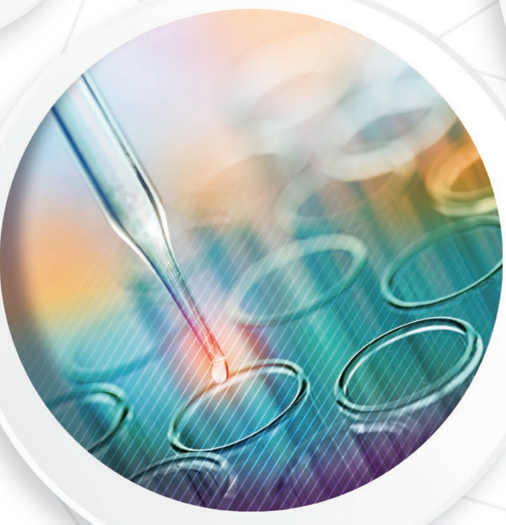
玖源化工(集團)有限公司
Ko Yo Chemical (Group) Limited

(incorporated in the Cayman Islands with limited liability)
(Stock code: 00827)

ANNUAL REPORT 2019



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Corporate Information

DIRECTORS

Executive Directors

Mr. Tang Guoqiang
Mr. Shi Jianmin
Mr. Zhang Weihua

Independent non-executive Directors

Mr. Hu Xiaoping
Mr. Shi Lei
Mr. Xu Congcai

COMPANY SECRETARY

Mr. Chung Tin Ming, HKICPA, FCCA

QUALIFIED ACCOUNTANT

Mr. Chung Tin Ming, HKICPA, FCCA

AUDIT COMMITTEE

Mr. Shi Lei
Mr. Hu Xiaoping
Mr. Xu Congcai

AUTHORIZED REPRESENTATIVES

Mr. Tang Guoqiang
Mr. Shi Jianmin

COMPLIANCE OFFICER

Mr. Zhang Weihua

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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255–257 Gloucester Road
Causeway Bay, Hong Kong

SHARE REGISTRAR

Union Registrars Limited
Suites 3301–04, 33/F.
Two Chinachem Exchange Square
338 King's Road, North Point
Hong Kong

AUDITOR

ZHONGHUI ANDA CPA Limited
Unit 701, 7/F., Citicorp Centre
18 Whitfield Road
Causeway Bay
Hong Kong

PRINCIPAL BANKERS

China Construction Bank Corporation
— Dazhou Branch

Ping An Bank
— Chengdu City Wan Fu Branch

Bank of Dalian
— Chengdu Branch

China Mingsheng Banking Corp.
— Chengdu Branch

Huaxia Bank Co., Ltd.
— Chengdu Tianfu Branch

China Merchants Bank
— Chengdu Longhu Branch

Gui Yang Bank
— Chengdu Branch

STOCK CODE

827

WEBSITE

www.koyochem.com

Highlights

— For the year ended 31st December 2019, the net cash outflow from operating activities before working capital changes but after interest payment was approximately RMB37.4 million, which represent a decrease of approximately RMB161 million as compared to the net cash inflow from operating activities before working capital changes but after interest payment of approximately RMB123.6 million in year 2018.

— For the year ended 31st December 2019, the loss attributable to shareholders was approximately RMB732 million, which represent an increase in loss of approximately RMB384 million as compared to a loss of approximately RMB348 million in year 2018. If neglect the loss due to the impairment of assets, fair value change of derivative financial assets and provision on valuation loss of convertible bonds, the adjusted loss attributable to shareholders in year 2019 was approximately RMB313 million, which represent an increase in loss of approximately RMB176 million as compare to the adjusted loss of approximately RMB137 million in year 2018.

— Basic loss per share was approximately RMB0.1598 for the year ended 31st December 2019.

— For the year ended 31st December 2019, sale turnover was approximately RMB1,964 million, which represents an decrease of approximately 36.7% as compared to year 2018.

— The sales amount and quantities of main products of the Group are as follows:

			% change compare with year 2018	
Type	**Sales amount** (million RMB)	**Sales quantities** (tonnes)	**Sales amount**	**Sales quantities**
BB & compound fertilizers	26	17,195	(33)	(33)
Urea	554	325,170	17	37
Ammonia	583	259,136	48	77
Methanol	789	435,311	2	33
Polyphenylene sulfide	–	–	(100)	(100)
Others — trading	12	N/A	(99)	N/A

— The Directors do not recommend the payment of any final dividend for the year ended 31st December 2019.

Chairman's Statement

TO SHAREHOLDERS

In 2019, the Group and its subsidiaries introduced a series of major reforming measures to proactively promote the innovation and development of the business by focusing on the development strategy and working plan of changing management style through improving efficiency and the effectiveness of the company's operation was optimized to a certain extent. There were no major safety incidents throughout the year, the environmental protection work had achieved certain good results, the production output had reached a record high and the number of the consecutive operation days of Guangan Company had also reached a record high. In terms of sales, we had achieved a balance of production and sales, increased the proportion of direct sales and optimized the mode of sale.

Although some achievements had been made in 2019, the price of products had dropped significantly, the cost of natural gas raw materials had risen, and production had not been able to run continuously for a long period of time, hence coming into existence of a gap between the overall operations and expectations. In view of the Group's performance in the year under review, the Board does not recommend payment of any final dividend for the year ended 31 December 2019. During the year ended 31 December 2019, the Group did not declare any dividends (2019: nil).

OUTLOOK

Review and Outlook of the Industry

I. **Urea production capacity increases in 2019, supply and demand of nitrogen fertilizer are basically balanced, and prices fluctuate**

According to statistics, in the year of 2019, urea production capacity increased, supply-side reforms continued to deepen, backward production capacity continued to be eliminated, but the exit of outdated capacity was slightly lower than the new input capacity, and in addition, the rising of operating rate of the domestic urea industry and the increase of the company's operating load, all lead to the increase of production and the price of urea will fluctuate at low levels throughout the year. According to OILCHEM's statistics, the production of urea this year will be 52.34 million tons, representing an increase from 2018. With a continued gradual decrease of the demand of agricultural urea in China year by year in recent years, the domestic agricultural demand in 2018 had fallen by about 1%. With regard to raw materials, the overall supply of natural gas in 2019 is sufficient and prices continue to rise during the heating season. Secondly, in 2019, the overall focus of coal and natural gas had moved downwards, and costs had gradually decreased, while the spot urea price continued to decrease, leading to a continuous decline in the profit of urea production in 2019. In particular, after the National Day, agricultural demand gradually weakened and the drop in the spot prices had accelerated. As a result, corporate profits shrank continuously. According to OILCHEM's data, the average price in the major areas of urea production in 2019 was RMB1,842 per ton while the average price in 2018 was RMB1,973 per ton, representing a decrease of RMB131 per ton comparing with last year.

As there was an abundant supply of domestic natural gas in the first half of 2020, the number and time of limitation of gas supply and ceasing of operation faced by the enterprises fell and the production of urea from natural gas process in the period of January-March was higher than the production in the corresponding period of last year. Due to the "novel coronavirus pneumonia" epidemic, there was a brief downturn in the urea market at the beginning of February. The State then issued a number of policies to facilitate the circulation of the chemical fertilizer market and secure the production work of the chemical fertilizer enterprises, including lowering the prices of electricity and natural gas. A small number of enterprises ceasing operation for maintenance planned to resume production in March and the average daily output in March 2020 hopefully will exceed 160,000 tons. Urea production will rise steadily in the first half of the year. Since fertilizers will be accumulated for the spring during the period from February to March and will be used for cultivation in the spring during the period from April to May, which is a peak season, it is expected that market prices will show an upward trend during this period and will gradually fall as demand for agricultural products will decrease in June.

Domestic urea production capacity is expected to increase in the second half of 2020 by more than 3 million tons but some of the new production capacity may be affected by the epidemic in the first half of the year and the progress of production may slow down. However, the new production capacity will increase the supply of urea market, bringing certain negative impacts on the market.

II. Due to the long-term accumulation of coastal stocks in 2019, the price of methanol showed a downward trend

China's total methanol production capacity reached 88.02 million tons in 2019, representing an increase of 8.11% over 2018. The total output for the whole year was about 60.96 million tons, representing an increase of about 9.52% year-on-year. The volume of methanol imports for the year was approximately 10.71 million tons, representing a year-on-year increase of 44.2%. The overall methanol market in the Mainland showed a "W"-shaped trend in 2019 generally, i.e. first up and then down. In the first quarter, price fluctuated at higher levels. The supply decreased during the quarter and the demand downstream was acceptable, driving the market to recover. From the second to the fourth quarter, there was an excess of supply and the demand downstream was relatively weak. There was a long period of accumulation of inventory in the community, leading to a short selling in the market and the prices fall rapidly.

Domestic production capacity will continue to grow in 2020, reaching approximately 98.9 million tons, and the real production capacity may reach approximately 67 million tons, representing an increase of 9.91% from 2019. With regard to import, there is a release of new production capacity abroad in 2020, together with weak global demand and the sanctions against Iran, the overall imports may continue to grow to approximately 11 million tons. As the downstream continues to grow, the real consumption in 2020 is expected to be close to 75 million tons.

The main concept for the whole year of 2020 should be: the profits of methanol from both the upstream and downstream are contemporaneously squeezed; domestic production capacity is pressed by the domestic production capacity abroad; with the utilization of domestic production capacity being gradually in excess, downstream products are contemporaneously in oversupply; it is difficult to reduce the high inventory to an average level, and in addition to profit distribution in the industry chain, it will generally persists at low levels. As affected by the epidemic, the downstream operation rate in the first quarter is low and the supply of goods exceeds demand. As the downstream businesses are gradually resuming operation, a regional recovery can be expected.

Chairman's Statement

III. Downstream demand for synthetic ammonia is weak, prices fluctuate and continue to be weak

Compared with 2018, the domestic price of liquid ammonia in 2019 continued to fluctuate and weaken. As of the end of the year, the price of liquid ammonia was RMB2,849 per ton, representing a decrease of RMB524 per ton or a decrease of 15.53%, in comparison with RMB3,373 per ton as of the end of last year. The inventory of liquid ammonia in the market was at a high level at the beginning of the year. As a result of only a small number of downstream enterprises commencing their operation, the downstream demand continued to weaken and the price of liquid ammonia fell sharply. At the beginning of March, there was a slight increase in the number of downstream enterprises of liquid ammonia commencing operation, accompanied by the commencement of accumulation of fertilizers for spring, the urea market continued to rise. Most of the enterprises started to reduce ammonia and increase fertilizer. In addition, as there was a suspension of production due to the maintenance work for certain liquid ammonia equipment, the supply of liquid ammonia in the market was slightly tight, the delivery of goods by the enterprises was smooth and the price of liquid ammonia continued to rise. In the second half of 2019, the market of urea continued to be weak and the liquid ammonia market lacked strong support. Since some enterprises engaged in the operation of changing from urea to liquid ammonia, the price of liquid ammonia fluctuated at low levels.

By the first half of 2020, the demand for domestic liquid ammonia will be supported by downstream urea market and the price of liquid ammonia will gradually improve from low levels. In view of the existing situation this year, as the operating rate of the downstream demand end has started to increase, the supply of liquid ammonia will tend to be relatively balanced and the pressure on the inventory of the upstream plant will be weakened. As the price of phosphate compound fertilizer, ammonium phosphate, urea products and other downstream products rise continuously, it will provide certain support to the market of liquid ammonia and the price of liquid ammonia will gradually rise from low levels.

GOALS AND STRATEGIES

Facing the economic downturn and the unstable conditions of the fertilizer and chemical industry in 2019, the price of natural gas rose and the price of products decreased. The Group mainly focused on undergoing reforms and innovations within the enterprise and strived to keep pace with changes in the market. In 2020, we seized the real-time dynamics of changes in the fertilizer and chemical industry and used the following strategies and measures to help the company to emerge completely from the difficulties and keep itself on a right track.

I. To continue to stabilize and optimize existing business, focus on efficiency, change management style and achieve a safe, environmentally friendly and long-term stable operation

1. To continue to arrange and coordinate the work with regard to production materials such as water, electricity and gas, and to provide long-term and high-load operation protection for the plants in Dazhou and Guangan; in ensuring a safe and long-term operation, to ensure that a measurement of cost effectiveness of the production units would be carried out first; and to conduct, daily monitoring, accounting, early warning, timely adjustment and optimization of production arrangement and operating load to ensure that best operating efficiency could be achieved.

2. To proactively push forward the accident prevention mechanism and systematically upgrade the maintenance and analysis of the equipment to ensure a safe production and a continuous and stable long-term operation were in place.

3. To focusing on the goal of "refined management", continue to facilitate the implementation of measures of "broaden sources and reduce expenditure", reduce operating costs and cash flow expenses.

4. The sales team stabilized high-quality core customers, deeply tapped the market potential, expanded local language sales in the product market and achieved the multiple quantization of high-priced sales areas. At the same time, differentiated urea products were put on the market to ensure target sales could be achieved. Also, the fullest use of market financial instruments were also made to ensure a suitable hedging in futures .

5. To proactively seek cooperation funds and push forward the approval, start-up and construction of new projects.

Chairman's Statement

II. To conduct research and to earnestly develop the refined chemical industry and help Ko Yo Group to keep on a right track

1. Project of 300,000 tons/year of dimethyl carbonate in Dazhou Plant

This project plan will mainly make full use of the existing equipment of Dazhou Company which will save investment and has a short construction period. This project will use a two-step urea processing technology to obtain propylene carbonate, ethylene carbonate and dimethyl carbonate. The synthesis conditions for urea alcoholysis are mild and easy to operate. It gets rid of the influence of the price inversion of propylene oxide and 1,2-propylene glycol in the traditional transesterification process, and the raw materials under the process route are all the products or emissions of the already-built units of Dazhou Ko Yo Chemical Co. Ltd, which can bring greater competitive advantages. Moreover, the public works of water, electricity, gas, steam and other ancillary facilities required by this project will fully rely on the projects already completed and put into production in the Park and Dazhou Ko Yo Chemical Co. Ltd, which can save a lot of investment costs. At the same time, the raw materials of urea, methanol, liquid ammonia, CO2, etc. of this project come from the existing units and the cost of which is low. There almost involves no transportation cost and it enjoys a big cost advantage. The completion and operation of the project will bring new profit growth to the company.

