



**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

**2023»**



Unaudited loss attributable to shareholders of the Group was approximately RMB102.8 million for the six months ended 30 June 2023, which represented a decrease of profit of RMB329.2 million as compared to that of the same period last year.

For the six months ended 30 June 2023, the Group's unaudited net cash inflow from operating activities before working capital changes, profit tax and interest payment was approximately RMB16.8 million, representing a decrease of RMB516.0 million as compared to that of RMB532.8 million in the corresponding period last year.

For the six months ended 30 June 2023, the Group's unaudited turnover was approximately RMB1,403 million, which represents a decrease of approximately 16.0% as compared to the same period last year. The decrease in turnover was mainly due to the decrease in selling price of products. The total sales volume (excluding the trading portion) of the Group reached approximately 521,359 tonnes, representing a decrease of 8.0% as compared with that of the same period last year.

Unaudited basic loss per share of the Group was approximately RMB1.71 cents for the six months ended 30 June 2023.

The Directors do not recommend to pay any interim dividend for the six months ended 30 June 2023.

## 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 2023 together with the unaudited comparative figures for the corresponding periods in 2022 are as follows:

### Unaudited Condensed Consolidated Profit and Loss Account

For the six months ended 30 June 2023 and 30 June 2022

	Notes	Six months ended 30 June	
		2023 RMB'000	2022 RMB'000
Turnover	3	<b>1,403,423</b>	1,670,741
Cost of sales		<b>(1,279,941)</b>	(1,155,069)
Gross profit		<b>123,482</b>	515,672
Interest income		<b>338</b>	982
Distribution costs		<b>(21,209)</b>	(23,433)
Administrative expenses		<b>(96,224)</b>	(99,236)
Other income/(expenses) — net		<b>10,261</b>	(2,653)
Operating profit		<b>16,648</b>	391,332
Finance costs		<b>(114,468)</b>	(77,675)
Loss/profit before taxation	4	<b>(97,820)</b>	313,657
Taxation	5	<b>(5,397)</b>	(87,225)
Loss/profit for the period		<b>(103,217)</b>	226,432
Attributable to:			
Equity holders of the Company		<b>(102,831)</b>	226,438
Non-controlling interests		<b>(386)</b>	(6)
		<b>(103,217)</b>	226,432
Basic (loss)/earnings per share (RMB cents)	6	<b>(1.71)</b>	3.96
Diluted (loss)/earnings per share (RMB cents)	6	<b>(1.71)</b>	1.79
Declared dividends per share (HK cents)	7	<b>Nil</b>	Nil

# Condensed Consolidated Balance Sheet

As at 30 June 2023 and 31 December 2022

		(Unaudited) As at 30 June 2023 RMB'000	(Audited) As at 31 December 2022 RMB'000
	Notes		
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment		3,489,726	3,254,943
Investment properties		10,571	10,571
Right-of-use assets		246,571	251,796
Mining right		334,306	334,306
Other intangible assets		73,596	73,596
Prepayments		869,935	869,935
Deferred income tax assets	11	23,009	15,791
		<b>5,047,714</b>	4,810,938
<b>Current assets</b>			
Inventories		181,260	241,330
Trade and other receivables	8	234,295	177,482
Restricted bank balances		1,826	864
Pledged bank deposits		6,100	390,850
Cash and cash equivalents		270,297	224,058
		<b>693,778</b>	1,034,584
<b>Total assets</b>		<b>5,741,492</b>	5,845,522
<b>EQUITY</b>			
<b>Equity attributable to owners of the Company</b>			
Share capital		520,569	520,569
Reserves		435,639	538,470
		<b>956,208</b>	1,059,039
<b>Non-controlling interests</b>		<b>701</b>	1,087
<b>Total equity</b>		<b>956,909</b>	1,060,126

**Condensed Consolidated Balance Sheet** (Continued)

As at 30 June 2023 and 31 December 2022

	Notes	(Unaudited) As at 30 June 2023 RMB'000	(Audited) As at 31 December 2022 RMB'000
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	10	500,409	494,908
Convertible bonds		761,199	810,623
Deferred income tax liabilities	11	115,743	115,743
Trade and other payables	9	–	6,080
Lease liabilities		2,901	4,889
		<b>1,380,252</b>	1,432,243
<b>Current liabilities</b>			
Trade and other payables	9	1,003,819	737,708
Contract liabilities		135,533	119,831
Due to a related company		666,014	660,863
Provision for tax		19,599	9,423
Borrowings	10	1,465,525	1,822,377
Lease liabilities		2,869	2,951
Convertible bonds		110,972	–
		<b>3,404,331</b>	3,353,153
<b>Total liabilities</b>		<b>4,784,583</b>	4,785,396
<b>Total equity and liabilities</b>		<b>5,741,492</b>	5,845,522
<b>Net current liabilities</b>		<b>(2,710,553)</b>	(2,318,569)
<b>Total assets less current liabilities</b>		<b>2,337,161</b>	2,492,369

