玖源化工(集團)有限公司

Ko Yo Chemical (Group) Limited

(incorporated in the Cayman Islands with limited liability)

(Stock code: 00827)

INTERIM REPORT

2026

Highlights

Unaudited loss attributable to shareholders of the Group was approximately RMB145.8 million for the six months ended 30 June 2026, which represented a decrease of loss of approximately RMB40.0 million as compared to that of the same period last year.

For the six months ended 30 June 2026, the Group's unaudited net cash inflow from operating activities before working capital changes, profit tax and interest payment was approximately RMB30.6 million, representing an increase of approximately RMB63.4 million as compared to that of a net cash outflow of approximately RMB32.8 million in the corresponding period last year.

For the six months ended 30 June 2026, the Group's unaudited turnover was approximately RMB1,164 million, which represents an increase of approximately 5.8% as compared to the same period last year. The increase in turnover was mainly due to the increase in selling price of products as compared with that of the same period last year.

Unaudited basic loss per share of the Group was approximately RMB2.08 cents for the six months ended 30 June 2026.

The Directors do not recommend to pay any interim dividend for the six months ended 30 June 2026.

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 2026 together with the unaudited comparative figures for the corresponding periods in 2025 are as follows:

Unaudited Condensed Consolidated Profit and Loss Account

For the six months ended 30 June 2026 and 30 June 2025

		Six months ended 30 June	
	Notes	**2026 RMB'000**	2025 RMB'000
Turnover	3	**1,163,597**	1,099,955
Cost of sales		**(1,151,104)**	(1,131,957)
Gross profit		**12,493**	(32,002)
Interest income		**837**	5,385
Distribution costs		**(10,844)**	(14,689)
Administrative expenses		**(69,845)**	(73,151)
Other income — net		**4,194**	2,190
Operating profit		**(63,165)**	(112,267)
Finance costs		**(90,954)**	(102,629)
Loss before taxation	4	**(154,119)**	(214,896)
Taxation	5	**(408)**	20,615
Loss for the period		**(154,527)**	(194,281)
Attributable to:			
Equity holders of the Company		**(145,839)**	(185,789)
Non-controlling interests		**(8,688)**	(8,492)
		(154,527)	(194,281)
Basic (loss)/earnings per share (RMB cents)	6	**(2.08)**	(3.08)
Diluted (loss)/earnings per share (RMB cents)	6	**(2.08)**	(3.08)
Declared dividends per share (HK cents)	7	**Nil**	Nil

Condensed Consolidated Balance Sheet

As at 30 June 2026 and 31 December 2025

	Notes	(Unaudited) As at 30 June 2026 RMB'000	(Audited) As at 31 December 2025 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		**2,510,381**	2,556,282
Investment properties		**7,307**	7,307
Right-of-use assets		**204,686**	207,863
Mining right		**334,306**	334,306
Other intangible assets		**61,665**	61,665
Prepayments		**769,465**	773,017
Deferred income tax assets	11	**16,199**	16,199
Investments at fair value through profit or loss		**500**	500
		3,904,509	3,957,139
Current assets			
Inventories		**171,588**	162,095
Trade and other receivables	8	**192,196**	195,448
Current tax asset		**–**	4,270
Restricted bank balances		**11**	130
Pledged bank deposits		**16,254**	118,604
Cash and cash equivalents		**41,922**	43,513
		421,971	524,060
Total assets		**4,326,480**	4,481,199
EQUITY			
Equity attributable to owners of the Company			
Share capital		**611,869**	611,869
Reserves		**(1,014,872)**	(868,221)
		(403,003)	(256,352)
Non-controlling interests		**(73,187)**	(64,499)
Total equity		**(476,190)**	(320,851)

Condensed Consolidated Balance Sheet (Continued)

As at 30 June 2026 and 31 December 2025

	Notes	(Unaudited) As at 30 June 2026 RMB'000	(Audited) As at 31 December 2025 RMB'000
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	11	**113,735**	113,735
Lease liabilities		**–**	195
		113,735	113,930
Current liabilities			
Trade and other payables	9	**843,395**	760,070
Contract liabilities		**117,553**	154,977
Due to a related company		**843,193**	843,193
Borrowings	10	**2,280,708**	2,364,508
Lease liabilities		**578**	2,163
Convertibles bonds		**603,508**	563,209
		4,688,935	4,688,120
Total liabilities		**4,802,670**	4,802,050
Total equity and liabilities		**4,326,480**	4,481,199
Net current liabilities		**(4,266,964)**	(4,164,060)
Total assets less current liabilities		**(362,455)**	(206,921)
Net (liabilities)/assets		**(476,190)**	(320,851)

Unaudited Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2026 and 30 June 2025

	Six months ended 30 June	
	2026	2025
	RMB'000	RMB'000
Net cash generated from operating activities	**4,836**	199,535
Interest paid	**(19,936)**	(22,240)
Net cash inflow from operating activities	**(15,100)**	177,295
Investing activities		
Purchases of fixed assets and payments for construction-in-progress	**(45,485)**	(92,256)
Proceeds from disposal of fixed assets	**–**	–
Interest received	**837**	5,385
Net cash outflow from investing activities	**(44,648)**	(86,871)
Net cash inflow before financing activities	**(59,748)**	90,424
Financing activities		
Decrease in pledged and restricted bank deposits	**102,469**	564,528
Advance from a related company	**–**	(47,130)
Increase/(decrease) from borrowing	**(43,500)**	(586,885)
Reserve fund change	**(812)**	–
Net cash increase/(decrease) from financing activities	**58,157**	(69,487)
Increase/(decrease) in cash and cash equivalents	**(1,591)**	20,937
Cash and cash equivalents at 1 January	**43,513**	8,099
Cash and cash equivalents at 30 June	**41,922**	29,036

