices.

II. Outlook for the second half of 2024

In the third quarter, new capacity development will continue to trend upward and the pressure on the supply side will continue to increase. Regarding demand, the downstream DMF market will enter its traditional off-peak season from July to August. However, given that market prices have consistently been at a low level, there may not be much potential for a further decline in prices. From September to December, sentiment in the downstream demand tends to gradually improve, driven by a consumption peak in Golden September and Silver October. There might be a trend of initial weakness followed by strength in the demand for DMF in the second half of the year.

In summary, for the second half of 2024, even as the supply and demand of the DMF market continue to grow concurrently, the price of DMF might persist at a low level with limited potential for an increase amidst escalating tensions between the supply and demand.

N-methylpyrrolidone (NMP)

I. Industry overview for the first half of 2024

According to statistics, the national NMP production capacity is approximately 1 million tonnes in 2024, an approximate increase of 11% compared to 2023. In the first half of the year, prices in the NMP market fluctuated at a low level, with an overall downward trend. Mainstream upstream manufacturers maintained operations at medium to low loads. In terms of demand, influenced by the global economic downturn, the overall production increase of new energy vehicles fell short of expectations. This in turn caused the growth rate of power battery demand for NMP to slow down. Trading was inactive and the focus of negotiations tended to lean towards closing deals at lower prices. In the first half of the year, the overall price of BDO, a type of raw materials, fluctuated at a low level. The trend of increase and decrease was slow. This, from a cost perspective, continued to drive the price of NMP downwards.

II. Outlook for the second half of 2024

In the second half of the year, market prices will be under downward pressure and may fluctuate at a low level as new capacity is expected to enter the market. On the supply side, new capacity is expected to be added for both synthetic and recycling units, leading to an overall continued increase in supply. However, the anticipated growth in end-user demand is insufficient and there will be a lack of new orders and dealings in the market. Due to inflation and economic downturn, the overall scale of foreign trade is striving for progress in stability. Imbalance of supply and demand for NMP will remain the main contradiction in the short-term operation of the industry.

In summary, market prices will still fluctuate at a low level, with a weak performance in the second half of 2024.

Methanol

I. Industry overview for the first half of 2024

According to statistics, the production volume of methanol in China reached 41.379 million tonnes from January to mid-June this year, an increase of 11.26% when compared with the same period last year. The average operation rate for methanol production was 82.31% in the first half of the year, up by 6.54% over the same period last year.

In the first half of 2024, the methanol price was relatively firm but trending downward. In the first quarter, the mainland market faced pressure due to the gradual resumption of gas production and weak demand for olefins, methanol, and acetic acid, resulting in a slight overall decrease in prices. In the second quarter, the operation rates of both MTO and CTO gradually recovered to stable levels. Traditional downstream demands, such as methanol demand, gradually rebounded. With a continued increase in downstream demand, manufacturers gradually decreased their inventories. Additionally, port arrivals were less frequent than anticipated, influencing futures prices to fluctuate upwards. As a result, market prices continually climbed up. In June, the conclusion of spring inspection heralded an increase in supply. High methanol prices squeezed downstream olefin profits, triggering shutdowns and load reductions. Additionally, traditional downstream methanol profits began to contract. With raw material inventories consistently at mid-to-high levels and firm freight rates, methanol manufacturers continually lowered prices to reduce inventory, pushing the focus of transactions downward.

II. Outlook for the second half of 2024

In the second half of 2024, methanol prices may show a trend of decline, followed by a surge, and culminating in another decrease. Specifically, the supply could display a general pattern of an initial increase, followed by a decrease. From July to August, the traditional downstream sector will enter the off-season, which, combined with potential disruption due to typhoons in ports, could cause market fluctuations. From September to October, the market may rise as downstream demand gradually recovers and buying sentiment is fuelled by the consumption peak during the "Golden September and Silver October" period. In November and December, measures such as shutdowns and load reductions might be taken given MTO, CTO, and traditional downstream profits possibly impacted by high methanol prices. As a result, the overall demand may show a trend of initially being weak, then strong, and again weak in the second half of the year.

In summary, in the second half of 2024, the methanol market could experience fluctuations in the supply and demand structure, with an initial rise, followed by a reduction, and then a rise again in manufacturers' inventory levels. However, with support from raw materials and a favourable macro-economic backdrop, methanol prices might show a trend of initially decreasing, then increasing, and finally decreasing again.

Synthetic Ammonia

I. Industry overview for the first half of 2024

According to statistics, the synthetic ammonia production volume in China amounted to approximately 30 million tonnes in the first half of 2024, an increase of 13% from last year. The average operation rate of the industry was 72.5%, an increase of 7.5% from the previous year.