# Unaudited Condensed Consolidated Cash Flow Statement

As at 30 June 2023 and 31 December 2022

	Six months ended 30 June	
	2023 RMB'000	2022 RMB'000
Net cash generated from operating activities	<b>266,458</b>	659,678
Interest paid	<b>(35,217)</b>	(90,406)
Net cash inflow from operating activities	<b>231,241</b>	569,272
Investing activities		
Purchases of fixed assets and payments for construction-in-progress	<b>(311,686)</b>	(360,723)
Proceeds from disposal of fixed assets	<b>2,363</b>	467
Interest received	<b>338</b>	982
Net cash outflow from investing activities	<b>(308,985)</b>	(359,274)
Net cash outflow/inflow before financing activities	<b>(77,744)</b>	209,998
Financing activities		
Issue of new shares	–	3,691
Decrease in pledged and restricted bank deposits	<b>383,788</b>	–
Proceeds from borrowings	<b>343,120</b>	99,349
Repayment of borrowings	<b>(602,925)</b>	(154,671)
Net cash inflow/outflow from financing activities	<b>123,983</b>	(51,631)
Increase in cash and cash equivalents	<b>46,239</b>	158,367
Cash and cash equivalents at 1 January	<b>224,058</b>	413,259
Cash and cash equivalents at 30 June	<b>270,297</b>	571,626

# Unaudited Consolidated Statement of Changes In Equity

For the six months ended 30 June 2023 and 30 June 2022

	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 2022 (audited)	491,449	1,528,776	(22,041)	837,223	45,273	1,131	(2,056,231)	(3,509)	1,517	823,588
Issue of new shares	3,416	275	-	-	-	-	-	-	-	3,691
Net gain for the 6 Months ended 30 June 2022	-	-	-	-	-	-	226,438	-	(6)	226,432
At 30 June 2022	494,865	1,529,051	(22,041)	837,223	45,273	1,131	(1,829,793)	(3,509)	1,511	1,053,711
At 1 January 2023 (audited)	520,569	1,548,019	(22,041)	824,265	45,273	1,131	(1,854,668)	(3,509)	1,087	1,060,126
Net loss for the 6 Months ended 30 June 2023	-	-	-	-	-	-	(102,831)	-	(386)	(103,217)
At 30 June 2023	520,569	1,548,019	(22,041)	824,265	45,273	1,131	(1,957,499)	(3,509)	701	956,909

# 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 2022. The measurement basis used in the preparation of the unaudited interim financial statements is historical cost, except for certain investment properties and financial investments, which are measured at fair values. All inter-company transactions and balances within the Group have been eliminated on consolidation.

The Group had net current liabilities of RMB2,710,553,000 as at 30 June 2023. 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 2023 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 2023 (unaudited)		Six months ended 30 June 2022 (unaudited)	
	RMB'000	%	RMB'000	%
Urea	488,642	34.8	518,269	31.0
Ammonia	368,300	26.2	675,014	40.4
Methanol	390,831	27.9	468,156	28.0
Others (Note)	155,650	11.1	9,302	0.6
	<b>1,403,423</b>	<b>100</b>	1,670,741	100

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

## Notes of Financial Statements (Continued)

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

	Six months ended 30 June	
	2023 RMB'000	2022 RMB'000
Loss/gain before tax	(97,820)	313,657
Depreciation of property, plant and equipment	73,590	102,864
Depreciation of right-of-use assets	5,225	1,525
Interest income	(338)	(982)
Interest expense	35,217	90,406
Loss on disposal of fixed assets	951	25,281
Operation cash flow before working capital change	16,825	532,751
(Increase)/decrease in inventories	60,070	(10,258)
(Increase)/decrease in trade and other receivables	(56,813)	252,459
Increase/(decrease) in trade and other payables	230,920	(28,049)
Increase/(decrease) in contract liabilities	15,702	–
Increase/(decrease) in advance from a related company	5,151	–
Cash generated from operating activities	271,855	746,903
Income tax	(5,397)	(87,225)
Net cash generated from operating activities after tax	266,458	659,678

## 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 2023.

The applicable income tax rate of all subsidiaries located in Mainland China in 2023 is 25%.

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

	<b>Six months ended 30 June</b>	
	<b>2023</b>	2022
	<b>RMB'000</b>	RMB'000
PRC Corporate Income Tax in Mainland China	<b>12,615</b>	86,147
Deferred income tax (Note 11)	<b>(7,218)</b>	1,078
	<b>5,397</b>	87,225

## 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 2023 and 2022 were based on:

	Six months ended 30 June	
	2023 RMB'000	2022 RMB'000
<b>Loss/profit</b>		
Loss/profit for the period	<b>(102,831)</b>	226,438
Finance cost saving on conversion of convertible bonds outstanding	—	62,138
Loss/profit for calculation diluted earnings per share	<b>(102,831)</b>	288,576
<b>Number of shares</b>	<b>'000</b>	<b>'000</b>
Weighted average number of shares for calculation of basic earnings per share	<b>6,028,043</b>	5,721,413
Effect of dilutive potential shares on outstanding share options and convertible bonds	—	10,442,062
Weighted average number of shares for calculation of diluted earnings per share	<b>6,028,043</b>	16,163,475

## Notes of Financial Statements (Continued)

### 7. Dividend

The Board does not recommend the payment of any dividend for the six months ended 2023.