2. Project of a new material factory of 20,000 tons/year of anthraquinone

The project plans to adopt domestic mature technology and to carry out technological transformation on the basis of the existing equipment of Guangan New Materials. It will save investment and has a short construction period and the product cost is low. The project adopts advanced process technology and the safety technology has a high degree of automatic control. It will have less environmental impact and a high added value of products. The modified units can be adjusted between anthraquinone and PPS according to market conditions. The main use of anthraquinone is as a working carrier for hydrogen peroxide synthesis. The domestic market demand for hydrogen peroxide is increasing and the demand for anthraquinone is also growing. The completion and put into operation of the project will broaden the company's product area, increase the added value of the company's products and strengthen the company's ability in risk resistance.

3. Project at Guang'an Plant — 300,000 tons/year of hexamethylene diamine

This project is situated in the Xinqiao Chemical Industry Park, Guang'an City Economic and Technological Development Zone, Sichuan Province. It uses butadiene, methanol and ammonia as raw materials to produce adiponitrile, and adiponitrile is then reacted with hydrogen to form hexamethylene diamine. According to PCI's annual report, the average growth rate of ammonia demand during the period of 2015-2025 is 2.3%. The main downstream of ammonia is nylon 66. Under the trend of light weight, environmental protection and energy saving, the demand for nylon 66 in the automotive industry is rising continuously. With the expansion of the market of downstream nylon 66 and other engineering plastics, the domestic demand for adiponitrile and hexamethylene diamine has increased by more than 15% annually. As the breakthrough to the industrial production of adiponitrile and the access to the price and technological decision-making power of adiponitrile and nylon 66 are badly needed, the policy of the State hence strongly encourages and supports the development of the industry of adiponitrile.

4. **Integrated Project at Guang'an Plant — 500,000 tons/year of polyether polyol**

   This project uses propylene and hydrogen as raw materials, adopts advanced technological process and produces new chemical products such as rigid foam polyether, polymer polyol POP, polyether polyol PPG, and hydrogen peroxide (27.5%) through the production processes such as hydrogen peroxide, propylene oxide, and polyether. Compared with similar projects in the same industry, this project consumes less energy and achieves better results in environmental protection. It belongs to the encouraged type of construction projects of the State. Since there will be technological transformation to the project based on the existing facilities, the construction work, equipment and facilities, public works and auxiliary production facilities of the project can partially rely on the existing facilities of the plant, thus reducing the overall investment and operating costs of the project.

ACKNOWLEDGEMENT

Looking back over the past year, the business of the chemical fertilizer and chemical industries fluctuated. Under the leadership of the management, our entire group worked together to focus on efficiency and to proactively push forward our production and sales. Our working methods and style have been greatly improved. The new year is a very important year for the Group to "facilitate refined management and achieve stable and long-term optimal operation". It is a year when we turn losses into profits and press ahead with reforms in an all-round way. Under the organization and leadership of the Board, we will seize new opportunities, meet new challenges and strive to achieve profitable goals. At the same time, with the completion and put into operation of the Group's new projects, it will become a new point for the Group's profit growth, which will also greatly enhance the Group's core competitiveness and lay a firm foundation for the Group's sustainable and stable development. We have every reason to believe that with the continuous improvement of the macroeconomic situation together with our own efforts, the Group shall get out of predicaments gradually and have a better development prospect in future.

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 staff of the Company! Thank you for your hard work throughout the year! We will continue to work hard to create more favourable returns for our shareholders and the society!

Tang Guoqiang
Chairman

30 March 2020

Business Review

FINANCIAL PERFORMANCE

Results

For the year ended 31st December 2019, the Group remained focused on manufacture and distribution of chemical fertilizers and chemical products, including BB Fertilizers and complex fertilizers, methanol, polyphenylene sulfide, urea and ammonia.

During the year under review, the Group recorded turnover of approximately RMB1,964 million, a decrease of 36.7% as compared to last year. The decrease in turnover was mainly due to the decrease in trading portion of the turnover. The loss attributable to shareholders of the Company amounted to approximately RMB732 million, representing an increase in loss of approximately RMB384 million as compared to last year. Basic loss per share amounted to approximately RMB0.1598.

Cost and profit margin

Cost of sales of the Group amounted to approximately RMB1,958 million, representing a decrease of 31.9% as compared to the figure in 2018. The major reasons of decrease in cost of sales were due to the decrease in trading portion of the turnover.

Gross profit margin of the Group decreased approximately from 7.2% in 2018 to 0.3% in 2019. The decrease in the gross profit margin was due to the decrease in selling price of products and increase in price of natural gas.

During the year under review, distribution costs decreased approximately by 20.6% as compared with last year. The decrease in distribution cost was due to the decrease in sales. The ratio of the distribution costs over sales was 1.35% in 2019 which was 0.27% higher than those in 2018.

In comparison with last year, there was a decrease in administrative expenses of the Group by approximately 6.4% from approximately RMB133.4 million in 2018 to approximately RMB124.9 million in 2019. The increase in administrative expenses is mainly due to the effective cost control.

Other income increased from a loss of approximately RMB24.4 million in 2018 to a gain of approximately RMB5.5 million in 2019. It was mainly due to there is no loss from fair value changes of derivative financial assets in 2019 as those in 2018. Details are set out in Note 8 to consolidated financial statement. Other expenses amounted to approximately RMB418.4 million in 2019 (2018: approximately RMB218.4 million). The increase in other expenses in 2019 was mainly due to certain amount of impairment losses on the production equipments of the phase II of Dazhou plant and the loss on issuance of convertible bonds in 2019. Details are set out in Note 9 to consolidated financial statement.

The Group's income tax expenses in 2019 amounted to approximately RMB19.6 million. Details of tax schemes are set out in Note 11 to consolidated financial statements.

Dividends

Considering the Group's result during the year under review, the Directors do not recommend the payment of any final dividend for the year ended 31st December 2019. The Group has not declared any dividend for the year ended 31st December 2019 (2018: Nil).

PRODUCTS

Sales of the Group's products for the year 2018 and 2019 are as follows:

	Turnover in year 2019		Turnover in year 2018		**Percentage Change in turnover**
	RMB'000	**Composite %**	RMB'000	Composite %	**%**
BB & compound fertilizers	**26,000**	**1.3**	39,000	1.3	(33)
Urea	**554,000**	**28.2**	472,000	15.2	17
Ammonia	**583,000**	**29.7**	395,000	12.7	48
Methenol	**789,000**	**40.1**	777,000	25.1	2
Polyphenylene sulfide	**–**	**–**	53,000	1.7	(100)
Others — Trading	**12,000**	**0.7**	1,365,000	44.0	(99)

Others are trading of methanol, urea, ammonia and various kind of fertilizers.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31st December 2019, the Group had net current liabilities of approximately RMB1,801,453,000 Current assets as at 31st December 2019 comprised cash and bank deposits of approximately RMB10,110,000 pledged bank deposits of approximately RMB30,116,000 inventories of approximately RMB77,055,000, trade receivables of approximately RMB867,000, and prepayments and other current assets of approximately RMB103,227,000. Current liabilities as at 31st December 2019 comprised short-term borrowings of approximately RMB1,302,714,000, short-term portion for long-term borrowings of approximately RMB158,419,000, trade and notes payables of approximately RMB14,740,000, contract liabilities of approximately RMB204,667,000 and accrued charges and other payables of approximately RMB342,288,000. Details of the Group's adoption of going concern basis in preparing the consolidated financial statements is set out in Note 2 to the consolidated financial statements.

CAPITAL COMMITMENTS

As at 31st December 2019, the Group had outstanding capital commitments of approximately RMB85,217,000. Details of the Group's capital commitments are set out in Note 37 to the consolidated financial statements.

Business Review

FINANCIAL RESOURCES

As at 31st December 2019, the Group had cash and bank deposits of approximately RMB10,110,000 and pledged bank deposits of approximately RMB30,116,000. The Company intends to finance the Group's future operations, capital expenditure and other capital requirements with the existing bank balances and the capital market.

As at 31st December 2019, the total borrowings and notes payable balances of the Group amounted to approximately RMB2,113,032,000.

GEARING RATIO

The Group's gearing ratios were approximately 90% and 78% as at 31st December 2019 and 31st December 2018 respectively. The gearing ratios were calculated as net debt divided by total capital. Details of the Group's gearing ratio is set out in Note 27 to the consolidated financial statements.

CONTINGENT LIABILITIES

The Group had no significant contingent liabilities as at 31st December 2019.

MATERIAL ACQUISITION/DISPOSAL

There was no material acquisition or disposal in the year 2019 which would have been required to be disclosed under the Rules Governing the Listing of Securities ("Listing Rules") on Stock Exchange.

SEGMENTAL INFORMATION

The Group activities are primarily conducted in the PRC. The Group's turnover and profit are generated from manufacturing and sale of chemical products and chemical fertilisers, no segment information is therefore present in the consolidated financial statements.

DETAILS OF FUTURE PLANS FOR MATERIAL INVESTMENT OR CAPITAL ASSETS

Save as disclosed of the plans stated in the chairman's statement of this annual report and in the circular dated 16 October 2019, the Directors do not have any future plans for material investment.

EXPOSURE ON EXCHANGE RATE FLUCTUATION

Details of the Group's foreign currency exchange risk are set out in Note 6 to the consolidated financial statements.

CHARGES ON THE GROUP'S ASSETS

As at 31st December 2019, land use rights with a total net book value of approximately RMB109,094,000 (2018: approximately RMB58,781,000), property, plant and machinery with a total net book value of approximately RMB1,538,018,000 (2018: approximately RMB1,130,436,000), investment properties with a total net book value of approximately RMB57,694,000 (2018: approximately RMB59,538,000), mining right with a total net book value of approximately RMB309,456,000 (2018: approximately RMB309,775,000), and bank deposits approximately RMB30,116,000 (2018: approximately RMB24,339,000) were pledged as collateral for the Group's borrowings and notes payable.

NUMBER OF EMPLOYEES

As at 31st December 2019, the Group had 696 (2018: 725) employees, comprising 5 (2018: 5) in management, 93 (2018: 102) in finance and administration, 569 (2018: 574) in production and 10 (2018: 44) in sales and marketing, 691 (2018: 719) of these employees were located in the PRC and 5 (2018: 6) were located in Hong Kong.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

For the year ended 31 December 2019, the Group's key business operations make continuous effort and investment on managing and monitoring environmental and social performance. Technology advancement, especially new materials development, continues to assist the Group achieve long-term business resilience, to achieve its economic, environmental and social sustainability. The group ensures strict compliance with and keeps a close eye on updates of any applicable regulations, laws, and standards. Engagement with stakeholders has resulted in raised concerns on key material issues, which include: Energy, Emissions, Effluents and Waste, Environmental Protection Policies, and Occupational Health and Safety. The Group will continue to identify areas of improvement for the concerned aspects and keep close communication with its stakeholders for advancing ESG management.

The Environmental, Social, Governance Report is set out on pages 26 to 39 of the annual report.

Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Tang Guoqiang, aged 62, is an Executive Director and chairman of the Board. Mr. Tang has over 30 years of management experience. He obtained a high school diploma from Jiangsu Province Liyang Middle School in 1977. Mr. Tang was previously the general manager of Liyang Economic Development Corporation from May 1990 to August 1996. From November 2003 to April 2007, he was an executive director of Zhenjiang Runfeng Real Estate Development Company Limited. He was the chairman of Shunfeng International Clean Energy Ltd. (stock code: 1165), a listed company on the Main Board of the Stock Exchange, from July 2011 to July 2013. Since March 2015, he has been the chairman of Liyang Huakan Jianda Health Company Limited.

Mr. Shi Jianmin, aged 52, is an Executive Director and the chief executive officer of the Group. Mr. Shi has over 22 years of management experience. Mr. Shi obtained a diploma in business administration from the E-learning College, Shanghai Jiao Tong University in July 2007 and studied an EMBA business course in Xiamen University in the autumn of 2011. He was previously the president of Guanghua Sub-branch of ICBC Changzhou and the general manager of the electronic bank department of ICBC Changzhou. From September 2011 to June 2017, Mr. Shi was the deputy chairman and executive director of Shunfeng International Clean Energy Ltd. (stock code: 1165), a company listed on the Stock Exchange. Since August 2017, Mr. Shi has been an executive director of Jiangsu Wei Lan Photovoltaic System Integrated Ltd. in the People's Republic of China.

Mr. Zhang Weihua, aged 57, is an Executive Director and the compliance officer of the Group. Mr. Zhang has over 33 years of management experience. He has been the deputy chairman and general manager of Changzhou Kangmei Chemical Industry Co., Ltd. since 1995, the chairman of Jiangsu Kangtai Biomedical Science Technology Co., Ltd. since 2009, and the chairman of Jiangsu Kangtai Holdings Group Co., Ltd. since 2011. Mr. Zhang was a member of the National People's Congress representing Jintan city from 2003 to 2017.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Hu Xiaoping, aged 69, is an Independent Non-Executive Director of the Group. He obtained a bachelor degree in Economics from Sichuan Institute of Finance and Economics in 1982 and a master degree in Economics from Southwest University of Finance and Economics in 1987. Mr. Hu is currently a professor of the Southwest University of Finance and Economics. Mr. Hu has been involved in various research projects at both the provincial and state level and has published numerous articles in financial and economics publications in the PRC. He was appointed as an Independent Non-Executive Director of the Group in June 2003.