In the first half of 2024, the overall synthetic ammonia market showed a downward trend. Prior to the Chinese New Year, there was a lot of snow and rain, causing traffic and transportation blockages. This led ammonia companies to focus on arranging their inventory and selling goods. Concurrently, downstream companies had begun to prepare for holidays, which resulted in a decrease in prices. During traditional fertiliser consumption peaks from the post-Spring Festival to mid-June, there was a certain balance between supply and demand as industrial nitric acid and caprolactam production was resumed and expanded, and with sequential temporary shutdowns of units by ammonia companies. This caused a slight upward shift in the focus of market transactions, leading to relatively stable prices. By late June, there was a significant drop in market prices due to reduced raw material cost support, along with declines in or suspension of compound fertiliser production and average operation rates in industrial nitric acid production, as well as factors such as surplus market supply and inventory build-up among some upstream manufacturers.

II. *Outlook for the second half of 2024*

In the second half of 2024, synthetic ammonia production capacity will continue to rise, with an anticipated added capacity of 5.51 million tonnes between July and December. This could potentially exert pressure on supply. On the demand side, agricultural needs vary seasonally. July and August mark the off-season for agriculture nationwide. The demand will pick up from September to October, driven by plywood manufacturers and fertiliser needs in autumn. Further, during November and December, demand will be primarily for winter stocking. However, the real estate sector will continue to underperform, resulting in a weak demand for plywood manufacturers. The overall pattern for demand will remain weak, then strong, followed by another weakening trend. In respect of raw materials, factors like the summer production peak in the third quarter and policies like winter heating and gas restrictions in the fourth quarter might result in lesser marginal support from the raw material side.

Management Discussion and Analysis (Continued)

To summarise, in the second half of 2024, the ammonia market will likely see fluctuating prices — initially dropping, then rising, and finally dropping again due to several factors. These include the release of new production capacity, anticipated downstream production, environmental restrictions, and a rise in raw material costs.

Urea

I. Industry overview for the first half of 2024

According to statistics, from January to mid-June 2024, the average daily urea production rate in China amounted to 176,900 tonnes, an increase of 12,960 tonnes over the same period last year. The average operation rate of the Chinese urea industry was approximately 81.7%, representing an increase of 3.39% over the same period last year.

In the first half of 2024, the overall urea market showed an upward and then downward trend. Leading up to mid-March, as the industrial compound fertiliser plants gradually resumed production and agricultural sales commenced, combined with low plant inventory and the increasing demand for agricultural fertiliser and manure preparation in spring, there was an upward shift in the focus of market transactions. This led to a price surge, reaching a semi-annual high of nearly RMB2,380 per tonne. From late March to May, although the number of upstream manufacturers' maintenance devices increased, the demand for high nitrogen fertiliser peaked due to seasonal reasons, and base fertilisers were prepared for agricultural corn and rice crops, market prices remained relatively stable without surpassing the previous high. In June, as the units previously shut down restarted, daily yield gradually reached approximately 180,000 tonnes, increasing supply pressure. Meanwhile, a slowdown was noticeable in the overall demand due to the loss of downstream demand for industrial compound fertilisers and weather-related delays in fertiliser preparation in the agriculture industry. This, paired with stringent export and legal inspection policies, prompted caution among traders, causing market volatility and a downward price trend.

Management Discussion and Analysis (Continued)

II. Outlook for the second half of 2024

The structure of supply and demand appears to be less robust, thereby creating the potential for the focus of market transactions to trend downward in the second half of 2024. Regarding the supply side, while summer heat may cause shutdowns of urea units in some regions during the third quarter, an anticipated addition of about 4 million tonnes of new production capacity in the second half of the year should keep the market amply supplied and maintain fluid circulation. In the fourth quarter, production limitations due to environmental protection measures and winter gas restrictions in Shanxi and North China could decrease supply. Thus, the market supply may initially increase before reducing later. On the demand side, in the third quarter, the fertiliser application for rice in the southern regions ends, and corn demand in the north weakens. Industrial compound fertiliser production also decreases. However, in September, during the high consumption period known as the "Golden September and Silver October", regions like Anhui and Henan prepare and apply fertilisers for wheat. However, the demand during this period is significantly lower than in spring. Winter stockpiling is the main theme of the fourth quarter. However, plywood manufacturers may struggle to increase output due to sluggish real estate demand. Consequently, downstream demand may display a trend of initially being weak, then strong, and eventually weak again.

