



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)



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Unaudited gain attributable to shareholders of the Group was approximately RMB154.0 million for the six months ended 30 June 2021, which represented an increase of gain of RMB257.3 million as compared to that of the same period last year.

For the six months ended 30 June 2021, the Group's unaudited operating profit before interest, tax, depreciation and amortization amounted to approximately RMB330.2 million, representing an increase of RMB267.5 million as compared to that of RMB62.7 million in the corresponding period last year.

For the six months ended 30 June 2021, the Group's unaudited turnover was approximately RMB1,347 million, which represents an increase of approximately 35.4% 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 566,319 tonnes, representing a decrease of 3.6% as compared with that of the same period last year.

Unaudited basic gain per share of the Group was approximately RMB2.81 cents for the six months ended 30 June 2021.

The Directors do not recommend to pay any interim dividend for the six months ended 30 June 2021.

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 2021 together with the unaudited comparative figures for the corresponding periods in 2020 are as follows:

Unaudited Condensed Consolidated Profit and Loss Account

For the six months ended 30 June 2021 and 30 June 2020

	Notes	Six months ended 30 June	
		2021 RMB'000	2020 RMB'000
Turnover	3	1,347,031	994,724
Cost of sales		(1,056,292)	(991,837)
Gross profit		290,739	2,887
Interest income		10	20
Distribution costs		(12,410)	(17,704)
Administrative expenses		(60,477)	(39,310)
Other income		5,251	3,719
Operating profit/(loss)		223,113	(50,388)
Finance costs		(63,852)	(65,121)
Profit/(Loss) before taxation	4	159,261	(115,509)
Taxation	5	(5,262)	12,187
Profit/(Loss) for the period		153,999	(103,322)
Attributable to:			
Equity holders of the Company		154,009	(103,309)
Non-controlling interests		(10)	(13)
		153,999	(103,322)
Basic earnings/(loss) per share (RMB cents)	6	2.81	(1.88)
Diluted earnings/(loss) per share (RMB cents)	6	2.81	(1.87)
Declared dividends per share (HK cents)	7	Nil	Nil

Condensed Consolidated Balance Sheet

As at 30 June 2021 and 31 December 2020

	Notes	(Unaudited) As at 30 June 2021 RMB'000	(Audited) As at 31 December 2020 RMB'000
ASSETS			
Non-current assets			
Right-of-use assets		107,130	110,777
Property, plant and equipment		2,018,318	2,019,822
Investment properties		55,849	55,850
Mining right		318,000	318,000
Intangible assets		108	108
Deferred income tax assets	11	62,012	65,284
		2,561,417	2,569,841
Current assets			
Inventories		114,103	72,467
Trade and other receivables	8	222,028	160,807
Pledged bank deposits		19,479	29,593
Cash and bank deposits		43,924	14,539
		399,534	277,406
Total assets		2,960,951	2,847,247
EQUITY			
Share capital		474,879	474,879
Other reserves		(303,887)	(457,896)
Shareholders' funds		170,992	16,983
Non-controlling interest		1,524	1,534
Total equity		172,516	18,517

Condensed Consolidated Balance Sheet (Continued)

As at 30 June 2021 and 31 December 2020

	Notes	(Unaudited) As at 30 June 2021 RMB'000	(Audited) As at 31 December 2020 RMB'000
LIABILITIES			
Current liabilities			
Trade and other payables	9	461,940	412,299
Contract liabilities		91,423	159,903
Short-term borrowings, secured	10	1,860,964	1,886,250
Provision for tax		5,968	1,152
Current portion of long term borrowings	10	–	–
Lease liabilities		1,892	1,995
		2,422,187	2,461,599
Non-current liabilities			
Long-term borrowings	10	–	–
Convertible bonds		287,932	287,932
Deferred income tax liabilities	11	76,790	76,790
Lease liabilities		1,526	2,409
		366,248	367,131
Total liabilities		2,788,435	2,828,730
Total equity and liabilities		2,960,951	2,847,247
Net current liabilities		(2,022,653)	(2,184,193)
Total assets less current liabilities		538,764	385,648