### 8. Trade and Other Receivables

	<b>(Unaudited)</b>	(Audited)
	<b>As at</b>	As at
	<b>30 June</b>	31 December
	<b>2023</b>	2022
	<b>RMB'000</b>	RMB'000
Trade receivables	<b>7,095</b>	9,280
Prepayments, purchase deposits and other deposits	<b>111,451</b>	97,389
Notes receivable	<b>2,274</b>	6,780
Other receivables	<b>113,475</b>	64,033
	<b>234,295</b>	177,482

## Notes of Financial Statements (Continued)

**8. Trade and Other Receivables** (Continued)

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

	<b>(Unaudited)</b>	(Audited)
	<b>As at</b>	As at
	<b>30 June</b>	31 December
	<b>2023</b>	2022
	<b>RMB'000</b>	RMB'000
Aged:		
Less than 3 months	<b>7,095</b>	9,280
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	—	—
	<b>7,095</b>	9,280
Less: provision for doubtful receivables	—	—
	<b>7,095</b>	9,280

## Notes of Financial Statements (Continued)

### 9. Trade and Other Payables

	<b>(Unaudited)</b> <b>As at</b> <b>30 June</b> <b>2023</b> <b>RMB'000</b>	(Audited) As at 31 December 2022 RMB'000
Trade payables	<b>101,314</b>	39,912
Construction payable	<b>449,754</b>	434,180
Accruals and other payables	<b>452,751</b>	263,616
	<b>1,003,819</b>	737,708

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

	<b>(Unaudited)</b> <b>As at</b> <b>30 June</b> <b>2023</b> <b>RMB'000</b>	(Audited) As at 31 December 2022 RMB'000
Aged:		
Less than 1 year	<b>101,314</b>	39,912
More than 1 year but not exceeding 2 years	–	–
More than 2 years but not exceeding 3 years	–	–
More than 3 years	–	–
	<b>101,314</b>	39,912

## Notes of Financial Statements (Continued)

## 10. Borrowings

	<b>(Unaudited)</b> <b>As at</b> <b>30 June</b> <b>2023</b> <b>RMB'000</b>	(Audited) As at 31 December 2022 RMB'000
Borrowings are repayable as follows:		
Less than 1 year	<b>1,465,525</b>	1,822,377
Between 1 and 2 years	<b>134,536</b>	99,683
Between 2 and 5 years	<b>365,873</b>	395,225
Over 5 years	–	–
Total borrowings	<b>1,965,934</b>	2,317,285
Settlement within 1 year included in current liabilities	<b>(1,465,525)</b>	(1,822,377)
Settlement after 1 year included in non-current liabilities	<b>500,409</b>	494,908

As at 30 June 2023, 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 3.3% to 8.70% (2022: 3.70% 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 2022 and in six months period ended 2023.

Deferred income tax assets:

	<b>Loss available for offsetting future taxable profits</b>
	RMB'000
At 31 December 2022	15,791
Credit to income statement	7,218
At 30 June 2023	<b>23,009</b>

Deferred income tax liabilities:

	<b>Evaluation and exploration assets</b>
	RMB'000
At 31 December 2022	(115,743)
At 30 June 2023	<b>(115,743)</b>

## Management Discussion and Analysis

### Financial Performance

For the six months ended 30 June 2023, the Group recorded a turnover of approximately RMB1,403 million, representing a decrease of approximately 16% as compared with approximately RMB1,671 million for the corresponding period last year. The decrease in turnover was mainly due to the decrease in selling price of products. Loss attributable to shareholders was approximately RMB102.8 million (2022: first half year gain of approximately RMB226.4 million), representing a decrease in gain of approximately RMB329.2 million as compared with the corresponding period last year. Basic loss per share was approximately RMB1.71 cents (2022: first half year basic gain per share of approximately RMB3.96 cents).

During the period under review, the total sales volume (excluding the trading portion) of the Group reached approximately 521,359 tonnes (2022: 566,496 tonnes), representing a decrease of 8.0% 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 30.9% to 8.8% 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 RMB1,280 million, representing an increase of approximately 10.8% as compared with the corresponding period last year mainly due to the increase in natural gas price. Distribution costs decreased by approximately 9.5% due to the decrease in sales volume. The administrative expenses decreased by approximately 3.0% as compared with the corresponding period last year, due to the strict control in cost. The increase in net other income of approximately RMB12.9 million as compared with the net other expenses in corresponding period last year was mainly due to the fact that there was no significant loss in disposal of assets in this period.

## Management Discussion and Analysis (Continued)

### Business Review

During the period under review, the Group and its subsidiaries operated proactively and steadily under the business objective of “focusing on efficiency and changing management mode”. The incentive policies implemented in early stage have shown a conspicuous effect by continuous optimisation and adjustment in the course of operation. Across the Group, we work with cohesion and in unison, resulting in a significant increase in team dynamics and remarkable improvement in economic efficiency. In particular, the sales model continued to be adjusted, the customer structure was significantly optimised, and the proportion of direct sales customers increased significantly; The Company’s anti-risk capability continued to improve as a result of continuous technological transformation, safe and stable operation of equipment, and reduction in production consumption; New projects have been completed and successfully commissioned, extending the industrial chain and enhancing the Company’s comprehensive strength; Standardization work, such as technical standardization, management standardization, work standardization, inspection standardization, etc., was deeply rooted in our staff’s minds and continued to strengthen the management foundation and enhance the Group’s core competitiveness.

Overall, in the first half of 2023, safety, environmental protection, production, consumption and cost control were all better than those at an all-time best level in 2022. In the first half of 2023, the supply of natural gas was very tight and the price of natural gas rose sharply, while the product market sentiment oscillated downward and then remained at a relatively low level. Under the impact of the severe external environment mentioned above, the Group made concerted efforts internally to stabilise the overall operation. However, the operating conditions were lower than expected.

## Management Discussion and Analysis (Continued)

### Guang'an Ko Yo Plant

Due to the influence of natural gas supply in the heating season, the alcohol-ammonia co-production unit and KAM unit of Guang'an Ko Yo Plant did not resume production until 17 January, and the production volume and energy consumption both recorded new high as compared to those at the best level in history in 2022. In the first half of the year, due to the supply of natural gas, Guang'an Ko Yo Plant has been maintaining a relatively low load production. During the period, given the monthly supply of natural gas and product market prices, Guang'an Ko Yo Plant made additional contributions for the Company's profitability by producing more high-profit value-added products through process adjustment.

