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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 2019

HIGHLIGHTS

Unaudited loss attributable to shareholders of the Group was approximately RMB328.3 million for the six months ended 30 June 2019, which represents an increase of loss of RMB167.3 million as compared to that of the same period last year. The increase in loss was mainly due to an amount of RMB210.9 million provision made from the valuation loss on the convertible bonds that issued in the first half of year 2019.

For the six months ended 30 June 2019, the Group's unaudited cash generated from operating activity before tax amounted to approximately RMB24,127,000, representing a decrease of RMB87,769,000 as compared to that in the corresponding period last year.

For the six months ended 30 June 2019, the Group's unaudited turnover was approximately RMB954 million, which represents a decrease of approximately 52.1% as compared to the same period last year. The decrease in turnover was mainly due to the decrease in trading portion of sales. The total sales volume (excluding the trading portion) of the Group reached approximately 471,127 tonnes, representing an increase of 32.8% as compared with that of the same period last year.

Unaudited basic loss per share of the Group was approximately RMB7.64 cents for the six months ended 30 June 2019.

The Directors do not recommend to pay any interim dividend for the six months ended 30 June 2019.

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 2019 together with the unaudited comparative figures for the corresponding periods in 2018 are as follows:

UNAUDITED CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30 June 2019 and 30 June 2018

	Notes	Six months ended 30 June	
		2019 RMB'000	2018 RMB'000
Turnover	3	953,581	1,992,651
Cost of sales		<u>(939,301)</u>	<u>(1,876,359)</u>
Gross profit		<u>14,280</u>	<u>116,292</u>
Interest income		45	39
Distribution costs		(15,902)	(17,367)
Administrative expenses		(61,365)	(158,399)
Other (loss)/income		<u>(210,573)</u>	<u>(38,354)</u>
Operating profit/(loss)		<u>(273,515)</u>	<u>(97,789)</u>
Finance costs		<u>(67,919)</u>	<u>(77,342)</u>
(Loss)/Profit before taxation	4	<u>(341,434)</u>	<u>(175,131)</u>
Taxation	5	<u>13,068</u>	<u>14,067</u>
(Loss)/Profit for the period		<u><u>(328,366)</u></u>	<u><u>(161,064)</u></u>
Attributable to:			
Equity holders of the Company		<u>(328,260)</u>	<u>(161,014)</u>
Non-controlling interests		<u>(106)</u>	<u>(50)</u>
		<u><u>(328,366)</u></u>	<u><u>(161,064)</u></u>
Basic (loss)/earning per share (RMB cents)	6	<u><u>(7.64)</u></u>	<u><u>(3.75)</u></u>
Diluted (loss)/earnings per share (RMB cents)	6	<u><u>(6.10)</u></u>	<u><u>(3.75)</u></u>
Declared dividends per share (HK cents)	7	<u><u>Nil</u></u>	<u><u>Nil</u></u>

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2019 and 31 December 2018

		(Unaudited) As at 30 June 2019 <i>RMB'000</i>	(Audited) As at 31 December 2018 <i>RMB'000</i>
	<i>Notes</i>		
ASSETS			
Non-current assets			
Land use rights		109,197	111,777
Property, plant and equipment		2,463,854	2,476,614
Investment properties		59,538	59,538
Mining right		309,755	309,755
Intangible assets		8,349	8,349
Deferred income tax assets	11	115,032	101,964
		<u>3,065,725</u>	<u>3,067,997</u>
Current assets			
Inventories		76,771	63,783
Trade and other receivables	8	159,242	122,207
Derivative financial assets		–	–
Pledged bank deposits		28,839	24,339
Cash and bank deposits		37,101	4,545
		<u>301,953</u>	<u>214,874</u>
Total assets		<u><u>3,367,678</u></u>	<u><u>3,282,871</u></u>
EQUITY			
Share capital		368,394	368,394
Reserves Others		189,316	215,012
		<u>557,710</u>	<u>583,406</u>
Shareholders' funds		<u>557,710</u>	<u>583,406</u>
Non-controlling interest		<u>1,699</u>	<u>1,805</u>
Total equity		<u><u>559,409</u></u>	<u><u>585,211</u></u>