Unaudited Condensed Consolidated Cash Flow Statement

As at 30 June 2021 and 31 December 2020

	Six months ended 30 June	
	2021 RMB'000	2020 RMB'000
Net cash generated from operating activities	157,145	94,099
Interest paid	(18,603)	(65,121)
Net cash inflow/(outflow) from operating activities	138,542	28,978
Investing activities		
Purchases of fixed assets and payments for construction-in-progress	(103,974)	(38,055)
Proceeds from disposal of fixed assets	467	1
Interest received	10	20
Net cash outflow from investing activities	(103,497)	(38,034)
Net cash inflow/(outflow) before financing activities	35,045	(9,056)
Financing activities		
(Increase)/Decrease in pledged bank deposits	10,114	699
New loans payable	89,726	263,943
Repayment of bank loans	(105,500)	(259,894)
Reserve fund change	–	613
Net cash inflow/(outflow) from financing activities	(5,660)	5,361
Increase/(Decrease) in cash and cash equivalents	29,385	(3,695)
Cash and cash equivalents at 1 January	14,539	10,110
Cash and cash equivalents at 30 June	43,924	6,415

Unaudited Consolidated Statement of Changes In Equity

For the six months ended 30 June 2021 and 30 June 2020

	Share Capital	Share Premium	Merger Reserve	Share-based compensation	Reserve Fund	Enterprise Expansion Fund	Retained Earnings	Transaction to NCI	NCI	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2020 (audited)	474,879	1,519,172	(22,041)	410,605	45,273	1,131	(2,193,687)	(3,509)	1,557	233,380
Net loss for the 6 Months ended 30 June 2020	-	-	-	-	-	-	(103,309)	-	(13)	(103,322)
Movement of reserve fund	-	-	-	-	613	-	-	-	-	613
At 30 June 2020	474,879	1,519,172	(22,041)	410,605	45,886	1,131	(2,296,996)	(3,509)	1,544	130,671
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

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 2020. 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 RMB2,022,653,000 as at 30 June 2021. 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 2021 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 2021 (unaudited)		Six months ended 30 June 2020 (unaudited)	
	RMB'000	%	RMB'000	%
BB & complex fertilizers	3,845	0.3	11,173	1.1
Urea	401,313	29.8	352,350	35.4
Ammonia	468,998	34.8	325,050	32.7
Methanol	372,186	27.6	305,691	30.7
Others (Note)	100,689	7.5	460	0.1
	1,347,031	100	994,724	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	
	2021 RMB'000	2020 RMB'000
Gain/(Loss) before tax	159,261	(115,509)
Depreciation of property, plant and equipment	103,494	110,458
Depreciation of right-of-use assets	3,647	2,632
Interest income	(10)	(20)
Interest expense	18,603	65,121
Loss/(gain) on disposal of fixed assets	1,517	685
Operation cash flow before working capital change	286,512	63,367
(Increase)/decrease in inventories	(41,636)	2,544
(Increase)/decrease in trade and other receivables	(61,221)	8,579
Increase/(decrease) in trade and other payables	(21,248)	7,422
Cash generated from/(used in) operating activities	162,407	81,912
Income tax	(5,262)	12,187
Net cash generated from/(used in) operating activities after tax	157,145	94,099

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 2021.

The applicable income tax rate of all subsidiaries located in Mainland China in 2021 is 25%.

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

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
PRC Corporate Income Tax in Mainland China	1,990	68
Deferred income tax (Note 11)	3,272	(12,255)
	5,262	(12,187)

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 2021 and 2020 were based on:

	Six months ended 30 June	
	2021	2020
Profit/(Loss) for the period (RMB'000)	154,009	(103,309)
Weighted average number of shares for calculation of basic earnings per share	5,488,042,599	5,488,042,599
Effect of dilutive potential shares on the outstanding share options and convertible bonds	–	45,119,449
Weighted average number of shares for calculation of diluted earnings per share	5,488,042,599	5,533,162,048

7. Dividend

The Board does not recommend the payment of any dividend for the six months ended 2021.