The carbon monoxide project, which commenced construction in the second half of 2022, achieved a successful commissioning on 13 May 2023, producing qualified products. During the period, with their joint efforts, the Group companies and Guang'an Ko Yo Plant were able to overcome challenges, such as tight construction cycle, requirements for high quality work, the impact of the ease of epidemic-related policies, to ensure that the carbon monoxide project was completed on time and commissioned successfully, making a significant contribution for the Group to expand and strengthen the industrial chain in the future.

### Guang'an Ko Yo Electronic Material Plant

The 100,000 tons/year DMF (N,N-dimethylformamide) and 100,000 tons/year NMP (N-methylpyrrolidone) project commenced construction in the second half of 2022, which achieved a successful commissioning on 22 May 2023, producing qualified products. Upon commissioning of the project, it is expected to generate annual sales of RMB3.0 billion.

## Management Discussion and Analysis (Continued)

### Dazhou Ko Yo Plant

Dazhou Ko Yo Plant achieved “production before the year, overhaul after the year” production organisation mode this year for the first time. Subject to the basic guaranteed supply of the natural gas and taking into account the market condition forecast, it twice postponed the overhaul schedule to make significant contributions for the Group’s economic efficiency. After the year-end overhaul, the synthetic ammonia unit and the urea unit have resumed production since 21 March and 1 April, respectively, reaching new high in both production volume and energy consumption as compared to those at the best level in history in 2022. During the period, with the PetroChina and Sinopec dual gas sources, it successfully avoided a natural gas supply interruption due to external risks of forced shutdowns, to ensure safe, stable and sustainable operation, making significant contributions for the Group’s economic efficiency.

### Jiangsu Bluestar Plant

Jiangsu Bluestar Green Technology Co., Ltd. (a 400,000 tons/year propylene oxide project) was acquired in September 2022. At present, the main construction of the project is basically completed and has entered into the debugging and testing stage, and it is expected that it can enter the trial production stage in the third quarter of 2023. Upon commissioning of the project, it is expected to generate annual sales of approximately RMB4.0 billion.

## Industry Overview and Outlook

### N-methylpyrrolidone (NMP)

#### *1. Industry Overview for the first half of 2023*

NMP market prices were mixed in the first half of 2023, but the overall trend was downward. In respect of supply, there was no new NMP synthesis capacity in the first half of the year. Shandong Changxin, Henan Maiqi, Binzhou Yuneng, Chongqing Zhongrun and other manufacturers resumed production with relative stability. Nevertheless, the overall rate of operation was less than that in the second half of 2022. In respect of demand, affected by the global economic downturn, the new energy vehicle industry growth rate was less than expected. Coupled with a significantly high level of inventory of the power battery industry in the fourth quarter of 2022, this resulted in the reduction of the power battery on the demand for NMP in the first half of the year. Trading was inactive and the focus of the negotiations shifted to the low-end market. The overall price of BDO

## Management Discussion and Analysis (Continued)

at the raw material showed a trend of rising and then falling before stabilizing, affecting the price of NMP to a greater extent.

### II. Outlook for the second half of 2023

In respect of supply, in the second half of the year, the NMP market will experience a period for the concentrated release of new synthetic capacity. The new capacity of NMP synthetic new liquid in the second half of year is expected to be 400,000–500,000 tons, nearly double that in the first half of the year, indicating that the pressure on supply is obvious; In respect of demand, power battery growth will slow down, the energy storage market will begin to pick up in the second quarter, but with the gradual increase in NMP recycling capacity, the demand growth will be limited; In respect of costs, there will be still some new production plans for BDO in the second half of the year. Raw material BDO market prices can hardly be optimistic. In the second half of the year, the prices may rebound at certain stage, but will decline in general as the main trend; Synthetic NMP market prices are expected to remain weak in the second half of 2023.

## Dimethylformamide (DMF)

### I. Industry Overview for the first half of 2023

About 300,000 tons of new capacity of DMF was achieved in the first half of 2023. As of the end of June 2023, the total domestic capacity of DMF was 1.27 million tons, an increase of 30% from the beginning of the year. Monthly rate of operation remained between 50% and 65%, slightly lower than that in the first half of 2022. With new capacity, the industry's capacity utilization rate was on a downward trend, dropping from around 62% at the beginning of the year to 52% in June. With stressful supply and weak demand in the first half of the year, the contradiction between supply and demand in the PU pulp synthetic leather industry, the core downstream of DMF, continued due to sluggish demand in overseas markets and significant decline in export, and most of downstream enterprises purchasing for rigid demand. Meanwhile, as the new price of the raw methanol and liquid ammonia in the first half of the year reached the new record low in the last two years, resulting in the weak cost support, the overall domestic market of DMF showed an oscillating downward trend in the first half of 2023.

## Management Discussion and Analysis (Continued)

### **II. Outlook for the second half of 2023**

In the second half of the year, supply continued to experience pressure as new capacity was realised; In respect of demand, the main downstream pulp market may maintain prudent and stable operation as the core. Demand for DMF for the time being will make no significant improvement. As the terminal market will gradually enter the traditional peak season in the third quarter, market demand may have a periodic improvement, but it is generally believed in the market that the market demand will decline as compared with 2022. In respect of raw material, in the second half of the year, as the methanol and liquid ammonia prices may have a fragile supply and demand structure with price pressure, resulting in the weak cost support, superimposed on the expected stock up of inventory, the DMF market may continue to be in a weak sentiment and oscillate in the second half of 2023.