Unaudited Consolidated Statement of Changes In Equity

For the six months ended 30 June 2026 and 30 June 2025

	Share Capital RMB'000	Share Premium RMB'000	Merger Reserve RMB'000	Share-based compensation RMB'000	Reserve Fund RMB'000	Enterprise Expansion Fund RMB'000	Retained Earnings RMB'000	Transaction to NCI RMB'000	NCI RMB'000	Total RMB'000
At 1 January 2025 (audited)	520,569	1,548,019	(22,041)	448,295	54,648	1,131	(2,143,893)	(3,509)	(43,634)	359,585
Net loss for the 6 Months ended 30 June 2025	–	–	–	–	–	–	(185,789)	–	(8,492)	(194,281)
Reserve fund change	–	–	–	–	–	–	–	–	–	–
At 30 June 2025	520,569	1,548,019	(22,041)	448,295	54,648	1,131	(2,329,682)	(3,509)	(52,126)	165,304
At 1 January 2026 (audited)	**611,869**	**1,597,194**	**(22,041)**	**395,429**	**54,738**	**1,131**	**(2,891,163)**	**(3,509)**	**(64,499)**	**(320,851)**
Net loss for the 6 Months ended 30 June 2026	**–**	**–**	**–**	**–**	**–**	**–**	**(145,839)**	**–**	**(8,688)**	**(154,527)**
Reserve fund change	**–**	**–**	**–**	**–**	**(812)**	**–**	**–**	**–**	**–**	**(812)**
At 30 June 2026	**611,869**	**1,597,194**	**(22,041)**	**395,429**	**53,926**	**1,131**	**(3,037,002)**	**(3,509)**	**(73,187)**	**(476,190)**

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 2025. 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 RMB4,267 million as at 30 June 2026. 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 2026 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 2026 (unaudited)		Six months ended 30 June 2025 (unaudited)	
	RMB'000	**%**	RMB'000	%
Urea	**344,327**	**29.6**	305,929	27.8
Ammonia	**285,612**	**24.5**	324,247	29.5
Methanol	**512,552**	**44.1**	468,471	42.6
N-methylpyrrolidone ("NMP")	**–**	**–**	222	0.0
N,N-dimethylformamide ("DMF")	**–**	**–**	1,086	0.1
Others (Note)	**21,106**	**1.8**	–	–
	1,163,597	**100**	1,099,955	100

Note: Others are sales of steam.

Notes of Financial Statements (Continued)

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

	Six months ended 30 June	
	2026	2025
	RMB'000	RMB'000
Loss before tax	**(154,119)**	(214,896)
Depreciation of property, plant and equipment	**89,801**	82,725
Depreciation of right-of-use assets	**3,177**	3,020
Interest income	**(837)**	(5,385)
Interest expense	**90,954**	102,629
(Gain)/loss on disposal of fixed assets	**1,583**	(925)
Operation cash flow before working capital change	**30,559**	(32,832)
(Increase)/decrease in inventories	**(9,493)**	(5,136)
(Increase)/decrease in trade and other receivables	**6,805**	38,771
Increase/(decrease) in trade and other payables	**14,797**	154,371
Increase/(decrease) in contract liabilities	**(37,424)**	44,381
Cash generated from operating activities	**5,244**	199,555
Income tax paid	**(408)**	(20)
Net cash generated from operating activities after tax	**4,836**	199,535

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 2026.

The applicable income tax rate of all subsidiaries located in Mainland China in 2026 is 25%.

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

	Six months ended 30 June	
	2026	2025
	RMB'000	RMB'000
PRC Corporate Income Tax in Mainland China	**408**	20
Deferred income tax (Note 11)	**–**	(20,635)
	408	(20,615)

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 2026 and 2025 were based on:

	Six months ended 30 June	
	2026	2025
Loss	**RMB'000**	RMB'000
Loss for the period	**(145,839)**	(185,789)
Loss for calculation diluted earnings per share	**(145,839)**	(185,789)
Number of shares	**'000**	'000
Weighted average number of shares for calculation of basic earnings per share	**7,028,043**	6,028,043
Weighted average number of shares for calculation of diluted earnings per share	**7,028,043**	6,028,043

Notes of Financial Statements (Continued)

7. Dividend

The Board does not recommend the payment of any dividend for the six months ended 2026.

8. Trade and Other Receivables

	(Unaudited) As at 30 June 2026 RMB'000	(Audited) As at 31 December 2025 RMB'000
Trade receivables	526	18
Prepayments, purchase deposits and other deposits	80,774	59,763
Notes receivable	30	–
Other receivables	110,866	135,667
	192,196	195,448

8. Trade and Other Receivables *(Continued)*

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

	(Unaudited) As at 30 June 2026 RMB'000	(Audited) As at 31 December 2025 RMB'000
Aged:		
Less than 3 months	**526**	18
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	**–**	–
	526	18
Less: provision for doubtful receivables	**–**	–
	526	18

Notes of Financial Statements (Continued)

9. Trade and Other Payables

	(Unaudited) As at 30 June 2026 RMB'000	(Audited) As at 31 December 2025 RMB'000
Trade payables	**43,539**	43,857
Accruals and other payables	**799,856**	716,213
	843,395	760,070