		(Unaudited) As at 30 June 2019 RMB'000	(Audited) As at 31 December 2018 RMB'000
	<i>Notes</i>		
LIABILITIES			
Current liabilities			
Trade and other payables	9	339,622	325,869
Contract liabilities		161,113	141,670
Short-term borrowings, secured	10	951,654	1,239,668
Provision for tax		8,159	1,152
Current portion of long term borrowings	10	199,950	433,921
Convertible Bonds		–	13,254
		<u>1,660,498</u>	<u>2,155,534</u>
Non-current liabilities			
Long-term borrowings	10	813,760	343,500
Convertible bonds		258,763	123,274
Deferred subsidy income		518	622
Deferred income tax liabilities	11	74,730	74,730
		<u>1,147,771</u>	<u>542,126</u>
Total liabilities		<u>2,808,269</u>	<u>2,697,660</u>
Total equity and liabilities		<u>3,367,678</u>	<u>3,282,871</u>
Net current liabilities		<u>(1,358,545)</u>	<u>(1,940,660)</u>
Total assets less current liabilities		<u>1,707,180</u>	<u>1,127,337</u>

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2019 and 31 December 2018

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Net cash generated from operating activities	37,195	125,963
Interest paid	(67,919)	(77,342)
Net cash inflow/(outflow) from operating activities	<u>(30,724)</u>	<u>48,621</u>
Investing activities		
Purchases of fixed assets and payments for construction-in-progress	(96,294)	(12,842)
Proceeds from disposal of fixed assets	1	1
Interest received	45	39
Net cash outflow from investing activities	<u>(96,248)</u>	<u>(12,802)</u>
Net cash inflow/(outflow) before financing activities	<u>(126,972)</u>	<u>35,819</u>
Financing activities		
(Increase)/Decrease in pledged bank deposits	(4,500)	(5,232)
Issue of convertible bonds	229,500	–
New loans payable	257,523	229,440
Repayment of bank loans	(319,848)	(268,209)
Reserve fund change	(3,147)	895
Net cash inflow/(outflow) from financing activities	<u>159,528</u>	<u>(43,106)</u>
(Decrease)/Increase in cash and cash equivalents	32,556	(7,287)
Cash and cash equivalents at 1 January	<u>4,545</u>	<u>16,312</u>
Cash and cash equivalents at 30 June	<u>37,101</u>	<u>9,025</u>

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019 and 30 June 2018

	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 2018 (audited)	368,394	1,409,065	(22,041)	253,172	45,273	1,131	(1,119,870)	(3,509)	1,882	933,497
Net loss for the 6 Months ended 30 June 2018	-	-	-	-	-	-	(161,014)	-	(50)	(161,064)
Movement of reserve fund	-	-	-	-	895	-	-	-	-	895
At 30 June 2018	<u>368,394</u>	<u>1,409,065</u>	<u>(22,041)</u>	<u>253,172</u>	<u>46,168</u>	<u>1,131</u>	<u>(1,280,884)</u>	<u>(3,509)</u>	<u>1,832</u>	<u>773,328</u>
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>

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 2018. 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 RMB1,358,545,000 as at 30 June 2019. 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 2019 on the basis that the positive cash flow from Guangan plant and Dazhou Plant, the proposed issue of HK\$987,000,000 convertible bonds as stated in the Company’s announcement dated 10 July 2019 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 2019 (unaudited)		Six months ended 30 June 2018 (unaudited)	
	RMB'000	%	RMB'000	%
BB & complex fertilizers	13,274	1.4	18,397	0.9
Urea	290,114	30.4	268,330	13.5
Ammonia	304,059	31.9	166,446	8.3
Methanol	334,313	35.1	320,429	16.1
Polyphenylene Sulfide	–	–	39,624	2.0
Others (Note)	11,821	1.2	1,179,425	59.2
	<u>953,581</u>	<u>100</u>	<u>1,992,651</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	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Loss before tax	(341,433)	(175,131)
Depreciation of property, plant and equipment	108,677	108,852
Amortisation of land us rights	2,579	2,309
Interest income	(45)	(39)
Interest expense	67,919	77,342
Loss/(gain) on disposal of fixed assets	377	1,747
¹ Fair value change of derivative financial assets	–	41,670
² Provision loss on convertible bonds	210,888	–
	<hr/>	<hr/>
Operation cash flow before working capital change	48,962	56,750
	<hr/>	<hr/>
(Increase)/decrease in inventories	(12,988)	(7,907)
(Increase)/decrease in trade and other receivables	(37,036)	(25,717)
Increase/(decrease) in trade an other payables	25,293	88,874
Increase/(decrease) in deferred subsidy income	(104)	(104)
	<hr/>	<hr/>
Cash generated from/(used in) operating activities	24,127	111,896
Income tax	13,068	14,067
	<hr/>	<hr/>
Net cash generated from/(used in) operating activities	<u>37,195</u>	<u>125,963</u>

¹ The fair value change of derivative financial assets was due to the loss of RMB41.7 million from the expiry of put option agreement entered between the Company and Asia Pacific Resources Development Investment Limited on 18 January 2015.