Notes of Financial Statements (Continued)

8. Trade and Other Receivables

	(Unaudited) As at 30 June 2021 RMB'000	(Audited) As at 31 December 2020 RMB'000
Trade receivables	9,733	74
Prepayments, purchase deposits and other deposits	117,371	100,207
Notes receivable	44,208	10,143
Other receivables	50,716	50,383
	222,028	160,807

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 2021 RMB'000	(Audited) As at 31 December 2020 RMB'000
Aged:		
Less than 3 months	9,733	74
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	–	–
	9,733	74
Less: provision for doubtful receivables	–	–
	9,733	74

Notes of Financial Statements (Continued)

9. Trade and Other Payables

	(Unaudited) As at 30 June 2021 RMB'000	(Audited) As at 31 December 2020 RMB'000
Trade payables	11,509	21,811
Construction payable	116,185	141,686
Accruals and other payables	334,246	248,802
	461,940	412,299

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

	(Unaudited) As at 30 June 2021 RMB'000	(Audited) As at 31 December 2020 RMB'000
Aged:		
Less than 1 year	9,824	20,126
More than 1 year but not exceeding 2 years	1,685	1,685
More than 2 years but not exceeding 3 years	–	–
More than 3 years	–	–
	11,509	21,811

Notes of Financial Statements (Continued)

10. Borrowings

	(Unaudited) As at 30 June 2021 RMB'000	(Audited) As at 31 December 2020 RMB'000
Short-term borrowings	1,860,964	1,886,250
Long-term borrowings repayable:		
Less than 1 year	–	–
Between 1 and 2 years	–	–
Between 2 and 5 years	–	–
Over 5 years	–	–
	1,860,964	1,886,250
Within 1 year included in current liabilities	–	–
	1,860,964	1,886,250

As at 30 June 2021, the borrowings of the Group were generally secured by certain fixed assets and pledged cash deposits of the Group. These borrowings bear interest at the rate of 4.35% to 8.70% (2019: 4.35% to 8.64%) per annum.

Notes of Financial Statements (Continued)

11. Deferred Income Tax

There were no offsetting of deferred income tax assets and liabilities in 2020 and in six months period ended 2021.

Deferred income tax assets:

	Loss available for offsetting future taxable profits RMB'000
At 31 December 2020	65,284
Charged to income statement	(3,272)
At 30 June 2021	62,012

Deferred income tax liabilities:

	Evaluation and exploration assets RMB'000
At 31 December 2020	(76,790)
At 30 June 2021	(76,790)

Management Discussion and Analysis

Financial Performance

For the six months ended 30 June 2021, the Group recorded a turnover of approximately RMB1,347 million, representing an increase of approximately 35.4% as compared with approximately RMB995 million for the corresponding period last year. The increase in turnover was mainly due to the increase in selling price of products and the increase in trading portion. Gain attributable to shareholders was approximately RMB154.0 million (2020: first half year loss of approximately RMB103.3 million), representing an increase in gain of approximately RMB257.3 million as compared with the corresponding period last year. Basic gain per share was approximately RMB2.81 fen (2020: first half year basic loss per share of approximately RMB1.88 fen).

During the period under review, the total sales volume (excluding the trading portion) of the Group reached approximately 566,319 tonnes (2020: 587,750 tonnes), representing a decrease of 3.6% as compared with that of the corresponding period last year.

For the period under review, the gross profit margin of the Group increased from approximately 0.3% to 21.6% 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 RMB1,056 million, representing an increase of approximately 6.5% as compared with the corresponding period last year due to the increase in trading portion. Distribution costs decreased by approximately 29.9% due to the effective cost control. The administrative expenses increased by approximately 53.8% as compared with the corresponding period last year, due to the preparation for the new production lines. The increase in other income of approximately RMB1.53 million as compared with the corresponding period last year was mainly due to the increase in subsidy income.