## **Propylene oxide (PO)**

### **I. Industry Overview for the first half of 2023**

In the first half of 2023, the domestic PO market experienced an upward and then a downward. From January to early March, with the delayed restart of the maintenance equipment and the new capacity but a low load, resulting in a contraction of supply, coupled with the downstream resumption of work to make procurement and replenishment, prices continued to rise. From the mid to the end of March to the end of June, the maintenance device restarted, and in respect of the downstream, due to the gradual increase in temperature across China, the PO industry entered the traditional off-season with shrinking market demand and obvious contradiction between supply and demand. As the inventory of the factories was gradually stocked up, factories reduced the price to facilitate ordering as the main tone, thereby decreasing the market price.

### **II. Outlook for the second half of 2023**

In the second half of 2023, with the release of new capacity, supply will be under pressure. For demand, from June to early August, the PO industry will enter its off-season, with low market demand. From late August to October, driven by the peak consumption season of golden September and silver October, the main terminal sponge factory will gradually improve its rate of operation, and the demand for alcohol ether will rise. However, from November to December,

## Management Discussion and Analysis (Continued)

market demand is expected to return to normal. In respect of raw material cost, prices of propylene and liquid chlorine in the second half of the year as a whole will maintain weak oscillation with a relatively weak cost support. Overall, in the second half of the year, the PO market may show a trend of decline followed by increase and then weakening.

### Methanol

#### ***I. Industry Overview for the first half of 2023***

The methanol market in the first half of 2023 was characterized by prominent supply-demand contradiction, with the overall market showing a sharp downward trend. From January to June, methanol production volume amounted to 35,210,100 tons, a year-on-year decrease of 0.63%. In respect of operation, the average monthly rate of operation was 70.74% in the first half of the year, a year-on-year decrease of 3.9%; In respect of import, 6.406 million tons of methanol were imported in the first half of the year, a year-on-year increase of 6.64%, and the overall supply was under pressure. In respect of demand, downstream consumption was around 33.672 million tons in the first half of 2023, a year-on-year decrease of 2.72%. Consumption of methanol-to-olefin of the main downstream decreased by 9.32% year-on-year to approximately 19.98 million tons, while consumption of dimethyl ether decreased by 26.05% year-on-year to 852,000 tons, showing a contraction of overall downstream demand. In respect of port inventories, with gradual recovery of overseas supply, the port growth is expected to be significant. From the perspective of macro condition that the "bankruptcy" of U.S. Silicon Valley Bank triggered the outbreak of systemic risk in the overseas banking industry, this resulted in weak demand in Europe and the U.S., as well as the decline in prices of raw coal, leading to the methanol prices falling below 2,000 yuan/ton in the first half of the year, creating a new low in the last two years.

#### ***II. Outlook for the second half of 2023***

In the third quarter, the global crude oil market will enter the traditionally high season of consumption, and the market is still generally optimistic about China's crude oil demand, which is favourable to the crude oil market. In respect of raw materials, with the power plant entering the summer peak in the third quarter and heating in North China in the fourth quarter, coal prices have some support;

## Management Discussion and Analysis (Continued)

In respect of supply, as the price of methanol from leading gas enterprises fell below cost in the first half of the year, upstream plants were forced to suspend operation. With the convening of the Chengdu Games, no change in gas prices and no significant growth in downstream demand, the supply from leading gas enterprises is expected to shrink, but leading coal enterprises are still maintaining a relatively stable rate of operation, and the overall supply in the market in the second half of the year will remain adequate; In respect of import, domestic methanol is expected to have a higher probability of growth in imports in the face of high rate of operation overseas; In respect of demand, from July to August, despite the traditional downstream off-season, with the impact of the port typhoon, which is favourable to the port market, it is expected that methanol prices may rise by stages; From September to December, driven by the gradual recovery of downstream demand and the peak consumption season of golden September and silver October, the demand for methanol in the second half of the year will be more likely to be weak and then strong.

In conclusion, in the second half of 2023, although the methanol market is supported by coal prices, the methanol price may be stronger than that in the first half of the year against the backdrop of the macro environment, weak supply and demand structure, etc., but the room for upward is limited.

### Synthetic Ammonia

#### ***I. Industry Overview for the first half of 2023***

1.80 million tons of new domestic capacity of synthetic ammonia was achieved in the first half of 2023, a year-on-year increase of 38.46%; Total production of synthetic ammonia in the first half of the year was 26.6335 million tons, a year-on-year increase of 3.97%; Rate of operation for synthetic ammonia in the first half of the year was 70.2%, a year-on-year increase of 7.97%; 1.80 million tons of new capacity of synthetic ammonia was achieved in the first half of 2023, a year-on-year increase of 38.46%; In respect of import, China's total imports of synthetic ammonia in the first half of the year amounted to approximately 396,400 tons, representing a year-on-year increase of 172.86%. Since March, with the stepwise decreasing downstream agricultural demand despite the peak

## Management Discussion and Analysis (Continued)

season, agricultural sales should be conducted in the market after careful consideration and downstream end-customers continued to reduce the price. In addition, the decline in crude oil prices, which resulted in unfavourable information for urea futures, continued to draw negative impact to the cash market. In light of the rising rate of operation for synthetic ammonia in the domestic market, accumulative inventory, significant increase of imports, the continuously weak demand from downstream and decline of prices of raw material and coal and many other negative circumstances, traders were unwilling to stock up goods, the end customer made procurement in a more and more cautious manner and the concern of transactions was focused on the cost. The market as a whole showed a situation that supply exceeds demand, and the ammonia price oscillated downward in a wide range. The average domestic price of it in the first half of the year was RMB3,454 per ton, a year-on-year decrease of 20.47%.