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

	(Unaudited) As at 30 June 2026 RMB'000	(Audited) As at 31 December 2025 RMB'000
Aged:		
Less than 1 year	**43,302**	43,620
More than 1 year	**237**	237
	43,539	43,857

10. Borrowings

	(Unaudited) As at 30 June 2026 RMB'000	(Audited) As at 31 December 2025 RMB'000
Borrowings are repayable as follows:		
Less than 1 year	**2,280,708**	2,364,508
Between 1 and 2 years	**–**	–
Between 2 and 5 years	**–**	–
Over 5 years	**–**	–
Total borrowings	**2,280,708**	2,364,508
Settlement within 1 year included in current liabilities	**(2,280,708)**	(2,364,508)
Settlement after 1 year included in non-current liabilities	**–**	–

As at 30 June 2026, the borrowings of the Group were generally secured by certain fixed assets and pledged cash deposits of the Group. These borrowings bear interest at the rate of 3.00% to 8.64% (2025: 3.00% to 8.70%) per annum.

Notes of Financial Statements (Continued)

11. Deferred Income Tax

There were no offsetting of deferred income tax assets and liabilities in 2025 and in six months period ended 2026.

Deferred income tax assets:

	Loss available for offsetting future taxable profits RMB'000
At 31 December 2025	16,199
Credit to income statement	–
At 30 June 2026	**16,199**

Deferred income tax liabilities:

	Evaluation and exploration assets RMB'000
At 31 December 2025	(113,735)
At 30 June 2026	**(113,735)**

Management Discussion and Analysis

Financial Performance

For the six months ended 30 June 2026, the Group recorded a turnover of approximately RMB1,164 million, representing an increase of approximately 5.8% as compared with approximately RMB1,100 million for the corresponding period last year. The increase in turnover was mainly due to the increase in selling price of products. Loss attributable to shareholders was approximately RMB145.8 million (2025: first half year loss of approximately RMB185.8 million), representing a decrease in loss of approximately RMB40.0 million as compared with the corresponding period last year. The decrease in loss was mainly due to the increase in gross profit margin. Basic loss per share was approximately RMB2.08 cents (2025: first half year basic loss per share of approximately RMB3.08 cents).

During the period under review, the total sales volume (excluding the trading portion) of the Group reached approximately 567,000 tonnes (2025: 546,000 tonnes), representing a slightly increase of approximately 3.8% as compared with that of the corresponding period last year.

For the period under review, the gross profit margin of the Group increased from approximately -2.9% to 1.1% as compared with the corresponding period last year, which was mainly due to the increase in market price of products. Cost of sales amounted to approximately RMB1,151 million, representing an increase of approximately 1.7% as compared with the corresponding period last year mainly due to the increase in quantities on sales volume. Distribution costs decreased by approximately 26.2% due to the increase in direct sales. The administrative expenses decreased by approximately 4.5% as compared with the corresponding period last year, due to the strict control in expenditure. The increase in net other income of approximately RMB2.0 million as compared with the corresponding period last year was mainly due to the increase in compensation income.

Management Discussion and Analysis (Continued)

Business Review

During the period under review, the Group and its subsidiaries operated proactively and steadily under the management objective of "striving for excellence and efficient collaboration". The various incentive policies implemented in the early stage continued to deliver results, strengthening the foundation for production, technology, and management. Through ongoing optimisation and adjustments during operations, synergistic collaboration was achieved across the Group, greatly boosting team dynamism. Standardisation efforts, including management standardisation, business standardisation, technical standardisation, and operation standardisation, have been deeply promoted and internalized into practice. The management foundation has been continuously consolidated, and the Group's core competitiveness has been effectively reinforced. The Group continued to tap the energy-saving potential of its production units, effectively reducing production costs and improving the Company's operating efficiency. The commissioning of technology advancement projects has significantly enhanced the intrinsic safety level of equipment, continuously reduced product production consumption, and steadily strengthened the Company's risk resilience. A breakthrough was made in innovating the sales model. Based on actual sales data and the competitive landscape for each product across different periods, regions, and customer groups, a more flexible and dynamic sales strategy combining online competitive bidding and offline pricing was implemented. For methanol and urea products, futures instruments were actively used for hedging to seize market opportunities and achieve excess returns. Further optimisation and improvement of the new project have been completed, and the extension of the industrial chain will be progressively advanced to enhance the Company's overall strength.

Overall, in the first half of 2026, the Group has achieved improvements over the best historical levels of 2025 in terms of safety, environmental protection, production output, consumption, marketing, and cost control. The quality of internal operations has continued to improve, with notable results in cost reduction, efficiency enhancement, and marketing innovation, which have effectively offset part of the impact of the adverse external factors. Despite the combined pressures of external adverse factors such as a sharp rise in natural gas prices and product market volatility followed by a prolonged period of low prices, the Group's overall operations remained stable, and its business performance was better than the expectations at the beginning of the year.