Management Discussion and Analysis (Continued)

Business Review

During the period under review, the Group and its subsidiaries have been operating actively and steadily by adhering to the business objectives of “creating efficiency by improving technology and management”. Efforts were stepped up to take incentive measures, including the Employee Performance Appraisal Measures of Subsidiaries/the Group and the Incentive Measures on Special Improvement, with which the staff of the Group at all levels 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 was readjusted, customer structure has been greatly optimised, 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 2021. It moved to a higher level in safety, environmental protection, production, consumption, operating revenue and other aspects from the best level in 2020. Benefitting from the ample natural gas supply and improved market conditions of products in the first half of 2021, the Group made profits and achieved better-than-expected operations thanks to joint internal efforts.

Guang'an Plant

Restrained by the supply of natural gas, the methanol-ammonia co-production units at Guang'an Plant resumed production on 25 January, but their output and energy consumption reached a new record based on the historical highest level in 2020. Priority was given to bringing the KAM units back into production on 21 January. The units have been operating steadily for a long period of time, contributing a lot to the benefits of the Company. The investment for the first phase of PBAT project has been completed and it is in the progress of equipment tuning stage now. In the first half of this year, all the staff overcame the inconvenience and difficulties in the post-pandemic era to ensure the continuous operation of the main units, making a great contribution to the Group that achieved profitability.

Management Discussion and Analysis (Continued)

Dazhou Plant

The units at Dazhou Plant resumed production on 26 January due to the short supply of natural gas, but their output and energy consumption reached a new record based on the historical highest level in 2020. Relying on the current units and products, the Group successfully developed new urea, urea with unease inhibitors and other new products, and launched them on the market. In the first half of this year, all the staff overcame the inconvenience and difficulties in the post-pandemic era to ensure the continuous operation of the main units, making a great contribution to the Group that achieved profitability.

Industry Overview and Outlook

I. Methanol

1. Industry Overview for H1 2021

China's methanol production capacity hit 96.14 million tonnes as of the end of June 2021, a year-on-year increase of 5.81 million tonnes or 6.43%. China's total methanol output stood at 40.63 million tonnes in the first six months of 2021, with the average operation rate of 73%. The methanol output rose 24.2% year on year, while the operation rate grew 5.39% from a year earlier. Methanol imports totalled 5.8336 million tonnes in the first six months of 2021, down 70,100 tonnes or 1.18% from a year earlier. Imports narrowed in the first half of the year. In respect of downstream demand, downstream industries saw a significant increase in the operation rate and consumption in the first half of 2021. For instance, the average operation rate of olefin units reached 86% during the period, a rise of 5% compared with the corresponding period last year. In addition, after some new units came into production, the consumption grew to 23 million tonnes in the first half of 2021 from 21 million tonnes in the same period of 2020. Olefins still accounted for more than half of methanol demand. In the traditional downstream industries, formaldehyde and diethyl ether units saw significant recovery in production. Their operation rate was 50%, a year-on-year growth of 10%. In terms of demand in the traditional downstream industries, methanol demand rose 19.84% from a year earlier to 10.57 million tonnes in the first half of 2021.

Management Discussion and Analysis (Continued)

In summary, the centre of gravity of methanol prices moved up amid fluctuations in the first half of 2021 due to the global economic recovery, continued high crude oil prices and increasing costs caused by a sharp rise in coal prices, coupled with spring overhaul as scheduled and demand recovery.

2. Outlook for H2 2021

The methanol supply and demand in China are expected to rise in the second half of 2021. Methanol units with production capacities of 4.1 million tonnes are planned to come into production in the country in the second half of the year. Most of the units are located in the southwestern and northwestern parts of the country. The units will mainly come into production in July-October. From the perspective of demand, new olefin projects of Hami Hengyou, Tianjin Bohua and other firms are expected to be put into production. Besides, new formaldehyde projects of firms, including Henan Xinlianxin and Shandong Lianyi, are estimated to be put into production in the second half of the year. In the short term, the traditional downstream industries will be off season due to seasonal factors from July to August. Some methanol-to-olefins units will be overhauled during the period, which will lead to a decline in demand. The supply and demand side will be gradually under pressure, so it will suppress the prices. In the medium and long term, olefin units will restart and the demand of formaldehyde and other traditional downstream products is expected to increase. The domestic methanol demand may rebound. In terms of raw materials, it is difficult to ease the pressure on domestic methanol costs in the second half of the year according to the current supply and demand trends in the coal market. The cost support for coal still exists.

