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Ko Yo Chemical (Group) Limited

玖源化工(集團)有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 0827)

**INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2020**

HIGHLIGHTS

Unaudited loss attributable to shareholders of the Group was approximately RMB103.3 million for the six months ended 30 June 2020, which represented a decrease of loss of RMB225.0 million as compared to that of the same period last year.

For the six months ended 30 June 2020, the Group's unaudited cash generated from operating activity before tax and after interest expenses amounted to approximately RMB16,791,000, representing an increase of RMB60,583,000 as compared to the cash outflow of RMB43,792,000 of that in the corresponding period last year.

For the six months ended 30 June 2020, the Group's unaudited turnover was approximately RMB995 million, which represents an increase of approximately 4.3% as compared to the same period last year. The increase in turnover was mainly due to the increase in production volume. The total sales volume (excluding the trading portion) of the Group reached approximately 587,750 tonnes, representing an increase of 24.8% as compared with that of the same period last year.

Unaudited basic loss per share of the Group was approximately RMB1.88 cents for the six months ended 30 June 2020.

The Directors do not recommend to pay any interim dividend for the six months ended 30 June 2020.

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 2020 together with the unaudited comparative figures for the corresponding periods in 2019 are as follows:

UNAUDITED CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30 June 2020 and 30 June 2019

		Six months ended 30 June	
		2020	2019
	<i>Notes</i>	RMB'000	RMB'000
Turnover	3	994,724	953,581
Cost of sales		(991,837)	(939,301)
Gross profit		2,887	14,280
Interest income		20	45
Distribution costs		(17,704)	(15,902)
Administrative expenses		(39,310)	(61,365)
Other (loss)/income		3,719	(210,573)
Operating profit/(loss)		(50,388)	(273,515)
Finance costs		(65,121)	(67,919)
(Loss)/Profit before taxation	4	(115,509)	(341,434)
Taxation	5	12,187	13,068
(Loss)/Profit for the period		(103,322)	(328,366)
Attributable to:			
Equity holders of the Company		(103,309)	(328,260)
Non-controlling interests		(13)	(106)
		(103,322)	(328,366)
Basic (loss)/earning per share (<i>RMB cents</i>)	6	(1.88)	(7.64)
Diluted (loss)/earnings per share (<i>RMB cents</i>)	6	(1.87)	(6.10)
Declared dividends per share (<i>HK cents</i>)	7	Nil	Nil

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2020 and 31 December 2019

		(Unaudited) As at 30 June 2020 RMB'000	(Audited) As at 31 December 2019 RMB'000
	Notes		
ASSETS			
Non-current assets			
Right-of-use assets		106,752	109,384
Property, plant and equipment		2,129,067	2,202,156
Investment properties		57,694	57,694
Mining right		309,456	309,456
Intangible assets		379	378
Deferred income tax assets	11	94,574	82,319
		<u>2,697,922</u>	<u>2,761,387</u>
Current assets			
Inventories		74,511	77,055
Trade and other receivables	8	95,515	104,094
Pledged bank deposits		29,417	30,116
Cash and bank deposits		6,415	10,110
		<u>205,858</u>	<u>221,375</u>
Total assets		<u><u>2,903,780</u></u>	<u><u>2,982,762</u></u>
EQUITY			
Share capital		474,879	474,879
Other Reserves		(345,752)	(243,056)
		<u>129,127</u>	<u>231,823</u>
Shareholders' funds		<u>129,127</u>	<u>231,823</u>
Non-controlling interest		<u>1,544</u>	<u>1,557</u>
Total equity		<u><u>130,671</u></u>	<u><u>233,380</u></u>

		(Unaudited) As at 30 June 2020 RMB'000	(Audited) As at 31 December 2019 RMB'000
	<i>Notes</i>		
LIABILITIES			
Current liabilities			
Trade and other payables	9	380,975	355,579
Contract liabilities		193,632	204,667
Short-term borrowings, secured	10	1,302,313	1,302,714
Provision for tax		6,469	1,152
Current portion of long term borrowings	10	26,869	158,419
Lease liabilities		297	297
		<u>1,910,555</u>	<u>2,022,828</u>
Non-current liabilities			
Long-term borrowings	10	564,300	428,300
Convertible bonds		223,599	223,599
Deferred income tax liabilities	11	74,655	74,655
		<u>862,554</u>	<u>726,554</u>
Total liabilities		<u>2,773,109</u>	<u>2,749,382</u>
Total equity and liabilities		<u>2,903,780</u>	<u>2,982,762</u>
Net current liabilities		<u>(1,704,697)</u>	<u>(1,801,453)</u>
Total assets less current liabilities		<u>993,225</u>	<u>959,934</u>

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT*For the six months ended 30 June 2020 and 31 December 2019*