Guang'an Ko Yo Plant

In the first half of the year, the production and operation of Guang'an Ko Yo Plant progressed steadily, with the effects of energy saving and consumption reduction gradually being released. At the beginning of the year, the plant successfully completed its overhaul and resumed production. The methanol and synthetic ammonia units have maintained continuous and stable operation since resuming production on 18 January. Optimisation of the rectification system has reduced steam consumption in the pressure tower by approximately 2 tonnes/hour. Product unit consumption remains under control with stable quality. The CO unit underwent shutdown for inspection and rectification simultaneously. The KAM unit has completed pre-startup inspection but has not yet been commissioned in light of market conditions. Basic management has been continuously consolidated. The Company has improved its HSE and inventory management systems, promoted the application of the NCC system and cost accounting by work section, and implemented a hazard identification and inspection mechanism. Technical upgrading projects have been advanced in an orderly manner. The energy-saving renovation of the methanol-ammonia unit and the steam pipeline transmission project have been commissioned and have achieved the expected efficiency improvement targets. The energy-saving renovation of the circulating water system has commenced on-site, while the hydrogen energy project and equipment upgrading initiatives are progressing steadily. In general, tasks in the first half of the year were implemented in an orderly manner, laying a solid foundation for achieving the annual goals.

Management Discussion and Analysis (Continued)

Dazhou Ko Yo Plant

At the beginning of the year, Dazhou Ko Yo Plant successfully completed the unit overhaul, thoroughly eliminating all types of equipment defects and safety hazards. The synthetic ammonia and urea units successfully resumed production on 22 January. Since the resumption of production, the plant has consistently focused on ensuring the safe, stable, long-term, full-load, and optimised operation of its units, as well as refined cost control throughout the entire production process. Efforts have been concentrated on work safety, technological advancement, production operation breakthroughs, cost reduction and efficiency enhancement, and the development of standardised demonstration teams. The implementation of the "Three Basics" (basic work, grassroots building, and basic skills training), the HSE system, and the equipment integrity management system has been further deepened and effectively put into practice. Through systematic and coordinated management, good results have been achieved in unit output, energy consumption indicators, long-term operational stability, and intrinsic safety level. While phased achievements have been made in production-side control, the industry's external market has experienced significant pressure: upstream natural gas feedstock prices have risen, coupled with rigid constraints on product sales prices due to the maximum price ceiling policy. The profit margin has been squeezed from both upstream and downstream directions, making the operating environment increasingly severe and complex.

Guang'an Ko Yo Electronic Material Plant

Due to market overcapacity and sluggish demand, the units of Guang'an Ko Yo Electronic Material Plant were in a state of shutdown in the first half of 2026. To ensure the units are ready for immediate start-up and production once market conditions improve, the plant has completed projects such as the sewage station renovation and pressure vessel inspection. Production will be resumed in the second half of the year at an opportune time based on cost and market conditions.

Jiangsu Bluestar Plant

The main construction of Jiangsu Bluestar Green Material Co., Ltd.'s 400,000 tonnes/year propylene oxide project has been substantially completed and has entered the commissioning, testing, and procedure handling stage. Subsequently, trial production and the formal commencement of operations will be advanced as appropriate based on product market conditions.

Management Discussion and Analysis (Continued)

Industry Overview and Outlook

Methanol

I. Review for the first half of 2026

In the first half of the year, domestic methanol output was approximately 46.45 million tonnes, a year-on-year increase of 5.88%, with an average operating rate of 81.68%, up 3.92% year-on-year. The market exhibited a trend of "weakness first, followed by strength, and then a pullback", with the turning point triggered by geopolitical conflicts in the Middle East. In January, prices remained at low levels due to high port inventories, pre holiday inventory reduction by upstream producers, coupled with the shutdown of coastal olefin plants and the off season for traditional downstream industries. At the end of February, escalating US-Iran conflicts and disruptions to the Strait of Hormuz led to a sharp drop in imports, compounded by spring maintenance in Northwest China, which tightened supply. With stable demand from olefins and traditional downstream sectors, prices surged rapidly. From March to April, market conditions fluctuated with the recurring US-Iran conflict and rising crude oil prices, peaking in April. In mid-to-late June, a ceasefire consensus was reached, leading to the dissipation of the geopolitical risk premium and a concurrent pullback in both futures and physical prices.

II. Outlook for the second half of the year

In the second half of the year, the market is expected to exhibit a pattern of "high level volatility with a downward bias, punctuated by a phased rebound in the third quarter". Raw coal supply will be tight due to enhanced safety supervision and winter stockpiling, providing bottom support for costs. On the supply side, new capacity of 5.7 million tonnes is expected in the second half of the year, and port inventories will continue to rise after imports resume, leading to an overall ample supply. However, maintenance in the main production areas of Northwest China during the third quarter will temporarily reduce supply. On the demand side, there may be an increase in olefins, but traditional downstream sectors are weak due to losses. The turning point for phased demand lies in the peak season known as "Golden September, Silver October". In summary, maintenance and the peak season in the third quarter will bring a short-term recovery, while the supply-demand structure in the fourth quarter will be loose, resulting in weak market conditions again.

Synthetic Ammonia

I. *Review for the first half of 2026*

In the first half of the year, domestic synthetic ammonia output was approximately 41.70 million tonnes, a year-on-year increase of 14%, with an average operating rate of 86%, up 2% year-on-year. The market experienced a decline, followed by a rise, and then another decline. In January, unit restarts and snowfall induced logistics disruptions led to inventory accumulation at enterprises, prompting them to cut prices for shipment. In February, prices bottomed out due to oversupply, downstream price squeezing, and pre holiday inventory reduction, before stabilizing after the Spring Festival holiday. From March to April, concentrated maintenance of plants in North China and East China led to regional supply shortages. Meanwhile, downstream phosphate and compound fertilizer operations increased, while industrial nitric acid demand rose, compounded by recovered exports, driving a significant price rebound. From May to June, the resumption of earlier maintenance and the release of new production capacity led to ample supply, while phosphate and compound fertilizer operations declined due to the surge in sulphur prices and the export ban on ammonium phosphate, causing the market to fluctuate downward.