### **II. Outlook for the second half of 2023**

In respect of supply, China's synthetic ammonia production capacity will increase by approximately 6.58 million tons in the second half of 2023, and the supply side is expected to be under pressure. Nevertheless, with the arrival of the peak consumption season of golden September and silver October, and against the backdrop of storing raw coal in the winter and overhaul of leading gas enterprises, superimposed on the rising demand for the northern corn, wheat and other large crops, rate of operation for phosphorus compound fertilizer gradually increased, and industrial demand is expected to warm up. Overseas demand for urea continued to pick up and the market condition is expected to improve, which is limited, however, by the growth of the supply.

In summary, in the second half of 2023, given the weak macro-economy, release of new capacity, restrictions of domestic environmental policy, cost increase and other factors, the ammonia market may experience a decline followed by a rise.

## Management Discussion and Analysis (Continued)

### Urea

#### ***I. Industry Overview for the first half of 2023***

In the first half of 2023, the overall urea market showed an upward and then downward trend. The total production of urea in the first half of 2023 was approximately 24,944,900 tons, representing a year-on-year increase of 2.16%. In the first quarter, agricultural sales channels were gradually replenished and industrial demand rebounded. Besides, manufacturers maintained a low level of inventory. Under the influence of the spring ploughing season, traders actively enter the market with active transaction. The focus of the transaction gradually shifted to a point close to the high point of 2,750 yuan/ton; in the second quarter, as the fertilizer preparation for southern rice gradually weakened, industrial compound fertilizer and plywood demand was difficult to improve. In light of the high supply, high inventory, futures downturn and overseas market of urea weakening, superimposed on the sluggish macroeconomic environment, the demand for raw coal was gradually impaired, which triggered the panic in the domestic market, the bottoming out of prices, and the focus of the market trading continuing to decline.

#### ***II. Outlook for the second half of 2023***

In the second half of the year, there will be 5.53 million tons of new capacity of urea, and daily production is expected to remain high with abundant supply. The demand may be presented a trend from weak to strong. In terms of the agricultural side, demand in fall in the third quarter will be popular, and as for the fourth quarter, the downstream demand for urea is mainly embodied in the winter reserves. In terms of the industrial side, the real estate industry has always insisted on "housing without speculation" policy, resulting in the fact that plywood demand is difficult to improve; In respect of export, the increase in overseas urea prices was favourable to the domestic spot market as a result of high natural gas prices as well as India's tenders. As for raw materials, in the second half of the year, with the arrival of winter, coal and natural gas prices will provide some support for the market due to winter heating reserves.

## Management Discussion and Analysis (Continued)

To summarize, in the second half of 2023, due to the release of new capacity, the supply side is expected to be under pressure, but driven by the gradually rebound of downstream demand, environmental policy restrictions and the winter overhaul of the leading gas enterprises, as well as export relaxation, superimposed on the increase in the price of raw coal for winter reserve and other favourable factors, the overall market may experience a downward followed by an upward.

### Strategies

In the first half of 2023, affected by the domestic and international environment, the fertiliser and chemical industries experienced drastic fluctuations, showing an overall oscillating downward and increasing the difficulties in product shipments and the long-term high-level operation of storage tanks. Facing many dilemmas, the Group mainly focused on internal reforms and innovations: on the one hand, through our technological transformation, to reduce the production and operation costs, especially minimising the loss from unplanned shutdown to the lowest level; on the other hand, through our continuous adjustment of the sales model, to increase the proportion of direct sales customers; to control the sales plans, and seize opportunities in market fluctuations, thus increasing revenue of the Company. In the second half of 2023, we will seize the real-time dynamics of changes in the fertiliser and chemical industries and adopt the following strategies and measures for the Company to emerge completely from difficulties and keep itself on a right track.

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

## Management Discussion and Analysis (Continued)

- II. It will continue to promote special improvement, and seek for and promote the implementation of various measures of “increasing revenue while reducing expenditure, cutting costs while increasing efficiency” to reduce operating costs and waste;
- III. It will continue to promote measures such as performance appraisal, compensation reform, special rewards and skill assessment, gather together all the staff in the Group to exercise unified leadership, and inspire the creativity and execution of the team, in a bid to achieve good operation results;
- IV. The Company will strengthen the training of the workforce to improve the technical level and management capabilities of all staff;
- V. The Company will promote sales model optimization, increase the proportion of direct sales to customers, and increase the size of sales to local customers. At the same time, the Company will optimise the rhythm of signing contracts, establish an internal sales competition mechanism, and maximize sales benefits;
- VI. The Company will do a good job in preparing for the annual overhaul of the device, reduce the number of unplanned shutdown during the year, increase production and reduce consumption; under the premise that the supply of natural gas is gradually eased, the Company will explore the feasibility of repairing the device from once a year to every two years;
- VII. The Company will promote the reform of spare parts inventory, gradually reduce the amount of inventory funds occupied, promote the brand construction of core spare parts, improve the safety and reliability of the device, and at the same time establish safety inventory and inventory management methods to improve the safety factor and reduce costs;