Mr. Shi Lei, aged 62, is an Independent Non-Executive Director of the Group. He obtained his doctorate degree from the Institute of Economics at Shanghai Academy of Social Sciences in 1993. Mr. Shi joined Fudan University as a post-doctorate researcher in 1993 and maintained a teaching role at Fudan University on a full-time basis thereafter. Mr. Shi is currently serving as a tutor and professor in economics at Fudan University and is also the director of the Center for Public Economy Research at Fudan University. Mr. Shi's main fields of research and teaching include industrial structure and policy, modern enterprise theory and practice and modern economics in China. Mr. Shi has won numerous provincial level research and teaching awards. Mr. Shi was appointed as a special advisor to the Shanghai City Government and is also currently a commentator at the China Central Television. He was appointed as an Independent Non-Executive Director of the Group on 15 January 2017.

Directors and Senior Management

Mr. Xu Congcai, aged 68, is an Independent Non-Executive Director of the Group. He received a bachelor degree in political economics from Anhui University of Finance and Economics (formerly known as Anhui Institute of Finance and Trade) in 1982, and in 1998, received a doctorate in economics from the School of Economics, Fudan University. Mr. Xu was admitted to the Special Allowance Program for Outstanding Experts sponsored by the State Council. In 1996, he was recognized as a Young and Middle-aged Expert with Outstanding Contribution. In 2002, he began to serve as an instructor for doctoral candidates to be admitted to the industrial economics programs in Renmin University of China. Currently, he is a professor at Nanjing University of Finance and Economics, a vice president at the Commerce Economy Association of China, a member of the Seventh Session of the Higher Education Institution Approval Committee under the Ministry of Education (from 2017 to 2021), and an executive dean of Taihu University of Wuxi. In addition, Mr. Xu is an independent director of Daqian Ecology and Landscape Co. Ltd. He was previously an independent director of Wuxi Rural Commercial Bank. He was appointed as an Independent Non-Executive Director of the Group on 1 August 2017.

SENIOR MANAGEMENT

Mr. Li Ciping, aged 53, is the managing vice president of the Group. He was an Executive Director of the Group from 1 July 2014 to 15 January 2017. He graduated from Fuzhou University in 1985, majoring in Chemical Engineering. Mr. Li joined Ko Yo Group in 2008. Before joining Ko Yo Group, he was the director and general manager of Max Giant International Group Limited in Hong Kong. He had an extensive experience in corporate management.

Ms. Chi Chuan, aged 64, is the vice president of the Group. She was an Executive Director of the Group from 25 February 2002 to 15 January 2017. She graduated from Sichuan Normal College with a bachelor degree in science in 1982. Ms. Chi has over 20 years' experience in finance and accounting. Prior to joining the Group in July 1999, Ms. Chi was the finance manager of Leshan Economic and Trade General Company, a trading company in the PRC. Ms. Chi is primarily responsible for the financial management of the Group since she joined the Group in July 1999.

Ms. Man Au Vivian, aged 55, is the general manger of Ko Yo Development Company Limited. She was an Executive Director of the Group from 17 April 2002 to 15 January 2017. Ms. Man graduated from the University of International Business and Economics with a bachelor degree in economics in 1986. Ms. Man has over 15 years' experience in international trade. She formerly worked for China National Light Industrial Products Import and Export Corporation of MOFTEC. She joined the Group in January 1997 and she is responsible for general administration outside mainland China of the Group.

Mr. Chung Tin Ming, aged 49 is the financial controller and company secretary of the Group. Mr. Chung is an associate member of each of the Hong Kong Institute of Certified Public Accountants and Association of Chartered Certified Accountants. Mr. Chung graduated from the Chinese University of Hong Kong with a bachelor degree in science, and received a master degree in Financial Engineering and Electronic Engineering from the City University of Hong Kong and a master degree in laws from University of Wolverhampton. Prior to joining the Group in January 2006, he was a director of Keen Ocean Industrial Limited in Hong Kong. Mr. Chung has over 20 years of related working experience in accounting and financial management.

Mr. Wen Jinfu, aged 57, is the vice president of the Group, who is mainly responsible for safety issues, environmental management affairs of the Group. He was a senior engineer who graduated from The Communist Party of China Sichuan Provincial Committee Party School majoring in economic management in 1996. Mr. Wen joined Koyo Group in 1999, before that, he was appointed as the deputy general manager of Xindu Nitrogen Fertilizer Plant.

Report of the Directors

The Directors have the pleasure of presenting their report together with the audited financial statements of the Company and its subsidiaries for the year ended 31st December 2019.

GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 11th February 2002 as an exempted company with limited liability under the Companies Law Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

The Group reorganized its structure on 10th June 2003 in preparation for the listing of the Company's shares on Growth Enterprise Market ("GEM") of the Stock Exchange. The Company became the holding company of the companies now comprising the Group. Details of the reorganization are set out in the prospectus of the Company dated 30th June 2003. The shares of the Company were listed on GEM of the Stock Exchange on 10th July 2003. On 25th August 2008, the Company had transferred of listing to the main board of the Stock Exchange.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Its subsidiaries are principally engaged in the research and development, manufacture, marketing and distribution of chemical products, chemical fertilizers and bulk blending fertilizers ("BB Fertilizers").

RESULTS AND APPROPRIATIONS

Details of the Group's profits for the year ended 31st December 2019 are set out in the consolidated statement of profit or loss and other comprehensive income.

The Directors do not recommend the payment of any final dividend for the year ended 31st December 2019 (2018: Nil).

SHARE CAPITAL

Details of movements in share capital of the Company are set out in Note 27 to the consolidated financial statements.

RESERVES

Movements in the reserves of the Group and of the Company during the year are set out in Note 29 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31st December 2019 amounted to approximately RMB(243,056,000) (2018: approximately RMB215,012,000).

RIGHTS OF DIRECTORS AND EMPLOYEES TO ACQUIRE SHARES OR DEBENTURES

A summary of the principle terms and conditions of the share option scheme is set out in the circular of the Company dated 29th August 2008. The share option scheme had been expired on 17 September 2018.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association and there is no restriction against such rights under the Company Law (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out in page 114.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the year are set out in Note 16 to the consolidated financial statements.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The Directors who held office during the year ended 31st December 2019 and up to the date of this report are:

Executive Directors

Mr. Tang Guoqiang
Mr. Shi Jianmin
Mr. Zhang Weihua
Mr. Li Weiruo *(Resigned on 17 May 2019)*

Non-Executive Director

Mr. Zhang Fubo *(Resigned on 1 June 2019)*

Independent Non-Executive Directors

Mr. Hu Xiaoping
Mr. Shi Lei
Mr. Xu Congcai

Report of the Directors

In accordance with Article 87 of the articles of association of the Company, at each annual general meeting, one-third of directors for the time being shall retire from office by rotation and, will be eligible for re-election. Chairman of the Board will not be subject to retirement by rotation. Mr. Xu Congcai will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

Each of the Executive Directors has entered into a service contract with the Company for initial fixed term of three years, and will continue thereafter for successive terms of one year until terminated by not less than three months' notice in writing served by either party on the other. Each of the Executive Directors is entitled to a basic salary and director's fee subject to an annual review by the Board. In addition, the Executive Directors are also entitled to a discretionary bonus, which may not exceed 3% of the audited consolidated net profit of the Group attributable to shareholders in respect of that financial year of the Company. The percentage rate of discretionary bonus is subject to annual review by the Board.

The Independent Non-Executive Directors of the Company are appointed with specific terms inside the letter of appointment for initial fixed terms of two years. Pursuant to A.4.3 of the Corporate Governance Code (the "Corporate Governance Code") set out in Appendix 14 of the Listing Rules, any further appointment of an Independent Non-Executive Director in excess of nine years should subject to a separate resolution to be approved by shareholders. Mr. Hu Xiaoping was appointed as Independent Non-Executive Directors in June 2003 and will severe on the Board for more than seventeen years in June 2020. Therefore, Mr. Hu Xiaoping should retire and re-election at the forthcoming annual general meeting.

None of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

SHARE OPTIONS

The share option scheme (the "Share Option Scheme") adopted on 18 September 2008. The details of the Share Option Scheme can be found in the circular of the Company dated 29th August 2008 and Note 28 to the consolidated financial statement.

The purpose of share option schemes are to recognize the contribution of employees and consultants to the Group and to provide an incentive to employees and consultants of the Group. There is no general requirement that an option must be held for any minimum period before it can be exercised. The period during which an option may be exercised in accordance with the terms of the Scheme shall be the period of time to be notified by the Board to each grantee, which the Board may in its absolute discretion determine, save that such period shall not be more than ten years commencing on the date upon which the vesting period as described in the respective grantee's offer document commences. The exercise price shall be determined by the Board but in any event shall be at least the highest of (i) the official closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date on Offer Date; (ii) the average of the official closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the Offer Date; (iii) the nominal value of a Share.

Share Option Scheme

The Board may, subject to and in accordance with the provisions of the Share Option Scheme, grant options to any person employed by the Group, or directors (including executive directors, non-executive directors) of the Group, or trustee whose beneficiaries or objects include any employee or directors of the Group (collectively "Participants").

Where any grant of option is proposed to a substantial shareholder of the Company or an independent non-executive director of the Company or any of their respective associates and the proposed grant of option, when aggregated will result in the Shares issued and to be issued upon exercise of all options already granted and to be granted to such person in the 12-month period up to and including the date of grant, in excess of 0.1% of the Shares in issue and having an aggregate value (based on the closing price of the Shares at the date of each grant) in excess of HK$5 million, are subject to shareholders' approval in advance in a general meeting.

Upon acceptance of an option to subscribe for Shares granted pursuant to the Share Option Scheme, the Participant shall pay HK$1.00 to the Company by way of consideration for the grant. The option will be offered for acceptance for a period of 21 days from the date on which the option is granted.

The Share Option Scheme had been expired on 17 September 2018.

During the year ended 31st December 2019, no share options were exercised. Details of option outstanding and movements are disclosed in the following table:

Number of share options

	Held at 1 January 2019 ('000)	Grant during period ('000)	Exercised during period ('000)	Forfeited/ Lapsed during period ('000)	Held at 31 December 2019 ('000)	*Share Options A ('000)	*Share Options B ('000)	*Share Options C ('000)	*Share Options D ('000)
Directors (31.12.2019)									
Tang Guoqiang	–	–	–	–	**–**	–	–	–	–
Li Weiruo	–	–	–	–	**–**	–	–	–	–
Shi Jianmin	–	–	–	–	**–**	–	–	–	–
Zhang Weihua	–	–	–	–	**–**	–	–	–	–
Hu Xiaoping	1,200	–	–	–	**1,200**	–	800	400	–
Shi Lei	–	–	–	–	**–**	–	–	–	–
Xu Congcai	–	–	–	–	**–**	–	–	–	–
Employees	11,200	–	–	(2,500)	**8,700**	3,400	–	3,800	1,500
Total	12,400	–	–	(2,500)	**9,900**	3,400	800	4,200	1,500

*	Share Options A:	Grant at 14th January 2010, exercisable from grant date until 13 January 2020 with exercise price HK$1.150.
	Share Options B:	Grant at 23 November 2010, exercisable from grant date until 22 November 2020 with exercise price HK$1.100.
	Share Options C:	Grant at 28 March 2013, exercisable from grant date until 27 March 2023 with exercise price HK$0.595.
	Share Options D:	Grant at 22 June 2016, exercisable from grant date until 21 June 2026 with exercise price HK$0.151.

Report of the Directors

DIRECTORS' INTERESTS IN SHARES

As at 31st December 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 for Securities Transactions by Directors of Listed Issuers contained in Listing Rules were as follows:

Long positions in the shares and the underlying shares of the Company

Directors (as at 31.12.2019)	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	Total interests in the issued share capital
Tang Guoqiang	100,000,000	–	7,280,000,000	132.65%
Shi Jianmin	300,000	20,000,000	20,300,000	3.65%
Zhang Weihua	500,000,000	1,020,000,000	1,520,000,000	27.70%
Hu Xiaoping	–	1,200,000	1,200,000	0.02%

Note: As at 31 December 2019, among 7,000,000,000 out of the 7,280,000,000 in the aggregate long position in shares and underlying shares of Mr. Tang Guoqiang belongs to the convertible bonds that had not been issued. The details of the subscription of convertible bonds stated in the announcement of the Company dated 10 July 2019. As at 31 December 2019, 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.

SUBSTANTIAL SHAREHOLDERS

As at 31st December 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) 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 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.

Long positions — ordinary shares of HKD0.10 each of the Company

Name	Capacity	Number of shares	Approximate shareholding percentage
Cheng Kin Ming	Interest of corporation controlled	800,000,000	14.58%

Note: As at 31 December 2019, Asia Pacific Resources Development Investment Limited which is wholly owned by 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.

INTEREST OF OTHER PERSONS IN THE COMPANY

(i) Interest in the shares or underlying shares of the Company

As at 31st December 2019, so far as is known to any Director or Chief Executive of the Company and save as disclosed above, no person 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.

(ii) Interests in shares of an associated corporation of the Company

Name	Name of company	Number of long position of non-voting deferred shares	Capacity	Type of interest	Approximate percentage of holding
Li Weiruo	Ko Yo Development Co. Ltd.	2,100,000	Beneficial owner	Personal	70%
Yuan Bai	Ko Yo Development Co. Ltd.	420,000	Beneficial owner	Personal	14%
Tang Shiguo	Ko Yo Development Co. Ltd.	300,000	Beneficial owner	Personal	10%

Note: Mr. Li Weiruo, Mr. Yuan Bai and Mr.Tang Shiguo ceased to be directors of the Company with effect from 17 May 2019, 20 July 2018 and 29 April 2004 respectively.