² 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 2019.

The applicable income tax rate of all subsidiaries located in Mainland China in 2019 is 25%.

The income tax benefit made for Dazhou Ko Yo Chemical Industry Limited, Guangan Lotusan Natural Gas Chemicals Company Limited and Guangan Ko Yo Chemical Industry Company Limited for the six months ended 30 June 2019 was approximately RMB4,386,000, RMB6,860,000 and RMB1,822,000 respectively.

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

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Current tax in the PRC	–	–
Deferred income tax (<i>Note 11</i>)	<u>(13,068)</u>	<u>(14,067)</u>
	<u>(13,068)</u>	<u>(14,067)</u>

6. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share for the six months ended 30 June 2019 and 2018 were based on:

	Six months ended 30 June	
	2019	2018
(Loss)/Profit for the period (<i>RMB'000</i>)	(328,260)	(161,014)
Weighted average number of shares for calculation of basic earnings per share	4,298,042,599	4,298,042,599
Effect of dilutive potential shares on the outstanding share options and convertible bonds	<u>1,081,937,298</u>	–
Weighted average number of shares for calculation of diluted earnings per share	<u>5,379,979,897</u>	<u>4,298,042,599</u>

7. DIVIDEND

The Board does not recommend the payment of any dividend for the six months ended 2019.

8. TRADE AND OTHER RECEIVABLES

	(Unaudited)	(Audited)
	As at	As at
	30 June	31 December
	2019	2018
	RMB'000	RMB'000
Trade receivables	2,292	54
Prepayments, purchase deposits and other deposits	65,111	87,459
Notes receivable	57,396	1,000
Other receivables	<u>34,443</u>	<u>33,694</u>
	<u>159,242</u>	<u>122,207</u>

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 2019 <i>RMB'000</i>	(Audited) As at 31 December 2018 <i>RMB'000</i>
Aged:		
Less than 3 months	2,239	54
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>2,292</u>	<u>54</u>
Less: provision for doubtful receivables	–	–
	<u><u>2,292</u></u>	<u><u>54</u></u>

9. TRADE AND OTHER PAYABLES

	(Unaudited) As at 30 June 2019 <i>RMB'000</i>	(Audited) As at 31 December 2018 <i>RMB'000</i>
Trade payables	22,924	18,980
Construction payable	139,164	137,899
Accruals and other payables	177,534	168,990
	<u>339,622</u>	<u>325,869</u>

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

	(Unaudited) As at 30 June 2019 <i>RMB'000</i>	(Audited) As at 31 December 2018 <i>RMB'000</i>
Aged:		
Less than 1 year	22,924	18,980
More than 1 year but not exceeding 2 years	–	–
More than 2 years but not exceeding 3 years	–	–
More than 3 years	–	–
	<u>22,924</u>	<u>18,980</u>

10. BORROWINGS

	(Unaudited) As at 30 June 2019 <i>RMB'000</i>	(Audited) As at 31 December 2018 <i>RMB'000</i>
Short-term borrowings	951,654	1,239,668
Long-term borrowings repayable:		
Less than 1 year	199,950	433,921
Between 1 and 2 years	410,960	101,500
Between 2 and 5 years	402,800	242,000
Over 5 years	–	–
	<u>1,013,710</u>	<u>777,421</u>
Within 1 year included in current liabilities	<u>(199,950)</u>	<u>(433,921)</u>
	<u>813,760</u>	<u>343,500</u>

As at 30 June 2019, 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 12% (2018: 4.35% to 15.00%) per annum.

11. DEFERRED INCOME TAX

There were no offsetting of deferred income tax assets and liabilities in 2018 and in six months period ended 2019.