Management Discussion and Analysis (Continued)

To sum up, in the context of macroeconomic recovery, the global demand continuously tends to increase. Moreover, crude oil prices are very likely to stay at a high level. The high coal prices will support the prices. However, on the supply side, the release of new capacities, expectations on import growth and so forth may limit the rise of methanol prices to some extent. Methanol demand will vary seasonally, and prices will first go up and then down in the second half of this year.

It's estimated that there is a high chance of methanol prices fluctuating at high levels in the second half of 2021. The methanol prices may go up after a decline, so will the prices in Southwest China because of stable operation of units.

II. Synthetic Ammonia

1. Industry Overview for H1 2021

The prices of liquid ammonia in major synthetic ammonia-producing areas showed a W-shaped trend in the first half of 2021. The prices of synthetic ammonia in China stood at 3,422 yuan/tonne in the first half of 2021, up 34.25% from 2,549 yuan/tonne in the same period of the previous year. The sales volume of liquid ammonia in major synthetic ammonia-producing areas rose 13.74% year on year to 2.468 million tonnes during the period. Reasons of the rise:

- (1) China is the only country in the world where factories resumed production in the first half of 2021. It saw market supply and demand recovery. The operation rates of companies went up from last year.
- (2) At the macro level, the global economy is in a downturn due to the global COVID-19 pandemic. In order to fix the economy, countries implemented easy monetary policies, which exacerbated inflation. This supported the increase in the prices of synthetic ammonia.

Management Discussion and Analysis (Continued)

- (3) The prices of raw materials provided a support. China ordered many safety inspections on coal mines in the first half of 2021. In some regions, production restrictions were imposed on coal mines and production was slashed, leading to a tight supply of anthracite and an increase in coal prices.
- (4) The urea prices ran at high levels. The cumulative reduction in urea production in China was as high as about 220,000 tonnes from January to June 2021. As an increase in industrial demand and a substantial increase in urea exports, domestic supply was at a low level in the past three years, steadily pushing up the urea prices. Most urea companies increased their loads, and the supply of synthetic ammonia decreased accordingly.
- (5) The operation rates of companies producing phosphate fertilisers and other products remained high. The country's exports of phosphate fertilisers increased significantly with the strong demand in Brazil, India, Bangladesh and other foreign countries.

2. Outlook for H2 2021

From the supply side, a total of 2.255 million tonnes of synthetic ammonia are planned to be produced in the second half of 2021. In respect of downstream demand, acrylonitrile units with new production capacities of 1.04 million tonnes are likely to come into production in H2 and 820,000 tonnes of caprolactam are expected to be produced. The urea prices in the country are very likely to be subject to a price correction. The demand for fertilisers in autumn, international tender and so forth will still support the urea prices. The phosphate fertiliser demand in autumn accounts for more than half of the total in a year. As spot phosphate fertilisers are simply insufficient at present, the balance between supply and demand in the domestic phosphate fertiliser market has been broken. The phosphate fertiliser prices will stay high under the influence of multiple factors in the short and medium term and fertilisers may be in tight supply.

Management Discussion and Analysis (Continued)

In general, favourable factors are dominant for the time being in China's synthetic ammonia market. There is a high chance of liquid ammonia prices in southwestern regions fluctuating at high levels in the second half of 2021. Uncertainties in the later period include the production resumption of international synthetic ammonia units and the possible increase in imports of synthetic ammonia in H2. In addition, air pollution control and gas supply in autumn and winter will remain uncertain.