Report of the Directors

(iii) Short positions in the shares of an associated corporation of the Company

Name	Name of company	Number of short position of non-voting deferred shares	Capacity	Type of interest	Approximate percentage of holding
Li Weiruo	Ko Yo Development Co. Ltd.	2,100,000	Beneficial owner	Personal	70%
Yuan Bai	Ko Yo Development Co. Ltd.	420,000	Beneficial owner	Personal	14%
Tang Shiguo	Ko Yo Development Co. Ltd.	300,000	Beneficial owner	Personal	10%

Note: Mr. Li Weiruo, Mr. Yuan Bai and Mr. Tang Shiguo owns equal number of long positions and short positions in the non-voting deferred shares of Ko Yo Development Co. Ltd, thus the net number of non-voting deferred shares of Ko Yo Hong Kong held by them are zero.

Outstanding Convertible Securities

As at 31 December 2019, the outstanding convertible securities (the "Convertible Securities 1") that issued on 13 November 2014 can convert into 1,002,675,000 shares (the "Shares") of the Company, the outstanding convertible securities (the "Convertible Securities 2") that issued on 31 January 2019 can convert into 360,000,000 Shares and the outstanding convertible securities (the "Convertible Securities 3") that issued on 15 March 2019 can convert into 950,000,000 Shares. Assuming all outstanding convertibles securities converted into shares as at 31 December 2019, set out below is the shareholding structure of the Company before and after such conversion:

As at 31/12/2019	No. of shares before conversion of outstanding convertible securities	% of holdings	No. of shares from conversion of outstanding convertible securities	No. of shares after conversion of outstanding convertible securities	% of holdings
Directors					
Mr. Tang Guoqiang	100,000,000	1.82	180,000,000	280,000,000	3.59
Mr. Shi Jianmin	200,300,000	3.65	—	200,300,000	2.57
Mr. Zhang Weihua	500,000,000	9.11	1,020,000,000	1,520,000,000	19.49
Others					
Mr. Cheng Kin Ming	800,000,000	14.58	1,001,375,000	1,801,375,000	23.09
Public	3,887,742,599	70.84	111,300,000	3,999,042,599	51.26
Total	5,488,042,599	100.00	2,312,675,000	7,800,717,599	100.00

The diluted loss per shares for the year ended 31 December 2019 assuming all outstanding convertible securities being converted was RMB0.1124 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 annual 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 annual report does not assume such conversion.

Base on the cash and cash equivalent as at 31 December 2019 and the cash flow from the operation of the Company, the Company did not has its ability to meet its redemption obligations under Convertible Securities 1 and Convertible Securities 2 and Convertibles 3. The maturity dates of Convertible Securities 1, Convertible Securities 2 and Convertibles 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 which it would be equally financially advantageous for the securities holders to convert or redeem for the end of year 2020 to 2023 were as follows:

Convertible Securities

Date	**31-12-2020**	**31-12-2021**	**31-12-2022**	**31-12-2023**
Convertible Securities 1				
Share price (HK$)	0.327	0.338	0.347	0.360
Convertible Securities 2				
Share price (HK$)	0.204	0.211	0.217	0.225
Convertible Securities 3				
Share price (HK$)	0.205	0.211	0.218	0.225

ISSUE OF HK$270 MILLION OF CONVERTIBLE BONDS

As disclosed in the announcements dated 31 January 2019 and 15 March 2019, the Company had issued the convertible bonds in a total principal amount of HK$270,000,000 with initial conversion price of HK$0.108 per share of the Company, 4% annual interest rate and maturity on the 5th anniversary of the issue date of Convertible Bonds. Net proceeds from the issue of convertible bonds was approximately HK$269,000,000. The net proceeds had been used as follows: 1) approximately HK$170 million had been used to repay the loans; 2) approximately HK$70 million had been used to compensate the decrease in working capital that due to the decrease of advances from customer; and 3) approximately HK$29 million had been used for general working capital of the Group, among which approximately HK$13 million was used for the maintenance of production facilities.

ISSUE OF HK$987 MILLION OF CONVERTIBLE BONDS

As disclosed in the announcements dated 10 July 2019, the Company entered into subscription agreement with Mr. Tang Guoqiang to issue the convertible bonds in a total principal amount of HK$987,000,000 with initial conversion price of HK$0.141 per share of the Company, 5% annual interest rate and maturity on the 5th anniversary of the issue date of convertible bonds. Net proceeds from the issue of Convertible Bonds was approximately HK$986,000,000. The net proceeds will be used as follows: 1) approximately HK$230 million will be used for establishment of a new production line of dimethyl carbonate in Dazhou plant; 2) approximately HK$550 million will be used for establishment of a new production line of propylene oxide in Guangan plant; and 3) the remaining balance of approximately HK$206 million will be used as general working capital of the Group. The issue of the above convertible bonds had not yet completed as at the dated of this annual report.

SUFFICIENCY OF PUBLIC FLOAT

Based on the public information available to and within the knowledge of the Directors, it is confirmed that there is sufficient public float of more than 25% of the Company's issued shares at 30 March 2020.

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, directly or indirectly with the business of the Company during the year under review.

DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which any of the Company's Directors or members of its management had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

AUDIT COMMITTEE

The Company established an audit committee on 10th June 2003 and has adopted the term of reference in line with the Code on Corporate Governance Practice issued by the Stock Exchange. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Company and provide advice and comments to the Directors. The audit committee has four 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 management 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 audited financial statements of the Company and the Group for the year ended 31 December 2019.

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 year under review.

CUSTOMERS AND SUPPLIERS

For the year ended 31st December 2019, the five largest customers accounted for approximately 36.9% of the Group's total turnover and the five largest suppliers of the Group accounted for approximately 86.7% of the Group's total purchases. The largest customer of the Group accounted for approximately 10.4% of the Group's total turnover and the largest supplier accounted for approximately 43.6% of the Group's total purchases.

None of the Directors, their associates, or any shareholders (which, to the knowledge of the Directors, owned more than 5% of the Company's share capital) had a beneficial interest in the Group's five largest customers and suppliers.

CORPORATE GOVERNANCE

A report on the corporate governance practices adopted by the Company is set out on pages 40 to 45 of the annual report.

AUDITORS

ZHONGHUI ANDA CPA Limited was appointed as the auditor of the Group since 19 February 2016 and was re-appointed as the auditor of the Group on 17 May 2019.

The financial statements have been audited by ZHONGHUI ANDA CPA Limited who shall retire and, being eligible, will offer themselves for re-appointment at the forthcoming annual general meeting.

On behalf of the Board,

Tang Guoqiang
Chairman

30 March 2020

Environmental, Social, Governance Report

SCOPE AND REPORTING PERIOD

This is the fourth ESG report of the Ko Yo Chemical (Group) Limited (the "Company" and collectively with its subsidiaries referred as "the Group"), highlighting its Environmental, Social, and Governance (the "ESG") performance, with disclosure reference made to the ESG Reporting Guide as described in Appendix 27 of the Listing Rules and Guidance set out by The Stock Exchange of Hong Kong Limited.

The Group is principally engaged in the research and development, manufacture, marketing and distribution of chemical fertilizers and chemical products. This ESG report covers the Group's overall performance in two subject areas, namely, Environmental and Social of the following business operations in Sichuan Province, Mainland China from 1 January 2019 to 31 December 2019, unless otherwise stated.

— Dazhou Ko Yo Chemical Industrial Co., Limited ("Dazhou")

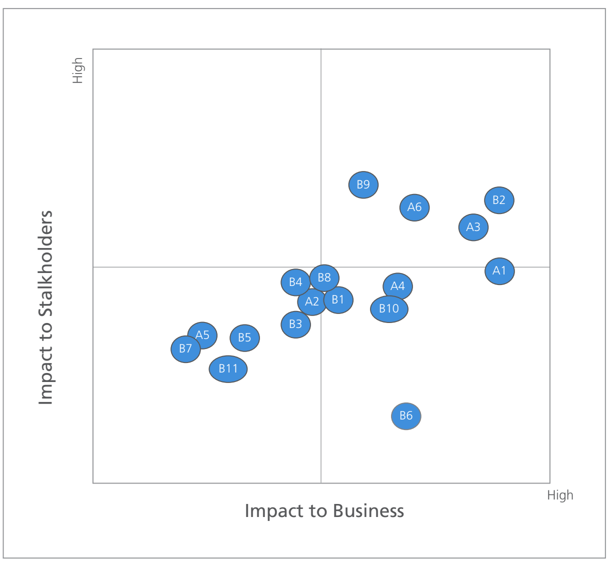
— Guangan Ko Yo Chemical Industry Co., Limited & Guangan Lotusan Natural Gas Chemicals Co., Limited ("Guangan")

— Guangan Ko Yo New Material Co., Limited ("New Material")

There were no major changes in the scope compared with the last reporting period. No major changes in the number of employees and operational location have occurred. The same three operational sites (with a total floor area of 29,481.81 m^2) as the last reporting period were included in the scope of this ESG report. However, the production in New Material was suspended during the reporting period.

STAKEHOLDER ENGAGEMENT AND MATERIALITY

In order to identify the most significant aspects, the Group collects views and discusses ESG issues with its internal and external stakeholders through thematic meetings, surveys and regular dialogue. During the reporting period, the Group has specifically engaged board members, senior management, frontline staff, suppliers and clients to gain further insights on ESG material aspects and challenges. The Materiality Matrix below shows the result of our materiality assessment process:



A.	**Environmental Issues**	
	Energy	A1
	Water	A2
	Emissions	A3
	Effluent and Waste	A4
	Other Raw Materials Consumption	A5
	Environmental Protection Policies	A6
B.	**Social Issues**	
	Employment	B1
	Health and Safety	B2
	Development and Training	B3
	Labor Standards	B4
	Supply Chain Management	B5
	Intellectual Property Rights	B6
	Customer Data Protection	B7
	Customer Service	B8
	Product Quality	B9
	Anti-corruption	B10
	Community Investment	B11

Among the environmental and social aspects, the following ones were the top 5 material aspects of the Group's operation:

- Health and Safety
- Emissions
- Environmental Protection Policies
- Product Quality
- Energy

STAKEHOLDERS' FEEDBACK

The Group welcomes stakeholders' feedback on our ESG approach and performance. Please give your suggestions or share your views with us via email at koyoir@koyochem.com or by post to our Company Secretary at the Company's registered office.

THE GROUP'S MISSION AND VISION ON SUSTAINABILITY COMMITMENT

With the increasing government's support on non-state-owned economy with various policies, the Group expects to continue expanding its business operations and production capacity. The Group is committed to maintaining the stability of its business and providing employment opportunities to the communities where the Group operates. The Group strives to nurture a competent workforce and build a safe occupational environment. The Group will continue to sharpen its focus on sustainability.

The Group ensures strict compliance with any applicable regulations, laws, guidelines and standards. Apart from focusing on the development of its enterprise, the Group also attaches great importance to the social and environmental aspects and is committed to promoting its economic and infrastructure development. Thus, the Group aims to reinforce its operations, management and technology on heavy chemicals projects, while accelerating the development and commissioning of new projects in the fine chemicals industry to meet future needs and challenges.

The Group keeps implementing three management systems— ISO 9001 Quality management System, ISO 14001 Environmental Management System, and ISO50001 Energy Management System — in an integrative manner. In addition, the Group pays close attention to the legal and standard updates and ensures that it is fully prepared to comply with more stringent regulations.

A. ENVIRONMENTAL

A1. Emissions

During the reporting period, the Group did not note any cases of material non-compliance relating to air and greenhouse gas ("GHG") emissions, discharge into water and land, and the generation of hazardous and non-hazardous waste as required by the applicable laws and regulations.

The Group adopts environmental management system and strictly complies with the national and local laws and regulations relating to environmental protection and pollution control, including but not limited to the followings:

— Air Pollution Prevention and Control Law of the PRC

— Atmospheric Pollution Prevention and Control Law of the PRC

— Environmental Protection Law of the PRC

— Law of the PRC on Prevention and Control of Environmental Pollution by Solid Wastes

— Law of the PRC on Prevention and Control of Pollution by Environmental Noise

— Law of the PRC on Environmental Impact Assessment

— Soil Pollution Prevention and Control Law of the PRC

— Water Pollution Prevention and Control Law of the PRC

In particular, the Group closely monitors the requirement and guidelines as stated in the Emission Standard of Air Pollutants for Industrial Kiln and Furnace, Emission Standards for Odor Pollutants, Integrated Emission Standard of Air Pollutants, Discharge Standard of Water Pollutants for Ammonia Industry, Directory of National Hazardous Waste and Management on Hazardous Waste's Transfer and Disposal Documentation.

A1.1 Air Emissions

During the reporting period, natural gas was extensively used for the manufacturing process in Guangan and Dazhou. Relatively small amount of natural gas was also used in the canteens. Moreover, various types of vehicles (passenger cars, vans, trucks and other mobile machinery) using petrol and diesel were used for daily commuting and business travel. As a result, the Group contributed to the emissions of 95,346.09 kg of nitrogen oxides ("NOx"), 474.65 kg of sulphur oxides ("SOx") and 8.07 kg of respiratory suspended particles ("PM").

A1.2 Greenhouse Gas Emissions

The Group's operation contributed to 1,660,607.70 tonnes of carbon dioxide equivalent ("tCO2e") (carbon dioxide, methane, nitrous oxide and hydrofluorocarbons) emission, with an intensity of intensity of 56.33 tonnes/m^2 of total production area and 2.05 tonnes/ton of total chemical products manufactured. Similar to the last reporting period, emission from on-site natural gas combustion (scope 1) remains the highest among other GHG sources, followed by emission from purchased natural gas (scope 2) and purchased electricity (scope 2).