II. *Outlook for the second half of the year*

In the second half of the year, the market is likely to follow a trajectory characterized by "cost support at the lower end, a relatively loose supply demand balance, a bias toward downside risks" with constrained upward potential, and narrow trading ranges at subdued levels. Raw coal supply is constrained by enhanced safety supervision, limiting production increases and providing a cost floor. On the supply side, new capacity of 2 to 4 million tonnes is expected in the second half of the year, resulting in ample supply. On the demand side, the operating rate of phosphate and compound fertilizers may rebound from July to September, but industries such as industrial nitric acid, caprolactam, and acrylonitrile are suffering from long-term losses and low operating rates, providing weak demand pull. Demand will weaken in the fourth quarter, and prices may come under pressure again.

Management Discussion and Analysis (Continued)

Urea

I. Review for the first half of 2026

In the first half of the year, domestic urea output was approximately 39.31 million tonnes, a year-on-year increase of 8.74%, with an average operating rate of 88.78%, up 2.82% year-on-year. The market followed a "strong first, weak later" trajectory. Before the Spring Festival, compound fertilizer plants underwent maintenance and agricultural demand remained in the off-season. After the holiday, logistics resumed and prices strengthened. In March, the concentrated spring ploughing and fertilizer preparation season kicked off. Combined with geopolitical conflicts that pushed up international prices, domestic prices rose to the upper limit of the guidance price range. In April, low inventory levels and ample order books, combined with speculative talk of exports, kept market sentiment firm. In May, the spring ploughing season came to an end, demand entered a lull period, and export policies had yet to be implemented, leading to a downward shift in the price centre. In June, policies such as lowering the export floor price and the suspension of exports to India were implemented. Combined with a sharp drop in international prices, market conditions fluctuated downwards amid loose supply and demand.

II. Outlook for the second half of the year

The second half of the year is expected to exhibit a "rise first, then fall" pattern. Safety supervision of raw coal continues, providing cost support. On the supply side, new capacity of 5.51 million tonnes is expected in the second half of the year, and the average daily output may remain above 220,000 tonnes for a long time. On the demand side, from July to August, the staggered peak of topdressing between the northern and southern regions will ease agricultural rigid demand, while industrial demand remains weak. From September to October, there will be a phased increase in fertilizer use for autumn wheat and the operating rate of compound fertilizer. From November to December, winter stockpiling will be the main activity, while the price-stabilising nature of reserves will limit price increases. In terms of exports, the high domestic floor price is misaligned with international prices, creating significant transaction resistance. With international prices trending downward and foreign buyers adopting a cautious purchasing stance, it has become difficult to effectively channel surplus domestic supply abroad. As a result, exports are unlikely to materially alter the underlying loose supply-demand balance.

Management Discussion and Analysis (Continued)

Dimethylformamide (DMF)

I. *Review for the first half of 2026*

In the first half of the year, the total domestic production capacity of DMF was 900,000 tonnes, with an operating rate of 48.1% and a supply of approximately 433,000 tonnes. The market surged and then fell back. At the beginning of the year, prices bottomed out, prompting downstream buyers to purchase at the lows. As a result, inventories fell to low levels, enabling producers to hold prices firm. In February, during the Spring Festival, downstream reserves were ample and some small factories shut down, leading to weak demand and reduced unit production. At the end of February, the US-Israel-Iran conflict broke out, causing a surge in raw material methanol prices. This sent DMF costs rocketing and prompted quotations to move higher. Meanwhile, a surge in overseas demand pushed prices to a yearly high in March. Later, signals of peace talks were released, and the market returned to a state of strong supply and weak demand. Domestic demand was sluggish, and from mid-to-late April, the market entered a downward channel, with industry profits contracting.

II. *Outlook for the second half of the year*

In the second half of the year, the market may fluctuate and fall back, with industry profits bottoming out. Factories, supported by low inventories, may have phased price hikes, but the average price is likely to be weaker than in the first half. On the cost front, methanol is expected to trend downwards overall, while synthetic ammonia will maintain a narrow-range fluctuation characterised by "a downward bias and limited upward room". The cost burden on DMF may ease. On the demand side, the major downstream slurry sector will primarily maintain essential demand, with limited support from bargain hunting at low prices. The third quarter is expected to remain subdued, with some pre holiday stockpiling around the National Day holiday, though end user demand growth remains sluggish. On the supply side, the industry's operating rate is likely to remain between 48% and 50%, with ample supply. Factories will flexibly adjust their loads, making a market shortfall unlikely. On the whole, in the absence of macroeconomic tailwinds, the market will be largely driven by inland supply-demand dynamics. While cost pressures may ease, the underlying supply-demand imbalance is expected to persist. Production units may operate on an alternating basis, with prices fluctuating at low levels. If geopolitical conflicts intensify again, export orders may provide temporary support. However, with weak domestic demand, prices will struggle to stabilise at high levels and may surge before falling back later.

N-methylpyrrolidone (NMP)

I. Review for the first half of 2026

In the first half of the year, the production capacity of NMP synthetic liquid was approximately 1.26 million tonnes, with an effective capacity of 700,000 tonnes. The estimated output was 110,000 tonnes, with an operating rate of 8.73%. From January to February, the raw material BDO fluctuated at a low level, while demand remained weak. Producers destocked to move shipments, and operating rates edged down slightly before the holiday, with a slow recovery afterward, resulting in a contraction in supply. From March to April, concentrated maintenance of BDO units tightened supply. Combined with geopolitical conflicts that boosted export volumes, BDO prices moved higher. This raised NMP production costs, prompting quotations to follow suit. From May to June, BDO continued to fall. Downstream lithium battery demand was flat, and market shipments were poor. NMP prices followed costs downwards, trading weak.