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Net cash generated from operating activities	94,099	37,195
Interest paid	(65,121)	(67,919)
Net cash inflow/(outflow) from operating activities	28,978	(30,724)
Investing activities		
Purchases of fixed assets and payments for construction-in-progress	(38,055)	(96,294)
Proceeds from disposal of fixed assets	1	1
Interest received	20	45
Net cash outflow from investing activities	(38,034)	(96,248)
Net cash inflow/(outflow) before financing activities	(9,056)	(126,972)
Financing activities		
(Increase)/Decrease in pledged bank deposits	699	(4,500)
Issue of convertible bonds	–	229,500
New loans payable	263,943	257,523
Repayment of bank loans	(259,894)	(319,848)
Reserve fund change	613	(3,147)
Net cash inflow/(outflow) from financing activities	5,361	159,528
(Decrease)/Increase in cash and cash equivalents	(3,695)	32,556
Cash and cash equivalents at 1 January	10,110	4,545
Cash and cash equivalents at 30 June	6,415	37,101

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020 and 30 June 2019

	Share Capital <i>RMB'000</i>	Share Premium <i>RMB'000</i>	Merger Reserve <i>RMB'000</i>	Share-based compensation <i>RMB'000</i>	Reserve Fund <i>RMB'000</i>	Enterprise Expansion Fund <i>RMB'000</i>	Retained Earnings <i>RMB'000</i>	Transaction to NCI <i>RMB'000</i>	NCI <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2019 (audited)	368,394	1,409,065	(22,041)	253,172	45,273	1,131	(1,468,079)	(3,509)	1,805	585,211
Net loss for the 6 Months ended 30 June 2019	-	-	-	-	-	-	(328,260)	-	(106)	(328,366)
Issue of convertible bonds	-	-	-	305,711	-	-	-	-	-	305,711
Movement of reserve fund	-	-	-	-	(3,147)	-	-	-	-	(3,147)
At 30 June 2019	<u>368,394</u>	<u>1,409,065</u>	<u>(22,041)</u>	<u>558,883</u>	<u>42,126</u>	<u>1,131</u>	<u>(1,796,339)</u>	<u>(3,509)</u>	<u>1,699</u>	<u>559,409</u>
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	<u>474,879</u>	<u>1,519,172</u>	<u>(22,041)</u>	<u>410,605</u>	<u>45,886</u>	<u>1,131</u>	<u>(2,296,996)</u>	<u>(3,509)</u>	<u>1,544</u>	<u>130,671</u>

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 2019. The measurement basis used in the preparation of the unaudited interim financial statements is historical cost, except for certain investment properties and financial investments, which are measured at fair values. All inter-company transactions and balances within the Group have been eliminated on consolidation.

The Group had net current liabilities of RMB1,704,697,000 as at 30 June 2020. 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 2020 on the basis that the positive cash flow from Guangan plant and Dazhou Plant, and that it will succeed in negotiating with its bankers to roll over the outstanding bank loans.

The financial statements are unaudited but have been reviewed by the audit committee of the Company.

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 2020 (unaudited)		Six months ended 30 June 2019 (unaudited)	
	RMB'000	%	RMB'000	%
BB & complex fertilizers	11,173	1.1	13,274	1.4
Urea	352,350	35.4	290,114	30.4
Ammonia	325,050	32.7	304,059	31.9
Methanol	305,691	30.7	334,313	35.1
Others (Note)	460	0.1	11,821	1.2
	<u>994,724</u>	<u>100</u>	<u>953,581</u>	<u>100</u>

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

4. RECONCILIATION OF LOSS BEFORE TAXATION TO CASH GENERATED FROM OPERATING ACTIVITIES

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Loss before tax	(115,509)	(341,433)
Depreciation of property, plant and equipment	110,458	108,677
Depreciation of right-of-use assets	2,632	2,579
Interest income	(20)	(45)
Interest expense	65,121	67,919
Loss/(gain) on disposal of fixed assets	685	377
¹ Provision loss on convertible bonds	–	210,888
Operation cash flow before working capital change	63,367	48,962
(Increase)/decrease in inventories	2,544	(12,988)
(Increase)/decrease in trade and other receivables	8,579	(37,036)
Increase/(decrease) in trade and other payables	7,422	25,293
Increase/(decrease) in deferred subsidy income	–	(104)
Cash generated from/(used in) operating activities	81,912	24,127
Income tax	12,187	13,068
Net cash generated from/(used in) operating activities after tax	94,099	37,195

¹ The Provision made from the valuation loss on the issued of convertible bonds as stated in the Company's announcement dated 31 January 2019 and 15 March 2019.

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 2020.

The applicable income tax rate of all subsidiaries located in Mainland China in 2020 is 25%.

The income tax benefit made for Guangan Lotusan Natural Gas Chemicals Company Limited and Guangan Ko Yo Chemical Industry Company Limited for the six months ended 30 June 2020 was approximately RMB11,623,000 and RMB632,000 respectively.

The income tax expenses made for Guangan Koyo Commercial and Trading Company Limited was approximately RMB68,000.