Deferred income tax assets:

	Loss available for offsetting future taxable profits <i>RMB'000</i>	Impairment of assets <i>RMB'000</i>	Deferred subsidy income <i>RMB'000</i>	Total <i>RMB'000</i>
At 31 December 2018	101,856	–	108	101,964
Charged to income statement	13,094	–	(26)	13,068
	<u>114,950</u>	<u>–</u>	<u>82</u>	<u>115,032</u>

Deferred income tax liabilities:

	Evaluation and exploration assets <i>RMB'000</i>	Withholding tax <i>RMB'000</i>	Total <i>RMB'000</i>
At 31 December 2018	(74,730)	–	(74,730)
At 30 June 2019	<u>(74,730)</u>	<u>–</u>	<u>(74,730)</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Performance

For the six months ended 30 June 2019, the Group recorded a turnover of approximately RMB954 million, representing a decrease of approximately 52.1% as compared with approximately RMB1,993 million for the corresponding period last year. The decrease in turnover was mainly due to the decrease in trading portion of sales. Loss attributable to shareholders was approximately RMB328.3 million (2018: first half year loss of approximately RMB161.0 million), representing an increase of loss of approximately RMB167.3 million as compared with the corresponding period last year. The increase in loss was mainly due to an amount of RMB210.9 million provision made from the valuation loss on the convertible bonds that issued in the first half of year 2019. Basic loss per share was approximately RMB7.64 fen (2018: first half year basic loss per share of approximately RMB3.75 fen).

During the period under review, the total sales volume (excluding the trading portion) of the Group reached approximately 471,127 tonnes (2018: 354,782 tonnes), representing an increase of 32.8% 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 5.8% to 1.5% 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 RMB 939 million, representing a decrease of approximately 49.9% as compared with the corresponding period last year due to the decrease in trading portion of sales. Distribution costs decreased by approximately 8.4% due to the effective cost control. The administrative expenses decreased by approximately 61.3% as compared with the corresponding period last year, due to the operation cost of Dazhou Plant and Guangan Plant charge to the administrative expenses decreased during the suspension of gas in winter, the decreased in impairment losses on equipment and the effective cost control. The increase in other loss of RMB172.2 million as compared with the corresponding period last year was mainly due to the provision with an amount of RMB210.9 million made from the valuation loss on the convertible bonds that issued in the first half of year 2019.

Business Review

During the period under review, the Group and its subsidiaries have been operating steadily by adhering to the business objectives of “focusing on efficiency and changing management model”. In particular, since the start of the 60-day struggling campaign, the staff at all levels strived to carry out various projects as planned. The working culture and attitude have changed drastically. Manufacturing subsidiaries operated in a safe manner and maintained long-term stable operation, while the problem in relation to pricing of natural gas has been properly resolved. The sales team gradually adjusted the sales model and optimized the sales channels. The management team carried out the “enhancing management” initiative to improve the fundamental management in a comprehensive way. In general, the overall operating situation of the Group in the first half of 2019 has gradually improved. However, since the oversupply situation within the traditional chemical fertilizers and chemicals industries still exists and product prices continue to fluctuate, the actual overall operating performance did not meet the expectation.

1. *Guangan Plant*

Restrained by the supply of natural gases, the facilities at Guangan Plant have resumed production since 4 February 2019. The Company squeezed the most out of the limited supply of natural gas with reasonable adjustment of modes of production and coordination according to the market price of products. Both the production volume and energy consumption of methanol-ammonia co-production improved over the corresponding period last year. The Company has achieved its goal to continuously operate for the main device in the first half of the year at Guangan Plant.

2. *Dazhou Plant*

Under the impact of the supply of natural gases, the facilities at Dazhou Plant have resumed production since 5 February 2019. Under the Company's delicate coordination and operation, the facilities have been running smoothly and steadily. Leveraging on the instant collection of information on the production, operation and market as well as timely adjustment and optimization of production model, our production capacity and efficiency were continuously enhanced.

3. *Guangan's Polyphenylene Sulfide (PPS) Plant*

Affected by the market and others factors, Guangan's PPS plant was suspended in its production.

Industry Overview and Outlook

According to the statistics from An Yun Si, from January to June 2019, influenced by the natural gas restriction and environmental protection, some urea enterprises reduced their production level significantly. The total production volume of urea from January to June is expected to be 26.21 million tonnes, representing an increase of approximately 1.428 million tonnes from 24.782 million tonnes for the same period in 2018, up by 5.8%. The monthly average operating rate of domestic urea enterprises was 64.5% from January to June. From January to June 2019, the amount of imported urea was 104,100 tonnes, representing a year-on-year decrease of 25%, while the amount of exported urea was 1.6742 million tonnes, representing a year-on-year increase of 135%.