In summary, the second half of 2024 could see new urea production capacity, but with obviously reduced downstream demand from industry and agriculture. Despite strict export controls and a weak supply-demand structure leading to potential downward shift in the focus of market transactions, the adequate storage of raw materials like coal and natural gas may provide support, thereby limiting a drop in prices.

Management Discussion and Analysis (Continued)

Strategies

In the first half of 2024, affected by the domestic and international environment, the fertiliser and chemical industries experienced fluctuations, showing an overall oscillating downward and increasing the difficulties in product shipments and operations. In the face of these difficulties, the Group mainly focused on internal reforms and innovations. On the one hand, it reduced production and operation costs through technological transformation with the comprehensive consumption of companies in Guang'an and Dazhou hitting a record low. On the other hand, the Group kept adjusting the sales model and improved the bidding mechanism to select high-quality customers; to control the sales plans, and seize opportunities in market fluctuations, thus increasing revenue of the Company. In the second half of 2024, we will seize the real-time dynamics of changes in the fertiliser and chemical industries and adopt the following strategies and measures to help the Company to embark on the track of healthy development.

I. The Company will keep on arranging and coordinating the work with regard to production materials, such as water, electricity and gas, in a bid to provide long-term and high-load operation protection for units of Dazhou Ko Yo Plant and Guang'an Ko Yo Plant; Taking safety and environmental protection as the bottom line, while ensuring the long-term and safe operation, it will 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;

II. The Company will 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;

III. The Company will continue to promote measures such as performance appraisal, compensation reform, special rewards and skill assessment, 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;

IV. The Company will strengthen the training of the workforce to improve the technical level and management capabilities of all staff;

V. The Company will promote sales model optimization, increase the proportion of direct sales to customers, and increase the size of sales to local customers. Meanwhile, it will continue to improve our bidding model and increase the added value of our products; The Company will optimise the rhythm of signing contracts, establish an internal sales competition mechanism, and maximize sales benefits;

VI. The Company will do a good job in preparing for the annual overhaul of the device, reduce the number of unplanned shutdown during the year, increase production and reduce consumption; under the premise that the supply of natural gas is gradually eased, the Company will explore the feasibility of repairing the device from once a year to every two years;

VII. The Company will promote the reform of spare parts inventory, gradually reduce the amount of inventory funds occupied, and at the same time establish safety inventory and inventory management methods to improve the safety factor and reduce costs;

VIII. The Company will gradually reduce the proportion of exclusive suppliers to solve industry-specific problems, thereby reducing procurement costs and improving procurement quality;

IX. The Company will promote the reform of the authorization system to improve the decision-making efficiency of subsidiaries;

X. The Company will promote the approval, start and construction of new projects, revitalize existing assets, gradually realize the upgrading of products, transform from pure basic chemical industry to fine chemical industry based on basic chemical industry, and enhance the competitiveness of the Group;

Management Discussion and Analysis (Continued)

XI. The Company will promote the upgrading and transformation of the DMF & NMP project and trial production of the PO project, as well as the establishment of business teams in the supply chain and sales, so as to form a new point of growth for the Group in terms of sales and profits;

XII. The Company will promote standardisation, such as technical standardisation, management standardisation, work standardisation, inspection standardisation, etc., and continuously consolidating the management foundation in order to safeguard the Group's stable operation.

Acknowledgement

Looking back over the past six months, we have observed certain fluctuations in the chemical fertilizer and chemical industries. Under the leadership of the Board and our management, and with the dedication of our 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 stabilise the basic chemical business, explore new projects and capitalise on market opportunities.

On behalf of all my colleagues on the Board, I would like to take this opportunity to express my sincere gratitude to all shareholders, customers, the management and our staff! Thank you for your hard work! We will continue working hard to create more returns to our shareholders and the society.

Tang Guoqiang
Chairman

28 August 2024

Liquidity, Financial Resources and Capital Structure

As at 30 June 2024, the Group had net current liabilities of approximately RMB2,990,178,000. Current assets as at 30 June 2024 comprised cash and bank deposits of approximately RMB52,754,000, restricted and pledged bank deposits of approximately RMB576,631,000, inventories of approximately RMB262,264,000, trade and other receivables of approximately RMB333,082,000. Current liabilities as at 30 June 2024 comprised borrowings of approximately RMB2,092,958,000, convertible bonds of approximately RMB250,398,000, amount due to a related company of approximately RMB713,291,000, trade and other payables and other current liabilities of approximately RMB1,158,262,000.

Capital Commitments

As at 30 June 2024, the Group had outstanding capital commitments of approximately RMB218,244,000.