III. Urea

1. *Industry Overview for H1 2021*

The urea output in China fell 0.79% year on year to 27.9 million tonnes in the first half of 2021. The operation rate of urea units during the period was 70.47%, a year-on-year drop of 2.97%. From the downstream side, the average monthly operation rate of tripolycyanamide units in H1 stood at 69.04%, up 12.97% from the same period of last year. The urea inventory in Southwest China during the period was 18,900 tonnes, a decline of 83.45% from 114,200 tonnes in the same period of last year. This caused a tight supply of urea in the region in H1. Even though the average monthly operation rate of compound fertiliser units in H1 fell 2.52% year on year to 41.13%, it did not affect the rise in urea prices. There was a rigid demand for fertilisers during the spring ploughing period. Shipment was expected in mid-March based on fertiliser reserves. As international purchase tenders were announced in late March and China's supply accounted for 74%, the inventory of urea producers in the country fell to low levels. In the downstream markets, demand shifted back due to high prices. Domestic prices gained momentum for growth. So, the urea prices hit a historical high in the past decade in H1. Therefore, the domestic urea prices went up amid fluctuations during the period.

Management Discussion and Analysis (Continued)

2. Outlook for H2 2021

The focus of the domestic urea market in H2 will fall on autumn fertilisation, off-season reserves and production restrictions on gas producers, as well as India's tender. In terms of supply, Shandong Ruixing and Anhui Haoyuan will put urea plants into production in the third quarter of 2021, which will greatly ease the tight supply of raw materials. From the demand side, the demand in the third quarter will be concentrated in autumn, which will be significantly lower than that in spring. Currently, the urea prices have risen to a high level. The favourable factors due to the shortage of raw materials, exports and production limits have gradually gone, prices lack momentum for growth. So, the urea prices are estimated to go downwards and run at relatively low levels in the third quarter. Improvements in supply and demand because of off-season reserves and production restrictions on gas producers will push up the prices in the fourth quarter of this year. Besides, India's tender will also provide a strong support. The market will see a significant upward movement in September-October and prices will remain high till the end of this year.

Strategies

Facing the complex situation in the post-pandemic era, the Group will seize the opportunities to bring its operation back to the right track through the following strategies and measures:

- I. 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;
- II. 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;

Management Discussion and Analysis (Continued)

- III. Continue to take measures such as performance appraisal, compensation reform and special rewards, 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. Strengthen staff training, and improve their skills and management ability;
- V. Carry out optimisation of the sales model, increase the proportion of direct sales to customers, and increase the size of sales to local customers; meanwhile, optimise the pace of signing orders, establish internal sales competition system and maximise selling profits;
- VI. 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;
- VII. Promote reform on inventory of spares, and gradually reduce the amount of funds occupied by inventory; meanwhile, establish inventory safety and inventory management measures, improve the safety factor and reduce costs;
- VIII. Gradually reduce the proportion of exclusive suppliers, and solve thorny issues troubling the whole industry, thus reducing procurement costs and improving procurement quality;
- IX. Promote the reform on delegation of authority and improve decision-making efficiency of its subsidiaries;
- X. 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.

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

27 August 2021

Liquidity, Financial Resources and Capital Structure

As at 30 June 2021, the Group had net current liabilities of approximately RMB2,022,653,000. Current assets as at 30 June 2021 comprised cash and bank deposits of approximately RMB43,924,000, pledged bank deposits of approximately RMB19,479,000, inventories of approximately RMB114,103,000, trade and other receivables of approximately RMB222,028,000. Current liabilities as at 30 June 2021 comprised short-term loans of approximately RMB1,860,964,000, trade and other payables and other current liabilities of approximately RMB561,223,000.

Capital Commitments

As at 30 June 2021, the Group had outstanding capital commitments of approximately RMB87,000,000.

Financial Resources

As at 30 June 2021, the Group had cash and bank balances of approximately RMB43,924,000 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 92% and 99% as at 30 June 2021 and 31 December 2020 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 2021.

Material Acquisitions/Disposals

The Group had no material acquisitions/disposals during the six months ended 30 June 2021.