In the first half of 2019, due to the impacts of natural gas supply, environmental protection policy, fertilizer demand and domestic inventory changes, the market condition of urea demonstrated an inverted V-shaped trend with market prices fluctuating in the range of RMB1,800 per tonne to RMB2,100 per tonne. In the second half of 2019, the domestic urea market will face many uncertainties, including Sino-US trade relations, the PRC's economic trend, US-Iranian relations, and the supply conditions of domestic natural gas in the PRC. It is expected that the urea market in the PRC will show a trend of drop and rise in the second half of the year. From July to August, although the support from the rigid domestic demand is limited, some enterprises will take turns to carry out inspection and maintenance in the summer, resulting in fluctuation in prices that may last to mid-to-late September. Before the 70th anniversary of the founding of the PRC, domestic controlling measures regarding environmental pollution may be carried out intensively, and the production capacity of manufacturing enterprises may be reduced, which will facilitate the rebound of prices. On the demand side, the launch of the autumn fertilizer, coupled with the arrival of the gas maintenance season in the fourth quarter, the spread of information will continue to push up the price.

According to the statistics from Nanhua Futures, the production capacity of methanol in the PRC has reached over 88 million tonnes, of which 8 million tonnes of capacity were newly added in the first half of 2019. The PRC's total methanol output from January to June 2019 amounted to 52 million tonnes. The average operation rate of the domestic methanol industry recorded an increase of 3.49%, representing a rise of 5.21% over the same period last year. The average operating rate in the northwest region from January to June increased by 7.98% compared with the same period of last year, up by 10.78%. In the first half of this year, the import from January to June was 4.5999 million tonnes, an increase of 24% over the same period last year. In respect of downstream demand, the demand continued to grow, and emerging downstream MTO/P accounts for nearly half of total demand for methanol. Under the impact of the low efficiency of newly added production capacity in the PRC, safety and environmental inspection, increased methanol imports and high inventory level at ports, the domestic methanol market fluctuated sharply with an overall volatile trend in the first half of the year.

The methanol market faces different challenges and opportunities in the second half of 2019. Challenges mainly come from domestic and foreign supply pressure on methanol and commissioning of newly established production capacity in the third and fourth quarters. Other factors include the weak demand of traditional downstream industry leading to the low clearance level of inventory within the upstream industry, the macro-level policy changes, restriction of natural gas and the uncertainty caused by the volatile crude oil market. Meanwhile, opportunities stem from several major favourable factors, which include: (1) 9 sets of new methanol-to-olefin plants will be launched; (2) the operating rate of methanol-to-olefins production will be lowered; and (3) the proportion of methanol fuels has also increased under the influence of environmental factors. For the estimated the year 2019 demand structure, the demand for methanol to olefins products will increased steadily by at least more than half. Due to the impact of the coal to gas conversion policy, methanol fuel, which is the second largest demand for methanol, will continue to increase its production capacity for expansion into a larger market as a clean energy. In summary, under the circumstance where the negative factors have led to ineffective adjustment to prices in the PRC, it is expected that the overall situation will remain an upward movement in the second half of the year.

According to the statistics of Sublime China Information, in 2019, the total production capacity of synthetic ammonia in the PRC amounted to 66.89 million tonnes, with newly acquired production capacity of 0.6 million tonnes from January to June. Total production volume of synthetic ammonia from January to June 2019 was about 25.30 million tonnes, representing a year-on-year decrease of approximately 8%. Due to the effect of the examination and inspection of domestic natural gas suppliers, environmental supervision and the de-capacity policy of the PRC government, the production volume of synthetic ammonia demonstrated a slight decline in the first half of 2019. As for downstream segments, affected by factors such as natural gas supply and environmental protection, the overall performance of ammonium phosphate and urea facilities improved as compared to that of the previous year. In the first half of the year, although the price in the synthetic ammonia market fluctuated frequently, overall it hovered at a high level and the market price experienced a W-shaped trend from January to June.