Financial Resources

As at 30 June 2024, the Group had cash and bank balances of approximately RMB52,754,000 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 77% and 75% as at 30 June 2024 and 31 December 2023 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 2024.

Material Acquisitions/Disposals

The Group had no material acquisitions/disposals during the six months ended 30 June 2024.

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 2024.

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 (the Jiangsu Plant), there is no other material investment plans.

Employee Information

As at 30 June 2024, the Group had a total workforce of 821 (2023: 823), of which 3 (2023: 3) were responsible for management, 112 (2023: 128) for finance and administration, 693 (2023: 673) for production and 13 (2023: 19) for sales and marketing and research and development. Of these employees, 819 (2023: 821) were stationed in the PRC and 2 (2023: 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	
	2024	2023
	('000)	('000)
Land use rights and buildings	**492,526**	410,239
Equipment and machinery	**912,999**	909,198
Mining right	**334,306**	334,306
Bank deposit	**576,600**	6,100

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 2024 were disclosed in the following table:

	Number of share options							
	Held at 1 Jan 2024 ('000)	Grant during period ('000)	Exercised during period ('000)	Forfeited/ Lapsed during period ('000)	Held at 30 Jun 2024 ('000)	Shares Options A ('000)	Shares Options B ('000)	Shares Options C ('000)
Directors								
Tang Guoqiang	–	–	–	–	–	–	–	–
Shi Jianmin	300,000	–	–	–	300,000	–	300,000	–
Zhang Weihua	–	–	–	–	–	–	–	–
Xu Congcai	–	–	–	–	–	–	–	–
Le Yiren	–	–	–	–	–	–	–	–
Lu Yi	–	–	–	–	–	–	–	–
Employees	82,612	–	–	(3,800)	78,812	1,500	–	77,312
Total	382,612	–	–	(3,800)	378,812	1,500	300,000	77,312

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

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

Share Options C: Granted on 22 November 2021, 35% exercisable 1 year after grant date until 21 November 2031, 35% exercisable 2 years after grant date until 21 November 2031 and 30% exercisable 3 years after 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 2024, the Company had 171,492,259 share options not yet issued under the share option scheme adopted on 23 October 2020, which represented approximately 2.84% of the Company's shares as at 30 June 2024. The remaining life of the share option scheme adopted on 23 October 2020 was about 6.3 years as at 30 June 2024.

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 2024 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$)	No. of shares can be Converted ('000)	Indifference Share Price (HK$) as at 12/11/2024	31/12/2024	31/12/2025	29/11/2026	Ability to redeem
1. 12/11/2024	0.320	1,002,675	0.305	–	–	–	No
2. 29/11/2026	0.108	7,700,000	–	0.09	0.105	0.113	No
	Total	8,702,675					

Assuming all outstanding convertibles securities converted into shares of the Company (the "Shares") as at 30 June 2024, the shareholding structure of the Company before and after such conversion for all the outstanding convertible securities is as follow:

As at 30/6/2024	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	2.82	7,700,000,000	7,869,800,000	53.42
Mr. Shi Jianmin	70,000,000	1.16	–	70,000,000	0.48
Mr. Zhang Weihua	500,000,000	8.29	–	500,000,000	3.39
Public Shareholders	5,288,242,599	87.73	1,002,675,000	6,290,917,599	42.71
Total	6,028,042,599	100.00	8,702,675,000	14,730,717,599	100.00

Note: As at 30 June 2024, 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 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 loss per shares for the year ended 30 June 2024 assuming all outstanding convertible securities being converted was RMB0.88 cents 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.

Disclosure of Interests

(A) Interests of the Directors in the Company

As at 30 June 2024, 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	Long position in shares (beneficial owner)	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	7,700,000,000	7,869,800,000	130.55%
Shi Jianmin	70,000,000	300,000,000	370,000,000	6.14%
Zhang Weihua	500,000,000	–	500,000,000	8.29%

Note: As at 30 June 2024, among 69,800,000 out of the 169,800,000 long position in 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 2024, 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.

Disclosure of Interests (Continued)

(B) Interests of the Substantial Shareholders in the Company

As at 30 June 2024, so far as is known to any Director or chief executive of the Company, save as disclosed above, 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 2024, so far as is known to any Director or chief executive of the Company, save as disclosed above, 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 2023. The Group had been negotiating with banks in renewing or restructuring the loans and most of the bank loans had been restructured.

Code of Conduct Regarding Securities Transactions by Directors

During the six months ended 30 June 2024, 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. Xu Congcai, Mr. Le Yiren and Ms. Lu Yi.

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 2024.

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, 28 August 2024