Scope of Greenhouse Gas Emissions	Emission Sources		Emission (in tonnes of carbon dioxide equivalent "tCO_2e")	Total Emission (in %)
Scope 1 Direct emissions	Combustion of fuels in stationary sources	Natural Gas	1,262,291.49	76.0%
	Combustion of fuels in mobiles sources	Diesel	58.86	
		Petrol	40.95	
Scope 2 Energy indirect emission	Purchased electricity		116,803.37	23.8%
	Purchased natural gas		278,853.98	
Scope 3 Other indirect emissions	Paper waste disposed at landfills		3.35	0.2%
	Electricity used for processing fresh water by third parties		2,550.90	
	Business air travel by employees		4.80	
Total			**1,660,607.70**	**100**

Environmental, Social, Governance Report

Note 1: Emission for the combustion of natural gas in stationary source was calculated with emission factors from Greenhouse Gas Protocol Calculation Tool – GHG Emissions from Stationary Combustion (Chinese fuel).

Note 2: Combined margin emission factor of 0.6063 tCO_2/MWh was used for purchased electricity in Sichuan, China.

Note 3: Emission factors were made reference to Appendix 27 of the Main Board Listing Rules and their referred documentation as set out by Hong Kong Exchanges and Clearing Limited, unless stated otherwise.

A1.3 Hazardous Waste

A total of 612.66 tonnes of hazardous waste was generated from the Group's production during the reporting period. The hazardous wastes generated by the Group's business activities mainly consist of waste chemical catalyst, waste chemical solutions and waste oil. Hazardous waste is collected by a third party for recycling. The amount was reduced due to the suspension of production in New Materials.

A1.4 Non-hazardous Waste

A total of 9.25 tonnes of non-hazardous waste was generated from the Group during the reporting period. The non-hazardous waste generated from the Group's production mainly consist of waste plastic containers, aerator pipe, domestic waste, paper waste, and industrial waste such as waste packaging materials and other types of waste that cannot be recycled during the maintenance process. Non-hazardous waste is collected by a recycling complany. The amount was reduced due to the suspension of production in New Materials.

A1.5 Measures to Mitigate Emissions

The Group manages its carbon footprint by minimising energy consumption. During the reporting period, it has installed new equipment such as high-pressure boiler and low nitrogen converting burner to enhance energy efficiency and reduce pollution. Furthermore, the Group aims to reduce energy loss by the provision of routine repair and maintenance of equipment.

A1.6 Wastes Handling and Reduction Initiatives

The Group strives to properly manage and dispose of all wastes produced in its operation. During the reporting period, non-hazardous waste generated was mainly waste plastic, which was sold to the third party for recycling. Other non-hazardous waste was collected and incinerated by qualified waste companies. All hazardous waste, mainly waste solutions and waste oil from production, was collected and repurposed by qualified parties. The Group gradually adopts a paperless office culture to further reduce the environmental impact caused from office operation. The Group will continue to its effort to reduce waste in its operation.

A2. Use of Resources

The Group has implemented a comprehensive Environmental Management System and most operations are certified with ISO 14001. Waste and chemicals are handled under strict procedures in a controlled environment by qualified and experienced personnel. Energy conservation policies are implemented throughout the Group, wastewater is recycled wherever possible.

A2.1 Energy Consumption

Energy Consumption Sources	Consumption (in various unit)	Consumption (in kilowatt hours "kWh")
Diesel	21,351 litres	213,475
Electricity	192,649,462 kWh	192,649,462
Natural Gas	494,421,956 m³	4,885,919,360
Petrol	15,193 litres	134,633
Total		5,078,916,930

The Group's business operations resulted in a total energy consumption of 5.08 billion kWh from the use of diesel, electricity, LPG, natural gas and petrol, with an overall energy intensity of 172,272.90 kWh/m^2 and 6,257.99 kWh/ton of total product manufactured.

A2.2 Water Consumption

The Group sourced water for industrial use from nearby water supply plants. There was no issue in sourcing water during the reporting period. The total water consumption for the Group was 6,315,667 m^3, with an overall intensity of 214.22 m^3/m^2 of total production area and 7.78 m^3/ton of total chemical products manufactured.

On-site Wastewater Treatment

A total amount of 139,244 m^3 of wastewater was discharged from the Group during the reporting period. The Group is equipped with on-site wastewater treatment facilities at all operation sites with treatment processes such as grit removal, chemical sedimentation and aeration. Wastewater is treated to meet the Discharge Standard of Water Pollutants for Ammonia Industry before it is discharged into the public sewage system. Automatic sampler for water monitoring has been introduced to further safeguard the water quality of the wastewater discharge.

Various wastewater indicators, including biochemical oxygen demand, chemical oxygen demand, total suspended solids, pH, volatile phenol, nitrogen, ammonia nitrogen, Cyanide, Sulfide, etc. are measured. The monitoring reports demonstrated that all effluents are within the permissible level in the Discharge Standard of Water Pollutants for Ammonia Industry. No exceedances were observed during the reporting period.

Parameters	Discharge Limits	Average Detected Valued
Chemical Oxygen Demand	200mg/L	17.29mg/L
Total Suspended Solid	100mg/L	27.77mg/L
Ammonia Nitrogen	50mg/L	6.03mg/L
Total Nitrogen	60mg/L	11.33mg/L
pH	6~9	7.37

Environmental, Social, Governance Report

A2.3 Energy Use Efficiency Initiatives

Natural gas was consumed for manufacturing process and canteen at Guangan and Dazhou, a 14% increase when compared to the last reporting period. The increase was mostly due to better data tracking of natural gas consumption during manufacturing process The Group has also installed energy efficient equipment during the reporting period.

A2.4 Water Use Efficiency Initiatives

The Group reuses wastewater as much as possible to minimize the amount of wastewater discharged and replenishment of fresh water for manufacturing process. During the reporting period, the Group contributed to 9% drop in water consumption when compared to last year, mainly due to the reduction in production.

A2.5 Packaging Material

1,076 tonnes of packaging materials were used for the production and product packaging at Dazhou. The amount of packaging materials used was 8% less than that of last year, mainly due to the work suspension at New Material. Production at Guangan did not involve any packaging materials. All packaging materials had no hazardous contents.

A3. The Environment and Natural Resources

A3.1. Significant Impacts of Activities on the Environment

The Group has moderate impacts on the environment and ecosystem due to the consumption of a significant amount of natural gas and electricity. Yet, it is committed to minimizing its environmental impacts. During the reporting year, the Group has installed new equipment to increase the energy efficiency and reduce pollution. The Group will continue its effort in process optimization, enhancing inspection, and reducing the overall dependence on natural gas. The Group continues to strengthen the management of environmental protection and energy conservation, and encourage pro-environmental behaviours, such as switching off idling electronic devices, among staff. Recycling bins are located in the public space of the office, with clear recycling instructions. Canteen tableware, such as bowls and chopsticks, purchased are all made of recyclable materials.

B. SOCIAL

1. Employment and Labour Practices

The Group complies with the Labour Law of the PRD, the Labour Contract Law of the PRC, and the Social Insurance Law of the PRC. The Group has established policies to regulate compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare that have significant impact. During the reporting period, the Group was not aware of any material non-compliance with the relevant laws and regulations relating to employment.

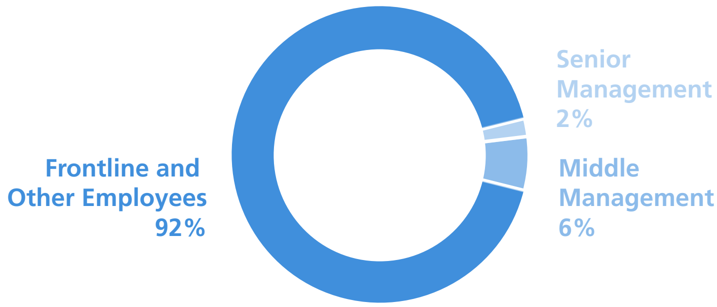
B1. Employment

The Group had a total number of 631 employees from all three sites as of 31 December 2019. The total workforce had a 4% increase when compared to the previous reporting period. All of them were full time employees from the PRC.

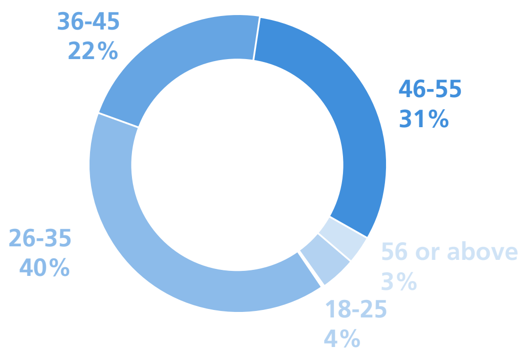
Environmental, Social, Governance Report

During the end of reporting period, the total workforce by employment type, age group and gender are as follows.

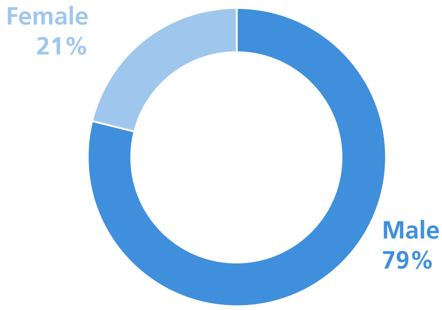
WORKFORCE BY EMPLOYEE CATEGORY



WORKFORCE BY AGE GROUP



WORKFORCE BY AGE GENDER

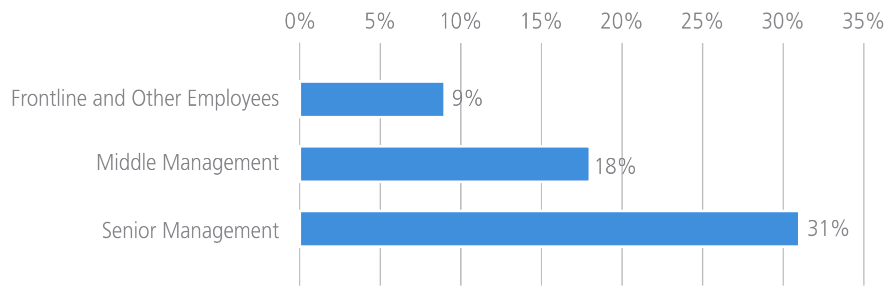


Environmental, Social, Governance Report

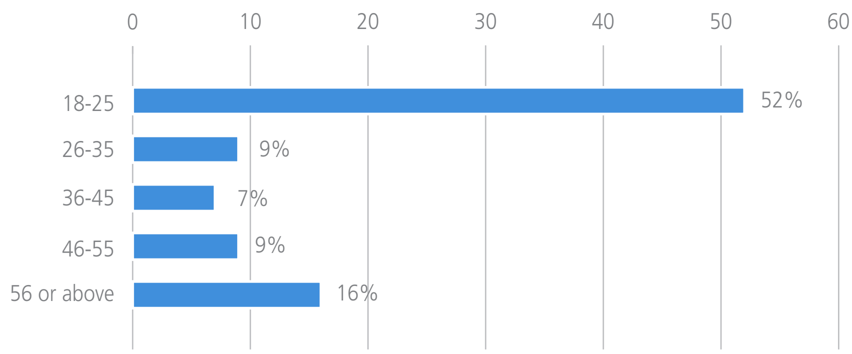
Turnover

A total number of 65 full-time employees from the PRC left the Group during the reporting period, contributing to the annual turnover rate of 10%. The employee turnover rate by gender, age group in the reporting period are as follows:

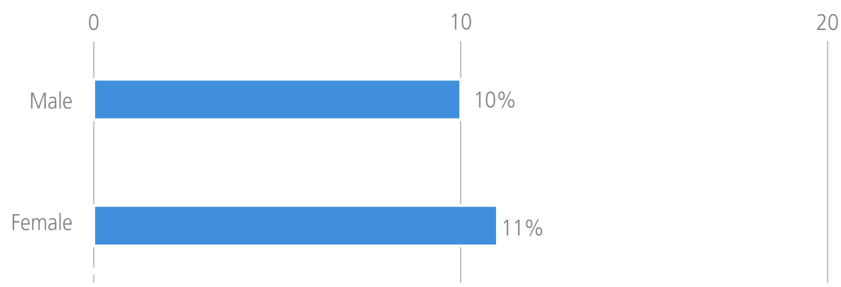
Annual Turnover by Employee Category



Annual Turnover by Age Group



Annual Turnover by Gender



Compensation and Benefits Package

The Group believes that employees are important assets, which are the essential elements for the development of the Group. Therefore, the Group ensures the remuneration is in line with the market rate to attract and retain employees. Employees are entitled to basic social insurance in Mainland China. The Group has increased the rate of sickness allowance. It continues to follow the principle of "to adapt current market, to reflect talent, to give incentive". To retain talent, the Group notifies current employees for any position opening before posting externally. The remuneration structure is "merit-based" and set objectively based on the personnel's position and performance. Employees are awarded with a year-end bonus based on their annual review results.

Appraisal System

Two individual appraisal systems were put forward to evaluate the management team and frontline staff separately with different focuses. Both the upwards appraisal and top-down appraisal were used for the management team evaluation. In which way, the managers' performance was evaluated by supervisors while subordinates can express opinions and concerns.

Equal Opportunity

The principle of equal opportunities is applied in all employment policies, including recruitment, training, career development and promotion of employees. The Group promotes fair competition and prohibits discrimination or harassment against any employees on gender, ethnic background, religion, colour, sexual orientation, age, marital status, family status, retirement, disability, and pregnancy. Though without formal policies, the Group firmly adopts "equal opportunity" principles during recruitment, evaluation, and promotion processes. The ratio of female employees has a 2% slight increase during the year.