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

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Current tax in the PRC	68	–
Deferred income tax (<i>Note 11</i>)	(12,255)	(13,068)
	(12,187)	(13,068)

6. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share for the six months ended 30 June 2020 and 2019 were based on:

	Six months ended 30 June	
	2020	2019
(Loss)/Profit for the period (<i>RMB'000</i>)	(103,322)	(328,260)
Weighted average number of shares for calculation of basic earnings per share	5,488,042,599	4,298,042,599
Effect of dilutive potential shares on the outstanding share options and convertible bonds	45,119,449	1,081,937,298
Weighted average number of shares for calculation of diluted earnings per share	5,533,162,048	5,379,979,897

7. DIVIDEND

The Board does not recommend the payment of any dividend for the six months ended 2020.

8. TRADE AND OTHER RECEIVABLES

	(Unaudited)	(Audited)
	As at	As at
	30 June	31 December
	2020	2019
	RMB'000	RMB'000
Trade receivables	3,124	867
Prepayments, purchase deposits and other deposits	47,306	81,487
Notes receivable	23,075	1,000
Other receivables	22,010	20,740
	95,515	104,094

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 2020 <i>RMB'000</i>	(Audited) As at 31 December 2019 <i>RMB'000</i>
Aged:		
Less than 3 months	3,071	867
More than 3 months but not exceeding 1 year	53	–
More than 1 year but not exceeding 2 years	–	–
More than 2 years but not exceeding 3 years	–	–
More than 3 years	–	–
	<u>3,124</u>	<u>867</u>
Less: provision for doubtful receivables	–	–
	<u>3,124</u>	<u>867</u>

9. TRADE AND OTHER PAYABLES

	(Unaudited) As at 30 June 2020 <i>RMB'000</i>	(Audited) As at 31 December 2019 <i>RMB'000</i>
Trade payables	21,934	14,740
Construction payable	121,113	156,995
Accruals and other payables	237,928	183,844
	<u>380,975</u>	<u>355,579</u>

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

	(Unaudited) As at 30 June 2020 <i>RMB'000</i>	(Audited) As at 31 December 2019 <i>RMB'000</i>
Aged:		
Less than 1 year	21,934	14,740
More than 1 year but not exceeding 2 years	–	–
More than 2 years but not exceeding 3 years	–	–
More than 3 years	–	–
	<u>21,934</u>	<u>14,740</u>

10. BORROWINGS

	(Unaudited) As at 30 June 2020 RMB'000	(Audited) As at 31 December 2019 RMB'000
Short-term borrowings	1,302,313	1,302,714
Long-term borrowings repayable:		
Less than 1 year	26,869	158,419
Between 1 and 2 years	135,300	164,500
Between 2 and 5 years	429,000	263,800
Over 5 years	—	—
	591,169	586,719
Within 1 year included in current liabilities	(26,869)	(158,419)
	<u>564,300</u>	<u>428,300</u>

As at 30 June 2020, 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 8.00% (2019: 4.35% to 12.00%) per annum.

11. DEFERRED INCOME TAX

There were no offsetting of deferred income tax assets and liabilities in 2019 and in six months period ended 2020.

Deferred income tax assets:

	Loss available for offsetting future taxable profits RMB'000
At 31 December 2019	82,319
Charged to income statement	12,255
	<u>94,574</u>
At 30 June 2020	<u>94,574</u>

Deferred income tax liabilities:

	Evaluation and exploration assets RMB'000
At 31 December 2019	(74,655)
At 30 June 2020	<u>(74,655)</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Performance

For the six months ended 30 June 2020, the Group recorded a turnover of approximately RMB995 million, representing an increase of approximately 4.3% as compared with approximately RMB954 million for the corresponding period last year. The increase in turnover was mainly due to the increase in sales volume. Loss attributable to shareholders was approximately RMB103.3 million (2019: first half year loss of approximately RMB328.3 million), representing a decrease of loss of approximately RMB225.0 million as compared with the corresponding period last year. Basic loss per share was approximately RMB1.88 fen (2019: first half year basic loss per share of approximately RMB7.64 fen).

During the period under review, the total sales volume (excluding the trading portion) of the Group reached approximately 587,750 tonnes (2019: 471,127 tonnes), representing an increase of 24.8% 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 1.5% to 0.3% as compared with the corresponding period last year, which was mainly due to the decrease in selling price of the products. Cost of sales amounted to approximately RMB992 million, representing an increase of approximately 5.6% as compared with the corresponding period last year due to the increase in sales volume. Distribution costs increased by approximately 11.3% due to the increase in sales. The administrative expenses decreased by approximately 35.9% as compared with the corresponding period last year, due to the decreased in impairment losses on equipment and the effective cost control. The decrease in other loss of approximately RMB214 million as compared with the corresponding period last year was mainly due to the provision with an amount of approximately RMB211 million made from the valuation loss on the convertible bonds in the first half of year 2019 and such provision was not made in the first half of year 2020.