## Management Discussion and Analysis (Continued)

- VIII. The Company will gradually reduce the proportion of exclusive suppliers to solve industry-specific problems, thereby reducing procurement costs and improving procurement quality;
- IX. The Company will promote the reform of the authorization system to improve the decision-making efficiency of subsidiaries;
- X. The Company will promote the approval, start and construction of new projects, revitalize existing assets, gradually realize the upgrading of products, transform from pure basic chemical industry to vigorously develop fine chemical industry based on basic chemical industry, and enhance the competitiveness of the Group;
- XI. The Company will promote the trial production and gradual optimization of the DMF & NMP project and the PO project, as well as the establishment of business teams in the supply chain and sales, so as to form a new point of growth for the Group in terms of sales and profits;
- XII. The Company will promote standardization, such as technical standardization, management standardization, work standardization, inspection standardization, etc., and continuously consolidating the management foundation in order to safeguard the Group's stable operation.

### Acknowledgement

Looking back on the half of the past year, there have been certain fluctuations in the chemical fertilizer and chemical industries. Under the leadership of the Board of Directors and management, all employees are united, adhere to market-oriented production and operation activities, follow up market conditions in a timely manner, and make real-time calculations to ensure the best operating efficiency of the device and realize the long-term stable operation of the device. In the second half of 2023, in accordance with the decisions and strategies of the Board of Directors, under the leadership of the management, we will stabilize the basic chemical business, develop new projects, and seize market opportunities.

## Management Discussion and Analysis (Continued)

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

**Tang Guoqiang**

*Chairman*

28 August 2023

## Liquidity, Financial Resources and Capital Structure

As at 30 June 2023, the Group had net current liabilities of approximately RMB2,710,553,000. Current assets as at 30 June 2023 comprised cash and bank deposits of approximately RMB270,297,000, restricted and pledged bank deposits of approximately RMB7,926,000, inventories of approximately RMB181,260,000, trade and other receivables of approximately RMB234,295,000. Current liabilities as at 30 June 2022 comprised borrowings of approximately RMB1,465,525,000, convertible bonds of approximately RMB110,972,000, amount due to a related company of approximately RMB666,014,000, trade and other payables and other current liabilities of approximately RMB1,161,820,000.

## Capital Commitments

As at 30 June 2023, the Group had outstanding capital commitments of approximately RMB2,020,734,000.

## Financial Resources

As at 30 June 2023, the Group had cash and bank balances of approximately RMB270,297,000 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 73% and 70% as at 30 June 2023 and 31 December 2022 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 2023.

## Material Acquisitions/Disposals

The Group had no material acquisitions/disposals during the six months ended 30 June 2023.

## 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 2023.

## Details of Future Plans for Material Investment or Capital Assets

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

## Employee Information

As at 30 June 2023, the Group had a total workforce of 823 (2022: 700), of which 3 (2022: 3) were responsible for management, 128 (2022: 107) for finance and administration, 673 (2022: 573) for production and 19 (2022: 17) for sales and marketing and research and development. Of these employees, 821 (2022: 698) were stationed in the PRC and 2 (2022: 2) in Hong Kong.



## Charges on the Group's Assets

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

	As at 30 June	
	2023 (‘000)	2022 (‘000)
Land use rights and buildings	410,239	454,062
Equipment and machinery	909,198	879,509
Mining right	334,306	334,306
Bank deposit	6,100	–

## Foreign Exchange Exposure

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

## Share Option Scheme

The share option schemes (the “Share Option Schemes”) adopted on 18 September 2008 and 9 October 2020. The details of the Share Option Schemes can be found in the circular of the Company dated 29 August 2008 and 18 September 2020.

Details of options granted by the Company pursuant to the Share Option Scheme and options outstanding as at 30 June 2023 were disclosed in the following table:

	Number of share options								
	Held at	Grant	Exercised	Forfeited/	Held at	Shares	Shares	Shares	Shares
	1 Jan	during	during	Lapsed/	30 Jun	Options	Options	Options	Options
	2023	period	period	period	2023	A	B	C	D
(’000)	(’000)	(’000)	(’000)	(’000)	(’000)	(’000)	(’000)	(’000)	
<b>Directors</b>									
Tang Guoqiang	-	-	-	-	-	-	-	-	-
Shi Jianmin	300,000	-	-	-	300,000	-	-	300,000	-
Zhang Weihua	-	-	-	-	-	-	-	-	-
Xu Congcai	-	-	-	-	-	-	-	-	-
Le Yiren	-	-	-	-	-	-	-	-	-
Lu Yi	-	-	-	-	-	-	-	-	-
*Hu Xiaoping	400	-	-	(400)	-	-	-	-	-
<b>Employees</b>	82,612	-	-	(3,800)	78,812	-	1,500	-	77,312
<b>Total</b>	383,012	-	-	(4,200)	378,812	-	1,500	300,000	77,312

Share Options A: Granted on 28 March 2013, exercisable from grant date until 27 March 2023 with exercise price HK\$0.595 and 4,200,000 Share Options A were expired on 27 March 2023.

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

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

Share Options D: 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.

Mr. Hu Xiaoping had been resigned as Director on 31 December 2022.

The share options scheme adopted on 18 September 2008 had been expired on 17 September 2018. As at 30 June 2023, the Company had 171,492,259 share options not yet issued under the share option scheme adopted on 23 October 2020, which represented approximately 2.84% of the Company's shares as at 30 June 2023. The remaining life of the share option scheme adopted on 23 October 2020 was about 7.3 years as at 30 June 2023.