In the second half of 2019, the price fluctuation in synthetic ammonia market will still be apparent. Under the impact of production limitation and transformation for environmental protection, and restricted gas production for rotation, the supply of ammonia in the market will change frequently and will affect the price. For the main positive factors, the equipment of the downstream demand side will resume production in the short term, and the downstream projects of Inner Mongolia Qinghua (內蒙古慶華) and Chongqing Yuxiang Chemical (重慶奕翔化工) have been put into production. The overall operating rate of the downstream phosphate compound fertilizer will increase as compared to the first half of the year after October. Before the 70th anniversary of the founding of the PRC, domestic controlling measures regarding environmental pollution may be carried out intensively, and the production capacity of manufacturing enterprises will be reduced. In the fourth quarter, the restriction of gas for natural gas enterprises will lead to lower operating rate. As for the negative factors, the impact of cost on prices will be weakened and the coal market has not experienced any sharp rise and fall so far, while the supply capacity has increased. The slowdown in ammonia production was mitigated significantly, and there is still newly acquired capacity. Overall, the current market trend is still dominated by supply. Under the combined influence of the above factors, it is expected that the operation of ammonia in the second half of the year will be better than that of the first half of the year.

Strategies

In view of the macroeconomic downturn, the fluctuations in the chemical fertilizer industry and the lowered prices of natural gas supply, 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; ensure the long-term safe operation while ensuring that cost efficiency estimation is conducted before production facilities are put into operation; carry out daily monitoring, accounting, early warning, timely adjustment and optimization of production organization and operational capacity to ensure the best operational efficiency.

2. Adhere to the goal of “reduction of losses for the year”, continue to promote the implementation of various measures of “opening source while reducing expenditure, cutting costs while increasing efficiency” to reduce operating costs and cash flow expenses.
3. Our sales team seize quality core end client, explore market potential and expand the base of end client to increase local sales volume and the number of sales regions with higher pricing potential.
4. Actively seek collaborative funds to promote the approval, start-up and construction of new projects.

Appreciation

The past six months saw the fluctuation 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, develop the refined chemical industry, capitalize on market opportunities, and strive to create more value for the Company.

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 commitment and contribution. We will strive to bring more benefits and returns to our shareholders and the society.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 June 2019, the Group had net current liabilities of approximately RMB1,358,545,000. Current assets as at 30 June 2019 comprised cash and bank deposits of approximately RMB37,101,000, pledged bank deposits of approximately RMB28,839,000, inventories of approximately RMB76,771,000, trade and other receivables of approximately RMB159,242,000. Current liabilities as at 30 June 2019 comprised short-term loans of approximately RMB951,654,000, current portion of long term loans of approximately RMB199,950,000, trade and other payables of approximately RMB508,894,000.

CAPITAL COMMITMENTS

As at 30 June 2019, the Group had outstanding capital commitments of approximately RMB120,230,000.

FINANCIAL RESOURCES

As at 30 June 2019, the Group had cash and bank balances of approximately RMB37,101,000 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 79% and 78% as at 30 June 2019 and 31 December 2018 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 2019.

MATERIAL ACQUISITIONS/DISPOSALS

The Group had no material acquisitions/disposals during the six months ended 30 June 2019.

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 (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. The Subscription Agreement and the transactions, including the issue and allotment of the conversion shares upon exercise of the conversion rights attaching to the Convertible bonds under specific mandate, are subject to the approval of the independent shareholders at the extraordinary general meeting expected to be held in the second half of 2019.

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 2019.

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 2019, the Group had a total workforce of 665 (2018: 771), of which 3 (2018: 5) were responsible for management, 104 (2018: 92) for finance and administration, 546 (2018: 627) for production and 12 (2018: 47) for sales and marketing. Of these employees, 663 (2018: 769) were stationed in the PRC and 2 (2018: 2) in Hong Kong.

CHARGES ON THE GROUP'S ASSETS

As at 30 June 2019, certain land use rights and buildings with a total net book value of approximately RMB494,926,000 (2018: RMB262,471,000), plant and machinery with a total net book value of approximately RMB1,529,045,000 (2018: RMB1,856,133,000) and bank deposits of approximately RMB28,839,000 (2018: RMB16,828,000) 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 2019 were disclosed in the following table:

	Number of share options								
	Held at 1 Jan 2019 (<i>'000</i>)	Grant during period (<i>'000</i>)	Exercised during period (<i>'000</i>)	Forfeited during period (<i>'000</i>)	Held at 30 Jun 2019 (<i>'000</i>)	Shares Options A (<i>'000</i>)	Shares Options B (<i>'000</i>)	Shares Options C (<i>'000</i>)	Shares Options D (<i>'000</i>)
Directors									
Tang Guoqiang	-	-	-	-	-	-	-	-	-
Shi Jianmin	-	-	-	-	-	-	-	-	-
Zhang Weihua	-	-	-	-	-	-	-	-	-
Xu Congcai	-	-	-	-	-	-	-	-	-
Hu Xiaoping	1,200	-	-	-	1,200	-	800	400	-
Shi Lei	-	-	-	-	-	-	-	-	-
Employees	11,200	-	-	-	11,200	3,900	-	5,800	1,500
Total	<u>12,400</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,400</u>	<u>3,900</u>	<u>800</u>	<u>6,200</u>	<u>1,500</u>

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 2019, no share options were exercised.