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”. In particular, after adjusting the performance appraisal measures of its subsidiaries by implementing “Incentive Measures on Special Improvement”, “Incentive Measures on Golden Idea” and other incentive measures, the staff of the Group at all levels pulled together and carried out various technological innovation and managerial innovation activities, which substantially raised team dynamics and created remarkable economic benefits. The sudden outbreak of COVID-19 epidemic at the beginning of the year has led to great impact on production arrangement, logistics and transportation and price of products of the Group. On the premise that epidemic prevention and control efforts were carried out properly, manufacturing subsidiaries of the Group ensured the safe and smooth operation of units and realized “no” suspended business by making reasonable personnel arrangements and optimizing production mode. The sales team of the Group accomplished tasks of selling and collection of trade receivables against the adverse situation of blocked roads, weakened customer demand and continuous impact caused by price of imported products. In general, the overall operating situation of the Group has continuously improved

during the first half of 2020 with historically good performance in safety, production volume, consumption and other areas. Although there was a small decline in the price of the main raw material of the Group (i.e. natural gas) as compared with the corresponding period last year, the overall operating performance of the Group did not meet the expectation due to a sharp drop in product prices caused by the epidemic and continued oversupply in the traditional chemicals and chemical fertilizer markets.

Guangan Plant

Restrained by the supply of natural gas, the methanol-ammonia co-production units at Guangan Plant have resumed production since 10 January 2020. The Guangan Plant has recorded the best performance in production volume and energy consumption since its inception. It also recorded a decrease in average production cost of RMB140 per tonne. After the outbreak of COVID-19 epidemic, the situation of tight supply of natural gas eased to some extent. Guangan Company seized the opportunity and successfully commenced the operation of KAM units on 8 April 2020, making great contribution to the efficiency of the Company. In the first half of the year, all the staff in Guangan Plant overcame the inconvenience and difficulties caused by the epidemic, discovered hidden trouble in the units in time and successfully completed emergency repair which ensured the continuous operation of the main units.

Dazhou Plant

Restrained by the supply of natural gas, the units at Dazhou Plant have resumed production since 12 January 2020. The Dazhou Plant has recorded the best performance in production volume and energy consumption since its inception. During the period, it adjusted its product mix and introduced the production of value-adding urea which raised the added value of products and improved its profitability. After the outbreak of COVID-19 epidemic, there were adjustments to the price of natural gas, so Dazhou Plant turned losses into profits quickly. In the first half of the year, all the staff in Dazhou Plant overcame the inconvenience and difficulties caused by the epidemic, discovered hidden trouble in the units in time and successfully completed emergency repair which ensured the continuous operation of the main units.

Industry Overview and Outlook

According to the statistics from information website, the production capacity of methanol in the PRC has maintained overall high-speed growth and has reached 90.28 million tonnes up to now. In particular, the newly increased production capacity of methanol during the first half of 2020 totaled 3 million tonnes, being equal to 130.77% of the newly increased production capacity for the corresponding period last year. From January to June 2020, methanol output in the PRC totaled 32.6517 million tonnes and the average operation rate of the domestic methanol industry was 66.14%. The methanol output recorded a decrease of 0.29%, while operation recorded a decrease of 8.79% as compared with the corresponding period last year. From January to June 2020, methanol imports totaled 5.978 million tonnes, representing an increase of 1.3296 million tonnes or 28.6% as compared with the corresponding period last year. In respect of downstream demand, olefins products still represented more than half in the demand for methanol, but the growth slowed down as compared with the corresponding

period last year. From January to June 2020, there was only one set of new plants with production capacity of 0.2 million tonnes launched by Jilin Cornell. Affected by the background of the outbreak of the epidemic at the beginning of the year, the commissioning date of traditional downstream demand was also delayed. In summary, in the first half of 2020, ports and upstream company maintained lots of inventory as the market experienced a severe oversupply of methanol. Besides, the market fell to the bottom as the energy and chemical products were shocked by slump in crude oil price.

For the second half of 2020, affected by the large imports, high level of inventory and long existing epidemic, methanol market in the PRC will still face many challenges. In the short term, the emerging downstream olefins products recorded historically high profit, but the inventories generally will remain at a medium or high level and majority of enterprises will procure as needed; in terms of traditional downstream market, taking formaldehyde as an example, the export of planks decreased by 20% as compared with the corresponding period last year, some domestic demand still can't recover due to the epidemic, and the operation rate is expected to further decline as the hot and slack season is approaching, so the overall demand is unlikely to improve. In the medium term, the schedule of planned inspection and maintenance of overseas methanol equipment remains undefined. Given that it's difficult to substantially reduce the inventories of domestic ports, the suppliers of ports will continue to compete against mainland suppliers for the downstream consumer market, and the market shares of upstream mainland suppliers may be further compressed by suppliers of ports. In the long term, it's difficult to pull back the weak trend of fundamentals. The selling price in the ports may be relatively low. Under the unfavorable situation of oversupply within methanol industry and excess downstream market, suppliers may reduce their capacity by constantly cutting price. In the second half of the year, the price of methanol in the PRC will hover at low levels.