II. Outlook for the second half of the year

In the second half of the year, the market is expected to remain weak. In terms of cost, NMP is highly correlated with BDO. In the second half of the year, the concentrated release of new BDO capacity will lead to ample supply. In addition, the surge in calcium carbide costs in Northern China during winter will create a double negative of "rising raw material costs and weakening finished product prices". In terms of supply and demand, despite low operating rate, spot synthetic liquid will be still abundant given high recovery rates. In the third quarter, concentrated stockpiling by the major downstream lithium battery sector is expected to provide some support to the market. However, in the fourth quarter, battery production schedules are set to decline, leading to weaker demand. While demand from pharmaceutical, copper-clad laminate, and other niche downstream sectors will remain steady, their relatively small volumes will be insufficient to reverse the overall loose supply-demand balance in the fourth quarter. Overall, the increased supply of BDO in the second half of the year will drag down prices. Coupled with limited demand, the average price of NMP is likely to fluctuate weakly and may still decline.

Strategies

In the first half of 2026, due to the impact of both domestic and international factors, the fertiliser industries experienced a volatile downward trend. While raw material costs surged to record highs, finished product prices fluctuated at a low level, squeezing the Company's profit margins and significantly exacerbating its operational challenges. In the face of numerous challenges, the Group has proactively responded on two main fronts. On the one hand, through technological upgrades and major overhauls, it has effectively resolved operational bottlenecks and reduced production and operating costs. On the other hand, the Group has innovated its sales model by implementing a dynamic sales strategy that combines "online bidding and offline fixed pricing", while also leveraging futures hedging to enhance profitability and generate additional revenue.

In the second half of 2026, the Group will closely track industry dynamics and focus on the following aspects:

I. The Group will keep on arranging and coordinating the work with regard to production materials, such as water, electricity and gas, in a bid to provide long-term and high-load operation protection for units of Dazhou Ko Yo Plant and Guang'an Ko Yo Plant; With safety and environmental protection as the bottom line, while ensuring long-term and safe operation, it will carry out daily monitoring, accounting, and early warnings, and adjust and optimise the production organisation and operational load in a timely manner to ensure optimal operational benefits;

II. The Group continuously promote tackling key challenges to create efficiency, 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 reduce waste.

III. The Group will solidly ensure the safe, stable, and long term operation of production units with optimized cost control, continuously advance lean management, and steadily strengthen the development and implementation of systems including HSE, production operations, technological progress, equipment integrity management, and the "Three Basics" work.

IV. The Group will make thorough preparations for the annual overhaul of units, reduce the number of unplanned shutdowns during the year, increase output and reduce consumption. Under the premise that the supply-demand contradiction of natural gas is gradually eased, the Group will explore the feasibility of transitioning the unit maintenance cycle from an annual overhaul to a biennial one.

V. The Group will promote the implementation and effectiveness of core technical renovation projects. The Group will accelerate the construction progress of the energy saving renovation of the circulating water system, advance the evaluation and implementation of the methanol air preheater retrofitting plan, continuously optimize the operational performance of the energy saving renovation of the methanol ammonia steam system, and ensure that the hydrogen energy project is delivered in accordance with the scheduled milestones. The Group will actively promote the implementation of two projects: the energy-saving and carbon-reduction renovation of the synthetic ammonia unit, and the upgrading of the carbon dioxide compressor equipment.

VI. The Group will further optimise the adjustment of the distillation system and refine process parameter controls, implement detailed phased cost accounting, strictly enforce material inventory management, and tap into energy-saving and consumption-reduction potential across multiple dimensions, so as to continuously reduce unit energy and material consumption of products.

Management Discussion and Analysis (Continued)

VII. The Group will continuously optimise the sales model, flexibly adjust pricing strategies and sales policies based on the performance of each product under different market conditions and with different customer types, and continuously optimise and improve the competitive bidding mechanism. For urea products, the Group will benchmark against industry-leading companies to improve selling prices; seize high-priced export market orders for urea; and implement flexible pricing strategies for differentiated urea products, with a focus on increasing their sales share. For chemical products, the Group will continuously optimise the customer structure, enhance the quality and quantity of high-quality customers, and establish a group of high-quality strategic partners. These measures will be promoted synergistically to achieve the strategic goals of both maximising benefits and optimising the customer structure, thereby injecting greater resilience into the Company's sustainable growth.

VIII. The Group will promote the approval, start of construction and construction of new projects, revitalise existing assets, gradually realise the upgrading of products, transform from pure basic chemical industry to fine chemical industry based on basic chemical industry, and enhance the overall competitiveness of the Group.

IX. The Group will continue to promote the implementation of measures such as performance appraisal, compensation reform, special rewards, and skill assessment, guided by the Company's operating results, to align all Group personnel and stimulate the team's creativity and execution.

X. The Group will organise expertise and skill competitions, establish an internal lecturer mechanism and strengthen the training of the workforce to improve the technical level and management capabilities of all staff.

XI. The Group will promote the reform of the authorisation system to improve the decision-making efficiency of subsidiaries.