OUTSTANDING CONVERTIBLE SECURITIES

Assuming all outstanding convertibles securities converted into shares as at 30 June 2019, 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 1,200,000,000 Shares and the outstanding convertible securities (the “Convertible Securities 3”) issued on 15 March 2019 that can convert into 1,300,000,000 Shares is as follow:

As at 30/6/2019	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)
Substantial Shareholder					
Mr. Cheng Kin Ming	800,000,000	18.61	1,001,375,000	1,801,375,000	23.09
Directors					
*Mr. Tang Guoqiang	100,000,000	2.33	2,240,137,273	2,340,137,273	29.99
Mr. Shi Jianmin	300,000	0.01	–	300,000	0.01
Public Shareholders	<u>3,397,742,599</u>	<u>79.05</u>	<u>261,162,727</u>	<u>3,658,905,326</u>	<u>46.91</u>
Total	<u>4,298,042,599</u>	<u>100.00</u>	<u>3,502,675,000</u>	<u>7,800,717,599</u>	<u>100.00</u>

* The conversion does not trigger any mandatory offer obligations under Rule 26 of the Hong Kong Code on Takeovers and Mergers (the “Takeovers Code”) on the part of Mr. Tang Guoqiang which exercised the conversion rights, namely more than 30% (or such other percentage as stated in Rule 26 of the Takeovers Code in effect from time to time) of the then issued share capital of the Company.

The diluted loss per shares for the year ended 30 June 2019 assuming all outstanding convertible securities being converted was RMB0.042 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 interim report. 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 interim report does not assume such conversion.

Based on the cash and cash equivalent as at 30 June 2019 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	31-12-2019	31-12-2020	31-12-2021	31-12-2022	31-12-2023
Share price (HK\$)	0.295	0.305	0.317	0.330	0.345

Convertible Securities 2

Date	31-12-2019	31-12-2020	31-12-2021	31-12-2022	31-12-2023
Share price (HK\$)	0.213	0.217	0.225	0.231	0.237

Convertible Securities 3

Date	31-12-2019	31-12-2020	31-12-2021	31-12-2022	31-12-2023
Share price (HK\$)	0.219	0.224	0.233	0.238	0.245

DISCLOSURE OF INTERESTS

(A) Interests of the Directors in the Company

As at 30 June 2019, 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	2,500,000,000	2,600,000,000	60.49%
Shi Jianmin	300,000	–	300,000	0.01%
Hu Xiaoping	–	1,200,000	1,200,000	0.03%

(B) Interests of the Substantial Shareholders in the Company

As at 30 June 2019, 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	18.61%

* As at 30 June 2019, 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 2019, so far as is known to any Director or chief executive of the Company, the following persons (not being a Director or a chief executive of the Company) who had an interest or short positions in the shares or underlying shares of the Company which are required to be notified to the Company and the Stock Exchange under Divisions 2 and 3 of Part XV of the SFO and recorded in the register required to be kept under section 336 of the SFO, and who were directly or indirectly deemed to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company.

Name	Capacity	Number of shares	Interests in issued share capital of the Company
Li Weiruo	Beneficial Owner	410,392,000	9.55%

Save as disclosed above, as at 30 June 2019, the Directors are not aware of any other person (other than the Directors and chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

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 2019, the Company has adopted the Model Code regarding securities transactions by directors on terms no less exacting than the required standard of dealings. Specific enquiry had been made to all directors, the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by directors.

AUDIT COMMITTEE

Audit committee was established on 10 June 2003 with written terms of reference in compliance with the Code on Corporate Governance Practices (the "Code"). The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Company and the Group and provide advice and comments to the Directors. As at the date of this interim report, the audit committee has three members comprising the three independent non-executive Directors, namely, Mr. Hu Xiaoping, Mr. 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 2019.

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

Chengdu, PRC, 30 August 2019

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..