Staff Communication

The Group believes that workplace communication of paramount importance because it enhances effectiveness of operation and production. The Group organizes annual meeting, Spring Festival Mass Greeting, sports activities and team outing to improve communication and build stronger bonds between employees. These communication channels and activities improve teamwork and enhance working efficiency. Trade union is also formed to better reflect the opinions of employees.

B2. Employee Health and Safety

The Group recognises the importance of occupational health and safety, and strives to provide a safe working environment to its employees. The Group strictly complies with national and local laws, regulations and practice, including but not limited to the followings:

— Law of the PRC on the Prevention and Control of Occupational Diseases

— Measures for the Supervision and Administration of Employers' Occupational Health Surveillance

During the reporting period, there was no material non-compliance in relation to health and safety laws and regulations.

Environmental, Social, Governance Report

The Group has established Health, Safety and Quality Department which strives to ensure workplace health and safety. The department protects employees from potential hazards, risks, and accidents, and continuously reviews and improves safety management system processes to achieve injury-free workplace. The department also identifies and assesses the occupational health hazards, monitors the situation and develops prevention and mitigation plans. All employees participate in at least one training on occupational health and safety, and at least 2 emergency rescue exercises every year.

The Group implemented the following management practice secure employees' health and safety:

- The Group applies high power exhaust fan and air conditioning in the workplace, and makes sure that all ventilation system has been properly operated and maintained to ensure a healthy indoor environment;

- The Group systematically identifies and closely monitors any occupational hazards in the workplace;

- The Group has provided annual Occupational health test to its employees, and the Group will examine further about the possible treatment schemes if any cases are found;

- All employees are informed of the potential occupational health hazards and are provided with personal protective equipment

- The Group set up a designated venue for chemical storage, where all chemicals are marked with clear names, instructions, and hazardous signs.

To evaluate the health and safety management, the Group monitors the performance via several measurable metrics. During the reporting period, the monitoring results indicated that the concentration level of all relevant occupational hazards including sulfuric acid, hydrochloric acid, sodium hydroxide, ammonia, carbon monoxide, carbon dioxide, urea, and formaldehyde were all within permissible level per GBZ2.1 occupational exposure limits for harmful factors in the workplace.

There is a case of work injury with 97 lost days. The Group will pay attention to its health and safety management to prevent work injury in the coming year.

Occupational Health and Safety Data

	2019	**2018**	**2017**	**2016**
Work related fatality	0	0	0	0
Work injury cases ≥3 days	1	0	1	1
Work injury cases <3 days	0	0	0	0
Lost days due to work injury	97	0	60	118

B3. Development and Training

The Group provides continuous training and development programmes for its employees to enhance their expertise and problem-solving skills. At the end of each year, the Group collects training needs from departments and positions to design appropriate training programmes. The following year, the employees have training in accordance with the training plan. Training and development programmes, including but not limited to on-job training, drill and practice, and seminars are arranged and held by internal and outside professionals. Training topics included management level training such as improvement of personnel and financial management skills; operators' training on job skills promotion; and occupational health and safety training for all employees. and evaluation will be conducted after training.

During the reporting period, the Group subsidized employees to have the training and certificate examination of special equipment operation, which cost a sum of RMB120,000. The details of staff training for 2019 are as follows:

		2019
Number of Employee receiving training		526
Total Training Hours		11,122
By employee category		
Senior Management	% of employees trained	108%
	Average training hours completed per employee	23
Middle management	% of employees trained	83%
	Average training hours completed per employee	21
Frontline and other employees	% of employees trained	83%
	Average training hours completed per employee	18
By gender		
Male	% of employees trained	84%
	Average training hours completed per employee	18
Female	% of employees trained	82%
	Average training hours completed per employee	17

B4. Labour Standards

The Group strictly complies with the Provisions on the Prohibition of Using Child Labor and other laws and regulations relating to the labour standards in the PRC. The Human Resources Department conducts background check for every new employee during the recruitment process to ensure compliance with any applicable labour laws in Mainland China, such as the Labour Law of the PRC and the Trade Union Law of the PRC regarding the collective contracts on wage, occupational disease prevention and protection of female employees. There were no material non-compliance relating to children or forced labour in the reporting period.

2. Operating Practices

B5. Supply Chain Management

The Group understands that proper management of our supply chain brings positive impact to the Group, the society, and the environment. To ensure the supplier's capabilities in providing qualified products, the Group has established a supply chain management system. It conducts survey and evaluation on the qualifications of suppliers and their product quality every year, ensuring that they continue to meet the suppliers' standards. Qualified suppliers would be updated and kept on the list for selection. Any suppliers who failed to meet the evaluation and standards for their performance twice would be eliminated from the qualified supplier list. In addition, in the daily work, information of potential suppliers would be collected and will be further evaluated if needs arise.

During the procurement process, the Group has policies on prioritizing selection on energy efficiency appliance and fair-trade products, and proactively requests suppliers' commitment to comply with the applicable environmental and social standards.

During the reporting period, the Group engaged a total no. of 564 suppliers from Mainland China for the distribution and sales services, and the supply of raw materials, tools and equipment, chemical supplements, and personal protective gears.

B6. Product Responsibility

The Group is committed to offering products and services with high standards of safety, quality and reliability. During the reporting period, the Group did not note any cases of material non-compliance regarding health and safety, advertising, labelling and privacy matters relating to products and services provided as required by related laws and regulations. The quality control and quality assurance procedures remain in force and the Group continues to follow the Quality Assurance Policy. The production equipment of Dazhou has been updated with an emergency plan for treating unexpected accident. In case the service is interrupted, the agricultural sales companies will be notified immediately to respond to any external sales request in time.

During the reporting period, the Group has received 5 complaints relating to product quality and customer experience, which were resolved through communication with the clients. No product recalls were needed. The Group is committed to making improvements to enhance not only product qualities, but also customer experiences.

Intellectual Property Right

The Group is committed to protecting the intellectual property rights of our products and production methods and respecting the intellectual property rights of other parties. During the reporting year, the Group has obtained 3 invention patents. The Group has also set up intellectual property right clause in the employee contract, established relevant policies during the process of employee's termination, and provided intellectual property training to selected employees. During the year, there were no reported cases of infringement of intellectual property rights, patents or trademarks.

Consumer Data Protection

The Group endeavours to protect the personal data of its customers. The Group has determined the right to access the customer's personal data. Employees are strictly prohibited from accessing or disclosing customer's personal data without authorisation. Internal encryption system is used for data transmission, preventing interception of unauthorized users. To ensure the network stability and data security, group's information center is responsible for the development and maintenance of the office system. During the year, the Group complied with all relevant laws and regulations relating to information security that has significant impact on the Company.

B7. Anti-corruption

The Group strictly regulates the discipline and professional conduct of its employees to prevent any potential bribery, extortion, fraud, money laundering and gambling. The Group management system clearly stated that any personnel who abuse powers for corruption, bribes, and/or bribery, will be transferred to judicial office for further investigation. The Group's Internal Audit Department continues to supervise and conduct regular checks on the Procurement Department in terms of contracts, suppliers' quotation, and payment status. A whistleblowing hotline is set for reporting any suspicions case of misconduct. There was no concluded legal case regarding corrupt practices brought against the Group or its employees, and no noted cases of non-compliance with the applicable laws and regulations relating to money laundering or corruption during the reporting period.

B8. Community Investment

The Group does not have policies on community engagement. Nevertheless, it attaches great importance to the responsibility to work in partnership with the local communities. The Group would organise and mobilize employees to participate in community investment projects in the coming year.

Corporate Governance Practices

The board of directors ("Board") believes that by adopting high standard of corporate governance practices can improve the transparency and accountability of the Company, and instill confidence of shareholders and the public in the Group. Throughout the year under review, the Board adopted the Code on Corporate Governance Practices (the "Corporate Governance Code") as set out in Appendix 14 of the Listing Rules and the Company has complied with the Corporate Governance Code.

THE BOARD OF DIRECTORS

Board composition

The Board of directors currently comprises six directors of which three are Executive Directors and three are Independent Non-Executive Directors as at 31 December 2019. The detail is as follow:

Executive Directors
Mr. Tang Guoqiang *(Chairman)*
Mr. Shi Jianmin
Mr. Zhang Weihua
Mr. Li Weiruo *(Resigned on 17 May 2019)*

Non-Executive Director
Mr. Zhang Fubo *(Resigned on 1 June 2019)*

Independent Non-Executive Directors
Mr. Hu Xiaoping
Mr. Shi Lei
Mr. Xu Congcai

The Independent Non-Executive Directors represented over one-third of the Board during the year 2019. Among the three Independent Non-Executive Directors, at least one has appropriate professional qualifications or accounting or related financial management expertise which satisfies the requirement under the rule 3.10(1) and (2) of the Listing Rules. An annual confirmation of the independence of each Independent Non-Executive Director had been received in accordance with each and every guideline set out in rule 3.13 of the Listing Rules. All Independent Non-Executive Directors are identified as such in all corporate communications that disclose the names of the directors. There is no family or other material relationship among members of the Board.

The Board is responsible for the strategic development of the Group's business. Daily operations and execution of strategic plans are delegated to management. The Audit Committee, Remuneration Committee and the Nomination Committee have specific terms of reference clearly defining the powers and responsibilities of the respective committees. All committees are required to report to the Board in relation to their decisions and recommendations for seeking the Board's approval.

Board meeting

The Board meets regularly and board meetings are held at least four times a year. The board meetings involved the active participation in persons or through other electronic means of communication. Notice of all board meetings were given to all directors to ensure all directors, who were given an opportunity to attend and include matters in the agenda for discussion. Agenda and accompanying board papers are sent to all directors at least one day prior to the meeting. Draft and final versions of minutes of board meetings were sent within a reasonable time to all directors for comment and record. All the committee meetings follow the applicable practices and procedures used in board meetings.

In the financial year ended 31st December 2019, 13 board meetings and 2 shareholders' meeting were held and the attendance record for the meetings by each director is as follow:

Attendants	Number of board meetings attended/total	Board meetings attendance percentage	Number of shareholders' meetings attended/total	Shareholders' meetings Attended percentage
Executive Directors				
Mr. Tang Guoqiang	13/13	100%	2/2	100%
Mr. Shi Jianmin	13/13	100%	2/2	100%
Mr. Zhang Weihua	13/13	100%	2/2	100%
Mr. Li Weiruo (Resigned on 17.05.2019)	0/2	0%	0/1	0%
Non-Executive Director				
Mr. Zhang Fubo	3/3	100%	1/1	100%
Independent Non-Executive Directors				
Mr. Hu Xiaoping	13/13	100%	2/2	100%
Mr. Shi Lei	13/13	100%	2/2	100%
Mr. Xu Congcai	13/13	100%	2/2	100%

Chairman and Chief executive officer

The Chairman of the Group is Mr. Tang Guoqiang, primarily responsible for the management of the Board and ensuring the Board functions effectively, smoothly and following a good corporate governance practices. Mr. Tang Guoqiang, the Chairman and together with the other Executive Directors are responsible for monitoring the day to day operation of the Group. Segregation of duties is among the Executive Directors and each Executive Director has specific area to focus on. Mr. Tang Guoqiang is responsible strategic planning, merger and acquisition and related matters with capital market of the Group for the development of the Group. Mr. Shi Jianmin, the Executive Director and Chief Executive Officer of the Group is responsible for the daily operation of all the business of the Group. Mr. Zhang Weihua, the Executive Director and compliance officer of the Group, is responsible for the monitoring the compliance matters of the Group.

Corporate Governance Practices

DIRECTORS' TRAINING

Pursuant to A.6.5 of the Corporate Governance Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills. The Directors are regularly briefed on the amendments to or updates on the relevant laws, rules and regulations. From time to time, Directors are provided with written materials to develop and refresh their professional skills. The Directors had fulfilled the relevant requirements under A.6.5 of the Corporate Governance Code during the year under review.

COMPANY SECRETARY'S TRAINING

Pursuant to rule 3.29 of the Listing Rules, the Company Secretary must take no less than 15 hours of relevant professional training in each financial year. The Company Secretary provided his training records to the Company indicating more than 15 hours of relevant professional development by means of attending seminars and reading relevant guideline materials.

SHAREHOLDERS' RIGHTS

Procedures for convening an extraordinary general meeting and putting forward proposals by shareholders at general meeting

Each general meeting other than an annual general meeting shall be called an extraordinary general meeting. General meetings may be held in any part of the world as may be determined by the Board. According to Article No. 58 of the Company's Articles of Association, any one or more members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Any requisition to convene an extraordinary general meeting or proposal to be put forward at the general meeting can be addressed to the principal place of business in Hong Kong of the Company marked with the attention of the Company Secretary. The requisitionists must state in their request(s) the objects of the extraordinary general meeting to be convened, and such request must be signed by all the requisitionists. Upon receipt, the Company will verify the requisitionists' particulars and if the request is in order, the Company will convene the extraordinary general meeting in accordance with its articles of association.

Procedures for propose a person for election as a Director

The procedures for proposing a person for election as a Director can be found in the post on 27th April 2012 under the Investor Relations section of the Company's website at www.koyochem.com.

Procedures for directing shareholders' enquires to the Board

Shareholders and investors may at any time send their enquiries and concerns to the Board in writing through the Company Secretary or the Investor Relations Department. Details of contact are available on the Company's website at www.koyochem.com.

DIRECTORS' SECURITIES TRANSACTION

The Board had adopted the model code ("Model Code") set out in Appendix 10 to the Listing Rules as the code of conduct regarding directors' securities transactions Specific enquiry had been made to all directors and each director confirmed that during the year under review, he had fully complied with the required standard of the dealings and there was no event of non-compliance with the required standard of dealings.