According to the statistics from An Yun Si, from January to June 2020, affected by the increase in supply of natural gas, national policies on resumption of work and production implemented under the situation of epidemic, agricultural policies on protecting spring ploughing work and temporary transformation of certain synthetic ammonia plants to produce urea, the overall urea production of urea enterprises has increased. The daily production temporarily exceeded 0.16 million tonnes per day and reached the highest level for the recent three years. Affected by the epidemic and sluggish real estate and furniture industries, demand in the downstream industrial market has decreased by nearly 1 million tonnes, which led to prominent contradiction between the supply and demand in the market. From January to June, total urea production was 27.127 million tonnes, representing an increase of approximately 0.882 million tonnes or 3.3% from 26.245 million tonnes for the corresponding period in 2019. From January to June, the weekly average operation rate of domestic urea producer was 62.72%. From January to June in 2020, urea exports amounted to 1.6 million tonnes, representing a year-on-year decrease of 5.8%. From January to June, due to the impacts of domestic and overseas epidemic, national policy, weakened industrial demand, changes in logistics mode and other factors, the urea market has demonstrated a W-shaped trend with market prices fluctuated in the range of RMB1,550 per tonne to RMB1,800 per tonne.

In the second half of 2020, the domestic urea market will face many uncertainties, including development of domestic and overseas epidemic, the PRC's economic trend, international market price, macroeconomic policy adjustment, export trading situation and the domestic supply conditions of natural gas in the PRC, etc..

In terms of positive factors: (1) environmental pollution treatment may be carried out intensively after the beginning of winter in the areas of Beijing, Tianjin and Hebei Province, so some producers will reduce their production load or cease production; (2) in the India market, affected by plague of locusts and epidemic, the grain and urea production has reduced, which will boost the import of urea in India; (3) in the fourth quarter, the production of natural gas will be restricted by peak load regulation and the operation rate in the market will decline, which will lead to regional undersupply.

In terms of negative factors: (1) the operation rate may stay at a high level as producers can still make profits; combining with the release of new capacity, the supply will continue to increase as compared with the first half of the year; (2) in the second half of the year, domestic industrial and agricultural demand will become weak and the demand will be derived from the export market; (3) given that the export business of plank plants has not been recovered obviously and since the planks industry is restructuring, the demand in the future may tend to be weak; (4) the urea price in the international market keeps hovering at low levels and the price of urea exported from China may decline to US\$200-210 per tonne; however, as the price would still be higher than international urea price, the export volume would be limited.

In the second half of the year, as there will be generally more negative factors than positive factors, it's expected that the urea market will demonstrate a shaking and downward trend.

From January to June 2020, total production of synthetic ammonia was approximately 26 million tonnes, representing a decrease of 9.7% as compared with the corresponding period last year. The decrease was mainly due to transformation of synthetic ammonia plants to produce urea and the impact caused by the epidemic. In terms of upstream market, the phenomenon of work and production suspension was quite common, and the volume of synthetic ammonia products in the market has decreased. In terms of downstream market, affected by the supply and demand in the market and the epidemic, the operation rate of ammonium phosphate and complex fertilizer plants has declined sharply. In the first half of the year, synthetic ammonia market demonstrated an overall downward trend and operated at a relatively low level.

In the second half of 2020, the price fluctuation in synthetic ammonia market across the country will still be apparent. In general, the domestic market has been affected by the epidemic this year, and the international market will also continue to be affected by epidemic. Within this year, the chemical fertilizer and chemical industries will operate at a relatively low level in the recent 20 years. In particular, from June to July, which is the traditional slack season for the chemical fertilizer industry, the downstream demand for the synthetic ammonia stayed at a relatively low level throughout the year. Therefore, during that period, the market price may be the lowest level within 2020.

In terms of negative factors in the market: in the second half of 2020, the coal-based synthetic ammonia plant newly built by Hubei Sanning Chemical (湖北三寧化工) with capacity of 0.6 million tonnes per year will be put into operation in July, and the coal-based synthetic ammonia plant built by Hubei Dangyang Huaqiang Chemical (湖北當陽華強化工) with capacity of 0.6 million tonnes per year was scheduled to be put into operation in November. These newly built plants will cause material changes in the supply and demand relationship in the local synthetic ammonia market in Hubei Province. Therefore, the diffident synthetic ammonia from Henan, Shaanxi and other provinces has no advantage to enter the market in Hubei Province. On the contrary, it will be normalized for the surplus synthetic ammonia resources in Hubei Province to flow into Sichuan, Chongqing, Guangdong, Guangxi and Guizhou. The plant with capacity of 0.3 million tonnes per year built by original Anshun Hongsheng Chemical (安順宏盛化工) in Guizhou was expected to be put into production in July. After the launch of this plant, it would mainly serve the markets in Yunnan and Guizhou. It would also significantly restrict the synthetic ammonia from Sichuan and Chongqing from entering markets in Yunnan and Guizhou.