## 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 2023 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	Indifference Share Price (HK\$) as at			Ability to redeem
			31/12/2023	31/12/2024	31/12/2025	
1. 12/11/2024	0.320	1,002,675,000	0.318	–	–	No
2. 30/01/2024	0.108	320,000,000	0.182	–	–	Yes
3. 14/03/2024	0.108	950,000,000	0.175	–	–	Yes
4. 29/11/2026	0.108	7,700,000,000	0.139	0.146	0.154	No
		Total	9,972,675,000			

Assuming all outstanding convertibles securities converted into shares of the Company (the “Shares”) as at 30 June 2023, the shareholding structure of the Company before and after such conversion for all the outstanding convertible securities is as follow:

<b>As at 30/6/2023</b>	<b>No. of Shares before the conversion of outstanding convertible securities</b>	<b>% of holdings (approx)</b>	<b>No. of Shares from conversion of outstanding convertible securities</b>	<b>No. of Shares after the conversion of outstanding convertible securities</b>	<b>% of holdings (approx)</b>
<b>Directors</b>					
Mr. Tang Guoqiang	169,800,000	2.82	7,780,000,000	7,949,800,000	49.68
Mr. Shi Jianmin	70,000,000	1.16	–	70,000,000	0.44
Mr. Zhang Weihua	500,000,000	8.29	1,020,000,000	1,520,000,000	9.50
<b>Public Shareholders</b>					
	5,288,242,599	87.73	1,172,675,000	6,460,917,599	40.38
<b>Total</b>	<b>6,028,042,599</b>	<b>100.00</b>	<b>9,972,675,000</b>	<b>16,000,717,599</b>	<b>100.00</b>

Note: As at 30 June 2023, China Mass Enterprises Limited is indirectly owned by Mr. Zhang Weihua through Jiangsu Kang Tai Holdings Group Limited which held 500,000,000 Shares and an amount of HK\$110,160,000 convertible bonds of the Company which can be converted into 1,020,000,000 Shares, and among 69,800,000 out of 169,800,000 shares held by Mr. Tang Guoqiang was held by Coherent Gallery International Limited which was wholly owned by Mr. Tang Guoqiang.

The diluted loss per shares for the year ended 30 June 2023 assuming all outstanding convertible securities being converted was RMB0.64 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 2023, the interests and short positions of the Directors and chief executives in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the “SFO”), which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) to be recorded in the register required to be kept under section 352 of the SFO; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code (the “Model Code”) for Securities Transactions by Directors of Listed Issuers contained in Listing Rules were as follows:

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

Directors	Long position in shares (beneficial owner)	Long position in share options and convertible bonds (beneficial owner)	Aggregate long position in shares and underlying shares	Interests in the issued share capital
Tang Guoqiang	169,800,000	7,780,000,000	7,949,800,000	131.88%
Shi Jianmin	70,000,000	300,000,000	370,000,000	6.14%
Zhang Weihua	500,000,000	1,020,000,000	1,520,000,000	25.22%

Note: As at 30 June 2023, among 69,800,000 out of the 169,800,000 long position in shares in the interest of Mr. Tang Guoqiang was held by Coherent Gallery International Limited which was wholly owned by Mr. Tang Guoqiang. As at 30 June 2023, China Mass Enterprises Limited is indirectly owned by Mr. Zhang Weihua through Jiangsu Kang Tai Holdings Group Limited which held a total amount of 500,000,000 shares of the Company and an amount of HK\$110,160,000 convertible bonds of the Company which can be converted into 1,020,000,000 shares of the Company.

## Disclosure of Interests (Continued)

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

As at 30 June 2023, so far as is known to any Director or chief executive of the Company, no person (not being a Director or a chief executive of the Company) who had an interests or short positions in the shares or underlying shares of the Company which are required to be notified to the Company and the Stock Exchange under Divisions 2 and 3 of Part XV of the SFO and recorded in the register required to be kept under section 336 of the SFO, and who were directly or indirectly deemed to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company.

### **(C) Interests of Other Persons in the Company**

As at 30 June 2023, so far as is known to any Director or chief executive of the Company, no person (not being a Director or a chief executive of the Company) who had an interest or short positions in the shares or underlying shares of the Company which are required to be notified to the Company and the Stock Exchange under Divisions 2 and 3 of Part XV of the SFO and recorded in the register required to be kept under section 336 of the SFO, and who were directly or indirectly deemed to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company.

## Directors' Interest in Competing Business

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

## 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 2022. The Group had been negotiating with banks in renewing or restructuring the loans and most of the bank loans had been restructured. The disclaimer option had been removed in the financial statements of annual report of year 2022.

## Code of Conduct Regarding Securities Transactions by Directors

During the six months ended 30 June 2023, the Company has adopted the Model Code regarding securities transactions by directors on terms no less exacting than the required standard of dealings. Specific enquiry had been made to all directors, the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by directors.

## Audit Committee

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

The audit committee has reviewed with the management of the Group the accounting principles and practices adopted by the Company and the Group and discussed internal controls and financial reporting matters including a review of the unaudited interim financial statements accounts of the Company and the Group for the six months ended 30 June 2023.

## Corporate Governance

The Board practices and procedures had set out the Code as set out in Appendix 14 to the Listing Rules since 1 January 2005. Appropriate actions have been taken by the Company for complying with the Code, the Group has complied with the code provisions set out in the Code.

## Purchase, Sale or Redemption of Shares

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed shares during the period under review.

By Order of the Board

**Tang Guoqiang**

*Chairman*

Hong Kong, 28 August 2023