REMUNERATION OF DIRECTORS

Remuneration Committee was established in January 2005 and 1 meeting was held during the financial year under review. The members of the committee and the attendance record are as follow:

Attendants	**Number of meetings attended/Total**	**Attendance percentage**
Independent Non-Executive Directors		
Mr. Hu Xiaoping *(Chairman)*	1/1	100%
Mr. Shi Lei	1/1	100%
Mr. Xu Congcai	1/1	100%
Non-Executive Director		
Mr. Zhang Fubo *(Resigned on 1 June 2019)*	1/1	100%

The majority of the members of the remuneration committee are Independent Non-Executive Directors.

The Remuneration Committee is responsible for the reviewing and recommending the Board for the remuneration policy of the directors and assessing performance of Executive Directors. The remuneration terms and policies recommended by the Remuneration Committee were reported to the Board for approval. The Remuneration Committee is provided with sufficient resources for discharging its duties.

NOMINATION OF DIRECTORS

Nomination Committee was established in January 2005 and 1 meeting was held during the financial year under review. The members of the committee and the attendance record are as follow:

Attendants	**Number of meetings attended/total**	**Attendance percentage**
Independent Non-Executive Directors		
Mr. Hu Xiaoping	1/1	100%
Mr. Shi Lei	1/1	100%
Mr. Xu Congcai	1/1	100%
Non-Executive Director		
Mr. Zhang Fubo *(Chairman)*	1/1	100%

Corporate Governance Practices

The majority of the members of the Nomination Committee are Independent Non-Executive Directors.

The Nomination Committee is responsible for the formulating the nomination policy of the directors and recommending the Board on nomination and appointment of directors. The Nomination Committee is provided with sufficient resources for discharging its duties.

TERM OF APPOINTMENT AND RE-ELECTION

Each of the Executive Directors has entered into a service contract with the Company for initial fixed term of three years, and will continue thereafter for successive terms of three year until terminated by not less than three months' notice in writing served by either party on the other. The Independent Non-Executive Directors of the Company are appointed with specific terms inside the letter of appointment for initial fixed terms of two years.

In accordance with Article 87 of the articles of association of the Company, at each annual general meeting, one-third of directors for the time being shall retire from office by rotation and, will be eligible for re-election. Chairman of the Board will not be subject to retirement by rotation. Mr. Xu Congcai will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The Independent Non-Executive Directors of the Company are appointed with specific terms inside the letter of appointment for initial fixed terms of two years. Pursuant to A.4.3 of the Corporate Governance Code (the "**Corporate Governance Code**") set out in Appendix 14 of the Listing Rules, any further appointment of an Independent Non-Executive Director in excess of nine years should subject to a separate resolution to be approved by shareholders. Mr. Hu Xiaoping was appointed as Independent Non-Executive Directors in June 2003 and will severe on the Board for more than seventeen years in June 2020. Therefore, Mr. Hu Xiaoping should retire and re-election at the forthcoming annual general meeting.

AUDIT COMMITTEE

Audit Committee was established in June 2003 with written terms of reference compliance with the Code and four meetings were held during the financial year under review. The members of the committee and the attendance records are as follow:

Attendants	**Number of meetings attended/total**	**Attendance percentage**
Independent Non-Executive Directors		
Mr. Shi Lei *(Chairman)*	4/4	100%
Mr. Hu Xiaoping	4/4	100%
Mr. Xu Congcai	4/4	100%
Non-Executive Director		
Mr. Zhang Fubo *(Resigned on 1 June 2019)*	3/3	100%

The members of the Audit Committee are Non-Executive Directors. No former partner of the Company's existing auditing firm acted as a member of the Audit Committee within one year on the date of his ceasing to be a partner or had any financial interests in the auditing firm.

The Board and the Audit Committee had reviewed the remuneration, independence and scope of work of the external auditors. There was no disagreement between the Board and the Audit Committee on the selection, appointment, resignation or dismissal of the external auditors.

The Audit Committee is responsible for reviewing the accounting principles and practices adopted by the Group, recommending the Board on the Group's internal control and risk management system, and ensuring the Group's financial statements present a true and fair view of the Group's financial position. The Audit Committee had reviewed with management the accounting principles and practices and discussed internal controls and financial reporting matters including a review of the audited financial statements of the Company and Group for the year ended 31st December 2019.

The Audit Committee is provided with sufficient resources for discharging its duties.

INDEPENDENT EXTERNAL AUDITORS

In 2019, the total remuneration charged by to the independent external auditors amounted to approximately RMB1.6 million, which was all for the audit services provided by the independent external auditors. The audit fees have been approved by the Audit Committee and the Board.

The statement of the independent external auditors of the Company about their reporting responsibilities on the consolidated financial statements is set out on pages 46 and 49 of this annual report.

The audit committee has resolved the re-appointment of ZHONGHUI ANDA CPA Limited for the financial year 2019. This resolution has been approved by the Board and is subject to final approval by the shareholders at the forthcoming annual general meeting.

INTERNAL CONTROL

The internal audit department of the Company is responsible for the financial control and operational control of the Group. The Board from time to time reviewed the effectiveness of the Group's internal control system. During the year under review, the Board considered the internal control system effective and adequate. No significant areas of concern which might affect shareholders were identified.

Independent Auditor's Report

中汇
ZHONGHUI

TO THE SHAREHOLDERS OF KO YO CHEMICAL (GROUP) LIMITED
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Ko Yo Chemical (Group) Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 50 to 113, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw attention to Note 2 to the consolidated financial statements which states that the Group incurred a loss of approximately RMB731,812,000 for the year ended 31 December 2019 and as at 31 December 2019, the Group's current liabilities exceeded its current assets by approximately RMB1,801,453,000, despite the Group had a net operating cash inflow of approximately RMB34,672,000 during the year. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Property, Plant and Equipment

Refer to Note 16 to the consolidated financial statements

The Group tested the amount of property, plant and equipment for impairment. This impairment test is significant to our audit because the balance of property, plant and equipment of approximately RMB2,202,156,000 as at 31 December 2019 is material to the consolidated financial statements. In addition, the Group's impairment test involves application of judgement and is based on assumptions and estimates.

Our audit procedures included, among others:

— Assessing the identification of the related cash generating units;

— Assessing the arithmetical accuracy of the value-in-use calculations;

— Comparing the actual cash flows with the cash flow projections;

— Assessing the reasonableness of the key assumptions (including revenue growth, profit margins, terminal growth rates and discount rates);

— Engaging our own valuer to assist us in assessing the reasonableness of the discount rate; and

— Checking input data to supporting evidence.

We consider that the Group's impairment test for property, plant and equipment is supported by the available evidence.

Mining right

Refer to Notes 19 and 21 to the consolidated financial statements

The Group tested the amount of mining right for impairment. This impairment test is significant to our audit because the balance of mining right of approximately RMB309,456,000 as at 31 December 2019 is material to the consolidated financial statements. In addition, the Group’s impairment test involves application of judgement and is based on assumptions and estimates.

Our audit procedures included, among others:

— Assessing the competence, independence and integrity of the external valuer engaged by client;

— Obtaining the external valuation report and communicating with the external valuer to discuss and challenge the valuation process, methodologies used and market evidence to support significant judgments and assumptions applied in the valuation model;

— Checking key assumptions and input data in the valuation model to supporting evidence;

— Checking arithmetical accuracy of the valuation model; and

— Assessing the disclosure of the impairment test for mining right in the consolidated financial statements.

We consider that the Group’s impairment test for mining right is supported by the available evidence.

OTHER INFORMATION IN THE ANNUAL REPORT

The directors are responsible for the other information. The other information comprises all the information in the Company’s annual report, but does not include the consolidated financial statements and our auditors’ report thereon. The other information is expected to be made available to us after the date of this auditor’s report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

RESPONSIBILITIES OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located at the HKICPA's website at: http://www.hkicpa.org.hk/en/standards-and-regulations/standards/auditing-assurance/auditre/ This description forms part of our auditor's report.

ZHONGHUI ANDA CPA Limited
Certified Public Accountants
Yeung Hong Chun
Audit Engagement Director
Practising Certificate Number P07374

Hong Kong, 30 March 2020

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
Revenue	*7*	**1,964,476**	3,101,031
Cost of sales		**(1,958,077)**	(2,877,039)
Gross profit		**6,399**	223,992
Distribution costs		**(26,617)**	(33,529)
Administrative expenses		**(124,894)**	(133,426)
Other income/(loss) — net	*8*	**5,504**	(24,418)
Other expenses	*9*	**(418,368)**	(218,371)
Operating loss		**(557,976)**	(185,752)
Finance income	*10*	**348**	309
Finance expenses	*10*	**(154,614)**	(162,242)
Loss before tax		**(712,242)**	(347,685)
Income tax expense	*11*	**(19,570)**	(601)
Loss and total comprehensive loss for the year	*12*	**(731,812)**	(348,286)
Attributable to:			
Equity holders of the Company		**(731,564)**	(348,209)
Non-controlling interests		**(248)**	(77)
		(731,812)	(348,286)
Loss per share attributable to the equity holders of the Company during the year (expressed in RMB per share)			
— Basic	*14*	**(0.1598)**	(0.0810)
— Diluted	*14*	**(0.1598)**	(0.0810)

Consolidated Statement of Financial Position

As at 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
ASSETS			
Non-current assets			
Land use rights	*15*	–	111,777
Property, plant and equipment	*16*	2,202,156	2,476,614
Investment properties	*17*	57,694	59,538
Right-of-use assets	*18*	109,384	–
Mining right	*19*	309,456	309,755
Other intangible assets	*20*	378	8,349
Deferred income tax assets	*33*	82,319	101,964
		2,761,387	3,067,997
Current assets			
Inventories	*23*	77,055	63,783
Trade and other receivables	*24*	104,094	122,207
Pledged bank deposits	*25*	30,116	24,339
Cash and cash equivalents	*26*	10,110	4,545
		221,375	214,874
Total assets		2,982,762	3,282,871
EQUITY			
Equity attributable to owners of the Company			
Share capital	*27*	474,879	368,394
Reserves	*29*	(243,056)	215,012
		231,823	583,406
Non-controlling interests		1,557	1,805
Total equity		233,380	585,211

Consolidated Statement of Financial Position

As at 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
LIABILITIES			
Non-current liabilities			
Long-term borrowings	30	428,300	343,500
Convertible bonds	31	223,599	123,274
Deferred subsidy income	32	–	622
Deferred income tax liabilities	33	74,655	74,730
		726,554	542,126
Current liabilities			
Trade and other payables	34	355,579	325,869
Contract liabilities	35	204,667	141,670
Provision for tax		1,152	1,152
Short-term borrowings	30	1,302,714	1,239,668
Current portion of long-term borrowings	30	158,419	433,921
Convertible bonds	31	–	13,254
Lease liabilities	36	297	–
		2,022,828	2,155,534
Total liabilities		2,749,382	2,697,660
Total equity and liabilities		2,982,762	3,282,871
Net current liabilities		(1,801,453)	(1,940,660)
Total assets less current liabilities		959,934	1,127,337

The consolidated financial statements on pages 50 to 113 were approved and authorised for issue by Board of Directors on 30 March 2020 and are signed on behalf of the Board by:

Director

Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

	Attributable to equity holders of the Company											
	Share capital	Share premium	Merger reserve	Share-based compensation reserve — share options	Share-based compensation reserve — convertible bonds	Reserve fund	Enterprise expansion fund	Accumulated loss	Transaction with non-controlling interests	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2018	368,394	1,409,065	(22,041)	28,269	224,903	45,273	1,131	(1,119,870)	(3,509)	931,615	1,882	933,497
Total comprehensive loss for the year	–	–	–	–	–	–	–	(348,209)	–	(348,209)	(77)	(348,286)
At 31 December 2018	368,394	1,409,065	(22,041)	28,269	224,903	45,273	1,131	(1,468,079)	(3,509)	583,406	1,805	585,211
Balance at 1 January 2019	368,394	1,409,065	(22,041)	28,269	224,903	45,273	1,131	(1,468,079)	(3,509)	583,406	1,805	585,211
Total comprehensive loss for the year	–	–	–	–	–	–	–	(731,564)	–	(731,564)	(248)	(731,812)
Issuance of convertible bonds	–	–	–	–	302,283	–	–	–	–	302,283	–	302,283
Issue of shares:												
— Matured during the year	–	–	–	–	(5,956)	–	–	5,956	–	–	–	–
— Conversion of bonds	106,485	110,107	–	–	(138,894)	–	–	–	–	77,698	–	77,698
At 31 December 2019	474,879	1,519,172	(22,041)	28,269	382,336	45,273	1,131	(2,193,687)	(3,509)	231,823	1,557	233,380

Consolidated Statement of Cash Flows

For The Year Ended 31 December 2019

	2019 RMB'000	2018 RMB'000
Cash flows from operating activities		
Loss before tax	(712,242)	(347,685)
Adjustments for:		
Lease interest expenses	37	–
Depreciation of property, plant and equipment	216,946	217,223
Depreciation of investment properties	1,844	1,844
Depreciation of right-of-use assets	3,555	–
Amortisation of land use rights	–	2,683
Amortisation of intangible assets	270	270
Loss on disposal of property, plant and equipment	529	1,532
Share-based payment arising from the issue of convertible bonds	223,058	–
Interest revenue	(348)	(223)
Interest expense	154,509	162,242
Exchange loss/(gain)	68	(86)
Impairment loss on goodwill	7,701	–
Impairment loss/(reversal of impairment loss) on mining right	299	(12,455)
Write off prepayment	–	32,220
Write off trade receivables	–	4,618
Impairment loss on property, plant and equipment	187,310	181,533
Fair value change of derivative financial assets	–	41,670
Operating cash flows before working capital changes	83,536	285,386
(Increase)/decrease in inventories	(13,272)	7,041
Decrease in trade and other receivables	18,113	69,323
Increase in trade and other payables	4,853	14,290
Increase/(decrease) in contract liabilities	62,997	(159,847)
Decrease in deferred subsidy income	(622)	(654)
Cash generated from operations	155,605	215,539
Lease interests expenses paid	(37)	–
Interest paid	(120,896)	(161,830)
Net cash generated from operating activities	34,672	53,709