In terms of positive factors in the market: Chongqing Huaqin Chemical (重慶華峰化工) and Yixiang Chemical (奕翔化工) and other refined chemical producers in the downstream synthetic ammonia market will put their new plants into normal production. As the risk resistance capacity of refined chemical product market is much higher than traditional chemical fertilizer industry, the demand for synthetic ammonia from this new capacity would be relatively stable and concentrated after its launch. In the fourth quarter, in the southwest regions, under the premise that the production of natural gas will be restricted, the supply of synthetic ammonia will be seriously inadequate, the price of synthetic ammonia in Sichuan, Chongqing and other southwest regions will demonstrate an upward trend, and the price will reach its peak level in the fourth quarter. It is expected that the operation of synthetic ammonia in the second half of the year will be better than that of the first half of the year.

Strategies

Confronted with the situations such as macroeconomic downturn caused by the epidemic, imbalance between supply and demand in the chemical fertilizer and chemical industries and continuing high prices of supply of natural gas, the Group will seize the opportunities to bring the Group's operation back to the right track through the following strategies and measures:

1. Continue to organize and coordinate the raw materials for production such as water, electricity and gas, and provide guarantee for long-term and high-load operation of Dazhou Plant and Guangan Plant; take safety and environmental protection as the bottom line: while ensuring the long-term and safe operation, carry out daily monitoring, accounting, early warning, and timely adjust and optimize the production organization and operational capacity to ensure the best operational efficiency;
2. Continue to promote special improvement, and seek for and promote the implementation of various measures of "opening source while reducing expenditure, cutting costs while increasing efficiency" to reduce operating costs and waste;

3. Continue to promote measures such as performance appraisal, compensation reform and special rewards, gather together all the staff in the Group so as to exercise unified leadership, and inspire the creativity and execution of the team;
4. Strengthen staff training, and improve the skills and management ability of senior staff;
5. Carry out optimization of sales model, increase the proportion of direct sales to customers, increase scale of sales to local customers, establish internal sales competition system and realize maximum selling profits;
6. Get ready for the large-scale annual maintenance of equipment, reduce the times of unscheduled shutdown in the year, increase production and reduce consumption; and explore the feasibility to reduce the equipment maintenance frequency from once a year to once every two years under the premise of gradual relief of the supply pressure of natural gas;
7. Promote reform on inventory of spares, and gradually reduce the amount of funds occupied by inventory. Meanwhile, establish safe inventory and inventory management measures, improve the safety factor and reduce costs;
8. Gradually reduce the proportion of exclusive suppliers, and solve thorny issues troubling the whole industry, thus reducing procurement costs and improving procurement quality;
9. Promote the reform on delegation of authority and improve decision-making efficiency of its subsidiaries;
10. Push forward the approval, start-up and construction of new projects, reactivate existing assets and enhance the Group's competitiveness.

Acknowledgement

The past six months saw certain fluctuations of chemical fertilizer and chemical industries. Under the leadership of the Board and our management, and the dedication of the staff, we adhered to a market-oriented approach in our production and operation, followed up market trend in a timely manner and conducted real-time calculation, so as to ascertain the best operation effectiveness 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 stabilize the fundamental chemical business, explore new projects and capitalize 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 to strive to bring more benefits and returns to our shareholders and the society.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 June 2020, the Group had net current liabilities of approximately RMB1,704,697,000. Current assets as at 30 June 2020 comprised cash and bank deposits of approximately RMB6,415,000, pledged bank deposits of approximately RMB29,417,000, inventories of approximately RMB74,511,000, trade and other receivables of approximately RMB95,515,000. Current liabilities as at 30 June 2020 comprised short-term loans of approximately RMB1,302,313,000, current portion of long term loans of approximately RMB26,869,000, trade and other payables of approximately RMB581,373,000.

CAPITAL COMMITMENTS

As at 30 June 2020, the Group had outstanding capital commitments of approximately RMB144,820,000.

FINANCIAL RESOURCES

As at 30 June 2020, the Group had cash and bank balances of approximately RMB6,415,000 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 94% and 90% as at 30 June 2020 and 31 December 2019 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 2020.

MATERIAL ACQUISITIONS/DISPOSALS

The Group had no material acquisitions/disposals during the six months ended 30 June 2020.