Management Discussion and Analysis (Continued)

XII. The Group will promote the reform of spare parts inventory to gradually reduce the amount of funds occupied by inventory. Meanwhile, the Group will continuously improve the safety stock and inventory management methods to enhance the safety factor and reduce costs.

XIII. The Group will gradually reduce the proportion of exclusive suppliers to solve industry-specific problems. It will gradually adopt a bidding model for procurement, which is designed to reduce procurement costs and improve procurement quality.

XIV. The Group will promote standardisation, such as management standardisation, business standardisation, technical standardisation, operation standardisation, etc., and continuously consolidate the management foundation in order to safeguard the Group's stable operation.

XV. The Group will adhere to strict professional management and team leadership, promote the decentralisation of management power and focus, and ensure real efforts are made on-site and tangible results are delivered at the grassroots level.

Management Discussion and Analysis (Continued)

Acknowledgement

In retrospect over the past half year, the fertilizer and chemical industry has experienced heightened volatility and increased operational challenges. Under the leadership of the Board of Directors and management, all employees were united, adhered to market-oriented production and operation activities, followed up market conditions in a timely manner, and made real-time calculations to ensure the best operating efficiency of devices and realize the long-term stable operation of devices. For the second half of the year, in accordance with the Board's strategies and requirements and under the leadership of the management, we will continue to stabilise the basic chemical business, explore new projects and capitalise on market opportunities.

On this occasion, on behalf of all my colleagues on the Board of Directors, I would like to extend our sincere gratitude to our shareholders for their trust and support, to our valued customers for their confidence and partnership, and to our management and all employees for their dedication and perseverance. In the second half of the year, we will continue to operate with prudence and pragmatism, and strive to create greater value and returns for society.

Tang Guoqiang
Chairman

28 August 2026

Liquidity, Financial Resources and Capital Structure

As at 30 June 2026, the Group had net current liabilities of approximately RMB4,266,964,000. Current assets as at 30 June 2026 comprised cash and bank deposits of approximately RMB41,922,000, restricted and pledged bank deposits of approximately RMB16,265,000, inventories of approximately RMB171,588,000, trade and other receivables of approximately RMB192,196,000. Current liabilities as at 30 June 2026 comprised borrowings of approximately RMB2,280,708,000, amount due to a related company of approximately RMB843,193,000, contract liabilities of approximately RMB117,553,000, convertible bonds of approximately RMB603,508,000, lease liabilities of approximately RMB578,000 and trade and other payables of approximately RMB843,395,000.

Capital Commitments

As at 30 June 2026, the Group had outstanding capital commitments of approximately RMB2,076,976,000.

Financial Resources

As at 30 June 2026, the Group had cash and bank balances of approximately RMB41,922,000 and restricted and pledged bank deposits of approximately RMB16,265,000, 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 119% and 113% as at 30 June 2026 and 31 December 2025 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 2026.

Material Acquisitions/Disposals

The Group had no material acquisitions/disposals during the six months ended 30 June 2026.

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 2026.

Details of Future Plans for Material Investment or Capital Assets

Save as disclosed in the Chairman's Statement in this interim report, the Company's circular dated 4 December 2020 (the establishment of three new production lines in our Dazhou Plant, Guangan Chemical Plant and Guangan Material Plant) and the Company's circular dated 19 November 2021 (the Jiangsu Plant), there are no other material investment plans.

Employee Information

As at 30 June 2026, the Group had a total workforce of 660 (2025: 709), of which 4 (2025: 4) were responsible for management, 106 (2025: 109) for finance and administration, 539 (2025: 588) for production and 11 (2025: 8) for sales and marketing and research and development. Of these employees, 656 (2025: 707) were stationed in the PRC and 4 (2025: 2) in Hong Kong.

Charges on the Group's Assets

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

	As at 30 June	
	2026	2025
	RMB'000	RMB'000
Land use rights and buildings	**373,228**	317,414
Equipment and machinery	**649,914**	650,105
Mining right	**334,306**	334,306
Bank deposit	**16,254**	60,412

Foreign Exchange Exposure

The Group is exposed 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") were adopted on 18 September 2008 and 9 October 2020. The details of the Share Option Schemes can be found in the circulars 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 2026 were disclosed in the following table:

	Number of share options							
	Held at 1 Jan 2026 ('000)	Granted during period ('000)	Exercised during period ('000)	Forfeited/ Lapsed during period ('000)	Held at 30 Jun 2026 ('000)	Shares Options A ('000)	Shares Options B ('000)	Shares Options C ('000)
Directors								
Tang Guoqiang	–	–	–	–	–	–	–	–
Zhang Weihua	–	–	–	–	–	–	–	–
Fan Chao	–	–	–	–	–	–	–	–
Xu Congcai	–	–	–	–	–	–	–	–
Le Yiren	–	–	–	–	–	–	–	–
Lu Yi	–	–	–	–	–	–	–	–
Employees	63,992	–	–	(1,500)	62,492	–	–	62,492
Total	63,992	–	–	(1,500)	62,492	–	–	62,492

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

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

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

The share options scheme adopted on 18 September 2008 had expired on 17 September 2018. As at 1 January 2025 and 31 December 2025, the Company had 171,492,259 and 486,312,259 share options not yet issued under the share option scheme adopted on 9 October 2020 respectively, which represented approximately 2.84% and 6.92% of the Company's shares at 1 January 2025 and as at 31 December 2025 respectively. As at 1 January 2026 and as at 30 June 2026, the Company had 486,312,259 share options available for grant under the share option scheme adopted on 23 October 2020, which represented approximately 6.92% of the Company's shares as at 1 January 2026 and as at 30 June 2026. As at the date of the interim report, the number of shares that may be issued in respect of options granted under all the share option schemes was 548,804,259 which represented approximately 7.81% of the issued shares as at the date of the interim report. The remaining life of the share option scheme adopted on 23 October 2020 was about 4.3 years as at 30 June 2026.