Proposed Issue of Convertible Bonds

As disclosed in the announcements dated 28 September 2020, the Company issued convertible bonds in an amount of HK\$70,500,000 with conversion price of HK\$0.141 per share of the company, 5% annual interest rate and maturity on the 5th anniversary of the issue date of convertible bonds to Mr. Tang Guoqiang in the first tranche and entered into the second supplemental deed with Mr. Tang Guoqiang to increase the remaining principal amount of convertible bonds to HK\$918,000,000 with conversion price of HK\$0.108 per share of the Company, 5% annual interest rate and maturity on the 5th anniversary of the issue date of convertible bonds. Net proceeds from the issue of Convertible Bonds was approximately HK\$986,000,000. The net proceeds will be used for establishment of new production lines and general working capital of the Group. As at 25 June 2021, the Company and the Subscriber entered into the Third Supplemental Deed to extend the Long Stop Date and the Subscription Period to 30 November 2021. A principal amount of HK\$918,000,000 of the convertible bonds had not yet completed as at the dated of this interim report. The first tranche principal amount of HK\$70,500,000 with approximately HK\$3,602,000 had been used for the Dazhou new production line, approximately HK\$65,691,000 had been used for the PBAT production line and approximately HK\$1,207,000 had been used for the nylon 66 production line.

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 2021.

Details of Future Plans for Material Investment or Capital Assets

Save as disclosed in the Company's circular dated 4 December 2020 and the Company's annual report of 2020 regarding the establishment of three new production lines in our Dazhou Plant, Guangan Chemical Plant and Guangan Material Plant, there is no other material investment plans.

Employee Information

As at 30 June 2021, the Group had a total workforce of 643 (2020: 649), of which 3 (2020: 3) were responsible for management, 102 (2020: 109) for finance and administration, 523 (2020: 518) for production and 15 (2020: 19) for sales and marketing and research and development. Of these employees, 641 (2020: 647) were stationed in the PRC and 2 (2020: 2) in Hong Kong.

Charges on the Group's Assets

As at 30 June 2021, certain land use rights and buildings with a total net book value of approximately RMB469,385,000 (2020: RMB482,312,000), plant and machinery with a total net book value of approximately RMB1,099,576,000 (2020: RMB1,359,080,000) and bank deposits of approximately RMB19,479,000 (2020: RMB29,417,000) were pledged as collateral for the Group's bank loans and notes payable.

Foreign Exchange Exposure

The Group exposes to foreign exchange risks as certain portion of loans are denominated in foreign currencies, primarily with respect to the HK dollar. The management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

Share Option Scheme

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 2021 were disclosed in the following table:

	Number of share options							
	Held at 1 Jan 2021 ('000)	Grant during period ('000)	Exercised during period ('000)	Forfeited during period ('000)	Held at 30 Jun 2021 ('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	-	-	-	-	-	-	-	-
Hu Xiaoping	400	-	-	-	400	400	-	-
Shi Lei	-	-	-	-	-	-	-	-
Employees	5,300	-	-	-	5,300	3,800	1,500	-
Total	305,700	-	-	-	305,700	4,200	1,500	300,000

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.

Mr. Shi Lei had been resigned as non-executive director of the Company as at 1 July 2021.

During the six month ended 30 June 2021, no share options were exercised. The share options scheme adopted on 18 September 2008 had been expired on 17 September 2018. As at 30 June 2021, the Company had 248,804,259 share options outstanding under the share option scheme adopted on 23 October 2020, which represented approximately 4.53% of the Company’s shares as at 30 June 2021. The remaining life of the share option scheme adopted on 23 October 2020 was about 9.3 years as at 30 June 2021.

Outstanding Convertible Securities

Assuming all outstanding convertibles securities converted into shares of the Company (the "Shares") as at 30 June 2021, the shareholding structure of the Company before and after such conversion for the outstanding convertible securities (the "Convertible Securities 1") issued on 13 November 2014 that can convert into 1,002,675,000 Shares, the outstanding convertible securities (the "Convertible Securities 2") issued on 31 January 2019 that can convert into 360,000,000 Shares, the outstanding convertible securities (the "Convertible Securities 3") issued on 15 March 2019 that can convert into 950,000,000 Shares and the outstanding convertible securities (the "Convertible Securities 4") issued on 28 September 2020 that can convert into 500,000,000 Shares is as follow:

	No. of Shares before the conversion of outstanding convertible securities		No. of Shares from conversion of outstanding convertible securities	No. of Shares after the conversion of outstanding convertible securities	
	Number of Shares	% of holdings (approx)	Number of Shares	Number of Shares	% of holdings (approx)
As at 30/6/2021					
Substantial Shareholder					
Bank of Communications Co. Ltd.	510,196,000	9.30	–	510,196,000	6.15
Directors					
Mr. Tang Guoqiang	125,800,000	2.29	580,000,000	705,800,000	8.50
Mr. Shi Jianmin	247,000,000	4.50	–	247,000,000	2.98
Mr. Zhang Weihua	500,000,000	9.11	1,020,000,000	1,520,000,000	18.31
Public Shareholders	4,105,046,599	74.80	1,121,675,000	5,317,721,599	64.06
Total	5,488,042,599	100.00	2,812,675,000	8,300,717,599	100.00

Note: As at 30 June 2021, 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 Coherent Gallery International Limited wholly owned by Mr. Tang Guoqiang which held 25,800,000 Shares.

The diluted gain per shares for the year ended 30 June 2021 assuming all outstanding convertible securities being converted was RMB1.86 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.

Base on the cash and cash equivalent as at 30 June 2021 and the cash flow from the operation of the Company, the Company does not have the ability to meet the redemption obligations under all the Convertible Securities 1, 2, 3 and 4. The maturity dates of Convertible Securities 1, Convertible Securities 2, Convertible Securities 3 and Convertible Securities 4 are 12 November 2024, 30 January 2024, 14 March 2024 and 27 September 2025 respectively.

Based on the implied internal rate of returns and other relevant parameters of Convertible Securities 1, Convertible Securities 2, Convertible Securities 3 and Convertible Securities 4, the Share prices at the future dates at which it would be equally financially advantageous for the securities holders to convert or redeem were as follows:

Convertible Securities 1

Date	31-12-2021	31-12-2022	31-12-2023
Share price (HK\$)	0.271	0.278	0.286

Convertible Securities 2

Date	31-12-2021	31-12-2022	31-12-2023
Share price (HK\$)	0.123	0.127	0.132

Convertibles Securities 3

Date	31-12-2021	31-12-2022	31-12-2023
Share price (HK\$)	0.122	0.126	0.131

Convertibles Securities 4

Date	31-12-2021	31-12-2022	31-12-2023
Share price (HK\$)	0.146	0.151	0.157

Disclosure of Interests

(A) Interests of the Directors in the Company

As at 30 June 2021, 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	125,800,000	9,080,000,000	9,205,800,000	167.74%
Shi Jianmin	247,000,000	–	547,000,000	9.97%
Zhang Weihua	500,000,000	1,020,000,000	1,520,000,000	27.70%
Hu Xiaoping	–	400,000	400,000	0.01%

Note: As at 30 June 2021, among 8,500,000,000 out of the 9,205,800,000 in the aggregate long position in shares and underlying shares of Mr. Tang Guoqiang belongs to the convertible bonds that had not been issued, and among 24,800,000 out of the 9,205,800,000 shares in interest was held by Coherent Gallery International Limited which was wholly owned by Mr. Tang Guoqiang. The details of the subscription of convertible bonds stated in the circular of the Company dated 4 December 2021. As at 30 June 2021, 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.

Disclosure of Interests (Continued)

(B) Interests of the Substantial Shareholders in the Company

As at 30 June 2021, 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 2021, so far as is known to any Director or chief executive of the Company, the following person (not being a Director or a chief executive of the Company) who had an 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.

Name	Capacity	Number of shares	Interests in issued share capital of the Company
Bank of Communication Co. Limited	Person having interest in shares	510,196,000	9.30%

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 2020. The Group is still actively negotiating with banks in renewing or restructuring the loans. With the completion of the Group's new production lines for PBAT, the improvement in profitability of the Group in the first half of 2021 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 2021, 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 2021.

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, 27 August 2021