PROPOSED ISSUE OF CONVERTIBLE BONDS

As disclosed in the announcement dated 10 July 2019, the Company entered into the subscription agreement ("Subscription Agreement") with Mr. Tang Guoqiang (the "Subscriber"), pursuant to which the Subscriber has conditionally agreed to subscribe for the convertible bonds in the principal amount of HK\$987,000,000 with an initial conversion price of HK\$0.141, 5% annual interest rate and 5 years in tenor. On 29 April 2020, the Company and the Subscriber entered into a supplemental agreement to the Subscription Agreement to extend the Long Stop Date from 30 April 2020 to 31 October 2020, or such later date as the Company and the Subscriber may agree.

PROPOSED ADOPTION OF SHARE OPTION SCHEME AND GRANT OF SHARE OPTIONS

As disclosed in the announcement dated 10 July 2020, the Company proposed the adoption (the “Adoption”) of the new share option scheme and conditional grant (“Conditional Grant”) of 300,000,000 share options to Mr. Shi Jianmin with an exercise price of HK\$0.141 per share of the Company, subject to obtaining approval from the shareholders of the Company and from the Stock Exchange of Hong Kong.

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 2020.

DETAILS OF FUTURE PLANS FOR MATERIAL INVESTMENT OR CAPITAL ASSETS

Save as disclosed in the Company’s announcement dated 10 July 2019 regarding the establishment of two new production lines in our Dazhou Plant and Guangan Plant and the Company’s annual report of 2018 regarding the 20,000 tonnes-per-year anthraquinone project, there is no other material investment plans.

EMPLOYEE INFORMATION

As at 30 June 2020, the Group had a total workforce of 649 (2019: 665), of which 3 (2019: 3) were responsible for management, 109 (2019: 104) for finance and administration, 518 (2019: 546) for production and 19 (2019: 12) for sales and marketing and research and development. Of these employees, 647 (2019: 663) were stationed in the PRC and 2 (2019: 2) in Hong Kong.

CHARGES ON THE GROUP’S ASSETS

As at 30 June 2020, certain land use rights and buildings with a total net book value of approximately RMB482,312,000 (2019: RMB494,926,000), plant and machinery with a total net book value of approximately RMB1,359,080,000 (2019: RMB1,529,045,000) and bank deposits of approximately RMB29,417,000 (2019: RMB28,839,000) were pledged as collateral for the Group’s bank loans and notes payable.

FOREIGN EXCHANGE EXPOSURE

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

SHARE OPTION SCHEME

On 18 September 2008, the Company adopted a share options scheme (the “Share Option Scheme”). The details of the Share Option Scheme can be found in the circular of the Company dated 29 August 2008. The Share Option Scheme had been expired on 17 September 2018.

Details of options granted by the Company pursuant to the Share Option Scheme and options outstanding as at 30 June 2020 were disclosed in the following table:

	Held at 1 Jan 2020 ('000)	Grant during period ('000)	Exercised during period ('000)	Forfeited during period ('000)	Number of share options				
					Held at 30 Jun 2020 ('000)	Shares Options A ('000)	Shares Options B ('000)	Shares Options C ('000)	Shares Options D ('000)
Directors									
Tang Guoqiang	-	-	-	-	-	-	-	-	-
Shi Jianmin	-	-	-	-	-	-	-	-	-
Zhang Weihua	-	-	-	-	-	-	-	-	-
Xu Congcai	-	-	-	-	-	-	-	-	-
Hu Xiaoping	1,200	-	-	-	1,200	-	800	400	-
Shi Lei	-	-	-	-	-	-	-	-	-
Employees	8,700	-	-	(3,400)	5,300	-	-	3,800	1,500
Total	9,900	-	-	(3,400)	6,500	-	800	4,200	1,500

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

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

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

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

During the six month ended 30 June 2020, no share options were exercised.

OUTSTANDING CONVERTIBLE SECURITIES

Assuming all outstanding convertibles securities converted into shares as at 30 June 2020, 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 “Shares”) of the Company, the outstanding convertible securities (the “Convertible Securities 2”) issued on 31 January 2019 that can convert into 360,000,000 Shares and the outstanding convertible securities (the “Convertible Securities 3”) issued on 15 March 2019 that can convert into 950,000,000 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 30/6/2020					
Substantial Shareholder					
Mr. Cheng Kin Ming	800,000,000	14.58	1,001,375,000	1,801,375,000	23.09
Directors					
Mr. Tang Guoqiang	100,000,000	1.82	80,000,000	180,000,000	2.31
Mr. Shi Jianmin	200,300,000	3.65	–	200,300,000	2.57
Mr. Zhang Weihua	500,000,000	9.11	1,020,000,000	1,520,000,000	19.49
Public Shareholders	<u>3,887,742,599</u>	<u>70.84</u>	<u>211,300,000</u>	<u>4,099,042,599</u>	<u>52.54</u>
Total	<u><u>5,488,042,599</u></u>	<u><u>100.00</u></u>	<u><u>2,312,675,000</u></u>	<u><u>7,800,717,599</u></u>	<u><u>100.00</u></u>

Note: As at 30 June 2020, 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.