Outstanding Convertible Securities

The details of all the outstanding convertibles securities, the Company's ability to meet its redemption obligations of the outstanding convertible securities based on the financial position as at 30 June 2026 and the Share prices (the "Indifference Share Prices") at the future dates at which it would be equally financially advantageous for the securities holders to convert or redeem were as follows:

Outstanding Convertible Securities Maturity Date	Conversion share price (HK$)	No. of shares can be Converted ('000)	Indifference Share Price (HK$) as at 29/11/2026	Ability to redeem
29/11/2026	0.108	6,700,000	0.1134	No
	Total	6,700,000		

Assuming all outstanding convertible securities converted into shares of the Company (the "Shares") as at 30 June 2026, the shareholding structure of the Company before and after such conversion for all the outstanding convertible securities is as follow:

As at 30/6/2026	No. of Shares before the conversion of outstanding convertible securities	% of holdings (approx)	No. of Shares from conversion of outstanding convertible securities	No. of Shares after the conversion of outstanding convertible securities	% of holdings (approx)
Directors					
Mr. Tang Guoqiang	1,169,800,000	16.65	6,700,000,000	7,869,800,000	57.33
Mr. Zhang Weihua	500,000,000	7.11	–	500,000,000	3.64
Public Shareholders	5,358,242,599	76.24	–	5,358,242,599	39.03
Total	7,028,042,599	100.00	6,700,000,000	13,728,042,599	100.00

Note: As at 30 June 2026, China Mass Enterprises Limited is indirectly owned by Mr. Zhang Weihua through Jiangsu Kang Tai Holdings Group Limited which held 500,000,000 Shares, and among 69,800,000 out of 1,169,800,000 shares held by Mr. Tang Guoqiang was held by Coherent Gallery International Limited which was wholly owned by Mr. Tang Guoqiang.

The diluted loss per shares for the year ended 30 June 2026 assuming all outstanding convertible securities being converted was RMB1.06 cents which is calculated by dividing the loss attribute to the shareholders of the Company by the total number of Shares after all outstanding convertible securities being converted.

Disclosure of Interests

(A) Interests of the Directors in the Company

As at 30 June 2026, the interests and short positions of the Directors and chief executives in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) to be recorded in the register required to be kept under section 352 of the SFO; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code (the "Model Code") for Securities Transactions by Directors of Listed Issuers contained in Listing Rules were as follows:

(i) Long positions in the shares and the underlying shares of the Company

Directors	Long position in shares (beneficial owner)	Long position in share options and convertible bonds (beneficial owner)	Aggregate long position in shares and underlying shares	Interests in the issued share capital
Tang Guoqiang	1,169,800,000	6,700,000,000	7,869,800,000	111.98%
Zhang Weihua	500,000,000	–	500,000,000	7.11%

Note: As at 30 June 2026, among 69,800,000 out of the 1,169,800,000 long position in shares in the interest of Mr. Tang Guoqiang was held by Coherent Gallery International Limited which was wholly owned by Mr. Tang Guoqiang. As at 30 June 2026, China Mass Enterprises Limited is indirectly owned by Mr. Zhang Weihua through Jiangsu Kang Tai Holdings Group Limited which held a total amount of 500,000,000 shares of the Company.

Disclosure of Interests (Continued)

(B) Interests of the Substantial Shareholders in the Company

As at 30 June 2026, so far as is known to any Director or chief executive of the Company, save as disclosed above, no person (not being a Director or a chief executive of the Company) who had 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 2026, so far as is known to any Director or chief executive of the Company, save as disclosed above, no person (not being a Director or a chief executive of the Company) who had an interest or short positions in the shares or underlying shares of the Company which are required to be notified to the Company and the Stock Exchange under Divisions 2 and 3 of Part XV of the SFO and recorded in the register required to be kept under section 336 of the SFO, and who were directly or indirectly deemed to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company.

Change in the Board and the Director's Information

There were no changes in the Board and the information of the Directors since the date of the Company's annual report for the year ended 31 December 2025.

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 2025. The Group had been negotiating with banks in renewing or restructuring the loans and most of the bank loans had been restructured. The updated information regarding the going concern and mitigation measures can be found in the announcement of the Company dated 30 June 2026.

Code of Conduct Regarding Securities Transactions by Directors

During the six months ended 30 June 2026, 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.

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.

Events After the Reporting Period

The Group had no significant event after the end of the reporting period and up to the approval date of this report.

Audit Committee

Audit committee was established on 10 June 2003 with written terms of reference in compliance with the Code on Corporate Governance Practices (the "Code"). The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Company and the Group and provide advice and comments to the Directors. As at the date of this interim report, the audit committee has three members comprising the three independent non-executive Directors, namely, Mr. Xu Congcai, Mr. Le Yiren and Ms. Lu Yi.

The audit committee has reviewed with the management of the Group the accounting principles and practices adopted by the Company and the Group and discussed internal controls and financial reporting matters including a review of the unaudited interim financial statements accounts of the Company and the Group for the six months ended 30 June 2026.

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.

By Order of the Board
Tang Guoqiang
Chairman

Hong Kong, 28 August 2026