The diluted loss per shares for the year ended 30 June 2020 assuming all outstanding convertible securities being converted was RMB1.32 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. The calculation method of this diluted loss is not the same as those used in this announcement. According to Hong Kong Accounting Standard 33 paragraphs 43, potential ordinary shares are antidilutive when their conversion to ordinary shares would increase earnings per share or decrease loss per share from continuing operations. The calculation of diluted earnings per share does not assume conversion, exercise, or other issue of potential ordinary shares that would have an antidilutive effect on earnings per share. The conversion of outstanding convertible securities would have an antidilutive effect on earnings per share and therefore the calculation of diluted earnings per share in this announcement does not assume such conversion.

Base on the cash and cash equivalent as at 30 June 2020 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 and 3. The maturity dates of Convertible Securities 1, Convertible Securities 2 and Convertible Securities 3 are 12 November 2024, 30 January 2024 and 14 March 2024 respectively.

Based on the implied internal rate of returns and other relevant parameters of Convertible Securities 1, Convertible Securities 2 and Convertible Securities 3, 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	31-12-2020	31-12-2021	31-12-2022	31-12-2023
Share price (HK\$)	0.327	0.338	0.347	0.360

Convertible Securities 2

Date	31-12-2020	31-12-2021	31-12-2022	31-12-2023
Share price (HK\$)	0.204	0.211	0.217	0.225

Convertible Securities 3

Date	31-12-2020	31-12-2021	31-12-2022	31-12-2023
Share price (HK\$)	<u>0.205</u>	<u>0.211</u>	<u>0.218</u>	<u>0.225</u>

DISCLOSURE OF INTERESTS

(A) Interests of the Directors in the Company

As at 30 June 2020, 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	100,000,000	7,080,000,000	7,180,000,000	130.83%
Shi Jianmin	200,300,000	–	200,300,000	3.65%
Zhang Weihua	500,000,000	1,020,000,000	1,520,000,000	27.70%
Hu Xiaoping	–	1,200,000	1,200,000	0.02%

Note: As at 30 June 2020, among 7,000,000,000 out of the 7,180,000,000 in the aggregate long position in shares and underlying shares of Mr. Tang Guoqiang belongs to the convertible bonds that had not been issued. The details of the subscription of convertible bonds stated in the announcement of the Company dated 10 July 2019. As at 30 June 2020, 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. Furthermore, as at 10 July 2020, the Company proposed the adoption of the new share option scheme and conditional grant of 300,000,000 share options to Mr. Shi Jianmin with an exercise price of HK\$0.141 per share of the Company, subject to obtaining approval from the shareholders of the Company and from the Stock Exchange of Hong Kong.

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

As at 30 June 2020, so far as is known to any Director or chief executive of the Company, the following person (not being a Director or a chief executive of the Company) who had an interests or short positions in the shares or underlying shares of the Company which are required to be notified to the Company and the Stock Exchange under Divisions 2 and 3 of Part XV of the SFO and recorded in the register required to be kept under section 336 of the SFO, and who were directly or indirectly deemed to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company.

Name	Capacity	Number of shares	Interests in issued share capital of the Company
Cheng Kin Ming*	Beneficial Owner	800,000,000	14.58%

* As at 30 June 2020, Asia Pacific Resources Development Investment Limited which is wholly owned by Mr. Cheng Kin Ming held a total amount of HK\$320,440,000 convertible bonds of the Company which can be converted into 1,001,375,000 shares of the Company.

(C) Interests of Other Persons in the Company

As at 30 June 2020, so far as is known to any Director or chief executive of the Company, no person (not being a Director or a chief executive of the Company) who had an interest or short positions in the shares or underlying shares of the Company which are required to be notified to the Company and the Stock Exchange under Divisions 2 and 3 of Part XV of the SFO and recorded in the register required to be kept under section 336 of the SFO, and who were directly or indirectly deemed to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company.

DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the Directors or the management shareholders of the Company and their respective associates (as defined under the Listing Rules) had any interest in a business which competes or may compete with the business of the Company during the period under review.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the six months ended 30 June 2020, 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 announcement, the audit committee has three members comprising the three independent non-executive Directors, namely, Mr. Hu Xiaoping, Mr. Shi Lei and Mr. Xu Congcai.

The audit committee has reviewed with the management of the Group the accounting principles and practices adopted by the Company and the Group and discussed internal controls and financial reporting matters including a review of the unaudited interim financial statements accounts of the Company and the Group for the six months ended 30 June 2020.

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
Ko Yo Chemical (Group) Limited
Tang Guoqiang
Chairman

Hong Kong, 28 August 2020

As at the date of this announcement, the Board comprises three executive directors, being Mr. Tang Guoqiang, Mr. Shi Jianmin and Mr. Zhang Weihua, and three independent non-executive directors being, Mr. Hu Xiaoping, Mr. Shi Lei and Mr. Xu Congcai.