Consolidated Statement of Cash Flows

For The Year Ended 31 December 2019

	2019 RMB'000	2018 RMB'000
Cash flows from investing activities		
Purchases of property, plant and equipment and payments for construction-in-progress	(111,467)	(297)
Proceeds from disposal of property, plant and equipment	236	16,941
Increase in pledged bank deposits	(5,777)	(12,743)
Interest received	348	223
Net cash (used in)/generated from investing activities	(116,660)	4,124
Cash flows from financing activities		
Issuance of convertible bonds	229,501	–
Repayments of convertible bonds	(13,359)	–
Proceeds from borrowings	660,300	643,231
Repayments of borrowings	(787,956)	(712,917)
Repayment of lease liabilities	(865)	–
Net cash generated from/(used in) financing activities	87,621	(69,686)
Net increase/(decrease) in cash and cash equivalents	5,633	(11,853)
Cash and cash equivalents at beginning of year	4,545	16,312
Exchange (loss)/gain	(68)	86
Cash and cash equivalents at end of year	10,110	4,545

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

1. GENERAL INFORMATION

Ko Yo Chemical (Group) Limited (the "Company") was incorporated in the Cayman Islands as an exempted company with limited liability. The address of the registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The address of the principal place of business is Suite No. 02, 31st Floor, Sino Plaza, 255–257 Gloucester Road, Causeway Bay, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company is an investment holding company. The Company and its subsidiaries (the "Group") are principally engaged in the manufacture and sale of chemical products and chemical fertilisers in the People's Republic of China (the "PRC").

The consolidated financial statements have been presented in Renminbi ("RMB"), which is also the functional currency of the Company and its principal subsidiaries.

2. GOING CONCERN BASIS

The Group incurred a loss of approximately RMB731,812,000 and as at 31 December 2019, the Group's current liabilities exceeded its current assets by approximately RMB1,801,453,000, and the Group had a net operating cash inflow of approximately RMB34,672,000 during the year. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

In addition, the Group has contracted capital commitments of approximately RMB85 million as at 31 December 2019.

The Group had a net operating cash inflow of approximately RMB35 million during the year. The directors of the Company have reviewed the Group's cash flow projections, which cover a period of twelve months from 31 December 2019. They have assessed the appropriateness of adopting the going concern basis for the preparation of these consolidated financial statements for the year ended 31 December 2019 in light of the Group's plans and measures described below to improve its cash flows:

(a) As at 31 December 2019 the Group's total borrowings amounted to approximately RMB1,889 million, of which approximately RMB1,461 million will be due within twelve months from 31 December 2019. As at that date, the Group's bank deposits pledged for short-term borrowings amounted to approximately RMB30,116,000. The Group has not experienced any significant difficulties in renewing its short-term borrowings upon their maturities and there is no indication that the banks will not renew the existing short-term borrowings if the Group applies for the renewal.

(b) As at 31 December 2019, the contracted capital expenditure committed by the Group amounted to approximately RMB85 million, of which approximately RMB85 million is required to be settled in the coming twelve months. These commitments are mainly related to the construction of production facilities in GuangAn, Sichuan Province. The directors of the Company will undertake close monitoring process to control the magnitude and timing of the expected cash outlays associated with the projects.

(c) The directors also expect that sufficient sales orders will be secured in the coming year such that net operating cash inflows will be generated from Dazhou plant and two GuangAn plants.

2. GOING CONCERN BASIS *(Continued)*

(d) On 10 July 2019, the Company entered into the subscription agreement with the subscriber, pursuant to which the subscriber has conditionally agreed to subscribe for the convertible bonds in the principal amount of HK$987,000,000 and the Company has conditionally agreed to issue the convertible bonds. It is expected that the Company would issue the convertible bonds in 2020.

In the opinion of the directors, in light of the above, the Group will have sufficient financial resources to finance its operations and fulfil its financial obligations as and when required in the coming twelve months from 31 December 2019. Accordingly, the directors are satisfied that it is appropriate to prepare these consolidated financial statements on a going concern basis.

Notwithstanding the above, significant uncertainties exist as to whether management of the Company will be able to achieve its plans and measures as described above. Whether the Group will be able to continue as a going concern would depend upon the Group's ability to generate adequate financing cash inflows through successful renewal of its current bank loans upon expiry, obtaining additional bank borrowing, and securing other sources of financing; and generate adequate operating cash inflows. Should the Group be unable to achieve the above plans and measures such that it would not be able to operate as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amounts, to provide for any future liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effect of these adjustments has not been reflected in these consolidated financial statements.

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are relevant to its operations and effective for its accounting year beginning on 1 January 2019. HKFRSs comprise Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards; and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's consolidated financial statements and amounts reported for the current year and prior years except as stated below.

The Group has first adopted HKFRS 16 "Lease" from 1 January 2019, but has not restated comparative for year ended 31 December 2018, as permitted under the specific transitional provisions in the standard. The Group has elected to apply the modified retrospective approach for the application HKFRS 16 as lessee and will recognize the right-of-use assets at the date of initial application equal to the lease liabilities, adjusted by the amount of related prepaid or accrued lease payments recognised in the consolidated statement of financial position immediately before the date of initial application.

(a) Adjustments recognised on adoption of HKFRS 16 "Leases"

On adoption of HKFRS 16 "Leases", the Group recognised lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of HKAS 17 "Leases". These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 4.75%.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

(a) Adjustments recognised on adoption of HKFRS 16 "Leases" *(Continued)*

In applying HKFRS 16 "Leases" for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying HKAS 17 "Leases" and HK(IFRIC)-Int 4 "Determining whether an Arrangement contains a Lease".

As a lessee, the Group's leases are mainly rentals of offices. The right-of-use assets were measured at the amount equal to the lease liability and there were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application. The following table shows the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included.

Consolidated statement of financial position (extract)	**Carrying amount as at 31 December 2018** RMB'000	**Impacts of adoption of HKFRS 16 "Leases"** RMB'000	**Carrying amount as at 1 January 2019** RMB'000
NON-CURRENT ASSETS			
Land use rights	111,777	(111,777)	–
Right-of-use assets	–	112,939	112,939
CURRENT LIABILITIES			
Lease liabilities	–	865	865
NON-CURRENT LIABILITIES			
Lease liabilities	–	297	297

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

(b) The reconciliation of operating lease commitment to lease liabilities

	RMB'000
Operating lease commitments disclosed as at 31 December 2018	1,201
Discounting	(39)
Lease liabilities discounted at relevant incremental borrowing rates at 1 January 2019	1,162
Analysed as:	
Current	865
Non-current	297
	1,162

The Group has not applied the new and revised HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new and revised HKFRSs but is not yet in a position to state whether these new and revised HKFRSs would have a material impact on its results of operations and financial position.

4. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with HKFRSs, accounting principles generally accepted in Hong Kong and the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange and by the Hong Kong Companies Ordinance.

These consolidated financial statements have been prepared under the historical cost convention.

The preparation of consolidated financial statements in conformity with HKFRSs requires the use of certain key assumptions and estimates. It also requires the directors to exercise its judgements in the process of applying the accounting policies. The areas involving critical judgements and areas where assumptions and estimates are significant to these consolidated financial statements, are disclosed in note 5 to the consolidated financial statements.

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below.

Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Group has control. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group has power over an entity when the Group has existing rights that give it the current ability to direct the relevant activities, i.e. activities that significantly affect the entity's returns.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Consolidation *(Continued)*

When assessing control, the Group considers its potential voting rights as well as potential voting rights held by other parties, to determine whether it has control. A potential voting right is considered only if the holder has the practical ability to exercise that right.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date the control ceases.

The gain or loss on the disposal of a subsidiary that results in a loss of control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that subsidiary and (ii) the Company's share of the net assets of that subsidiary plus any remaining goodwill relating to that subsidiary and any related accumulated foreign currency translation reserve.

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests represent the equity in subsidiaries not attributable, directly or indirectly, to the Company. Non-controlling interests are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity. Non-controlling interests are presented in the consolidated statement of profit or loss and other comprehensive income as an allocation of profit or loss and total comprehensive income for the year between the non-controlling shareholders and owners of the Company.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling shareholders even if this results in the non-controlling interests having a deficit balance.

Business combination and goodwill

The acquisition method is used to account for the acquisition of a subsidiary in a business combination. The cost of acquisition is measured at the acquisition-date fair value of the assets given, equity instruments issued, liabilities incurred and contingent consideration. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received. Identifiable assets and liabilities of the subsidiary in the acquisition are measured at their acquisition-date fair values.

The excess of the cost of acquisition over the Company's share of the net fair value of the subsidiary's identifiable assets and liabilities is recorded as goodwill. Any excess of the Company's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss as a gain on bargain purchase which is attributed to the Company.

In a business combination achieved in stages, the previously held equity interest in the subsidiary is remeasured at its acquisition-date fair value and the resulting gain or loss is recognised in consolidated profit or loss. The fair value is added to the cost of acquisition to calculate the goodwill.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combination and goodwill *(Continued)*

If the changes in the value of the previously held equity interest in the subsidiary were recognised in other comprehensive income (for example, equity investments at fair value through other comprehensive income), the amount that was recognised in other comprehensive income is recognised on the same basis as would be required if the previously held equity interest were disposed of.

Goodwill is tested annually for impairment or more frequently if events or changes in circumstances indicate that it might be impaired. Goodwill is measured at cost less accumulated impairment losses. The method of measuring impairment losses of goodwill is the same as that of other assets as stated in the accounting policy below. Impairment losses of goodwill are recognised in consolidated profit or loss and are not subsequently reversed. Goodwill is allocated to cash-generating units that are expected to benefit from the synergies of the acquisition for the purpose of impairment testing.

The non-controlling interests in the subsidiary are initially measured at the non-controlling shareholders' proportionate share of the net fair value of the subsidiary's identifiable assets and liabilities at the acquisition date.

Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Renminbi, which is the Company's functional and presentation currency.

(ii) Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

Non-monetary items that are measured at fair values in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

Property, plant and equipment

Buildings comprise mainly factories and offices. Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The estimated useful lives are as follows:

— Buildings	35 years
— Plant and machinery	12–14 years
— Motor vehicles	10 years
— Office equipment and others	7 years

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

Construction in progress represents buildings under construction and plant and machinery pending installation, and is stated at cost less impairment losses. Depreciation begins when the relevant assets are available for use.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

Investment properties

Investment properties are land and/or buildings held to earn rentals and/or for capital appreciation. An investment property is measured initially at its cost including all direct costs attributable to the property.

After initial recognition, the investment property is stated at cost less accumulated depreciation and impairment losses. The depreciation is calculated using the straight line method to allocate the cost to the residual value over its estimated useful life of 35 years.

The gain or loss on disposal of an investment property is the difference between the net sales proceeds and the carrying amount of the property, and is recognised in profit or loss.

Mining rights

Mining rights are stated at cost less accumulated amortisation and any impairment losses. Mining rights include the cost of acquiring mining licenses, exploration and evaluation costs transferred from exploration rights and assets upon determination that an exploration property is capable of commercial production, and the cost of acquiring interests in the mining reserves of existing mining properties. The mining rights are amortised over the estimated useful lives of the mines, in accordance with the production plans of the entities concerned and the proved and probable reserves of the mines using the units of production method. Mining rights are written off to profit or loss if the mining property is abandoned.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases

The Group as lessee

Policy applicable from 1 January 2019

Leases are recognised as right-of-use assets and corresponding lease liabilities when the leased assets are available for use by the Group. Right-of-use assets are stated at cost less accumulated depreciation and impairment losses. Depreciation of right-of-use assets is calculated at rates to write off their cost over the shorter of the asset's useful life and the lease term on a straight-line basis. The principal annual rates are as follows:

Land use rights	40–46 years
Land and buildings	2 years

Policy applicable before 1 January 2019

Leases that do not substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as operating leases. Lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term.

The Group as lessor

Leases that do not substantially transfer to the lessees all the risks and rewards of ownership of assets are accounted for as operating leases. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

Construction permits

Construction permits are stated at cost less accumulated amortisation and impairment losses. Amortisation is calculated on a straight-line basis over their estimated useful lives of 10 years.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis. The cost of finished goods and work in progress comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure, and where appropriate, subcontracting charges. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received is recognised in profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Recognition and derecognition of financial instruments *(Continued)*

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

Financial assets

Financial assets are recognised and derecognised on a trade date basis where the purchase or sale of an asset is under a contract whose terms require delivery of the asset within the timeframe established by the market concerned, and are initially recognised at fair value, plus directly attributable transaction costs except in the case of investments at fair value through profit or loss. Transaction costs directly attributable to the acquisition of investments at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets of the Group are classified as financial assets at amortised cost.

Financial assets (including trade and other receivables) are classified under this category if they satisfy both of the following conditions:

— the assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows; and

— the contractual terms of the assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

They are subsequently measured at amortised cost using the effective interest method less loss allowance for expected credit losses.

Loss allowances for expected credit losses

The Group recognises loss allowances for expected credit losses on financial assets at amortised cost. Expected credit losses are the weighted average of credit losses with the respective risks of a default occurring as the weights.

At the end of each reporting period, the Group measures the loss allowance for a financial instrument at an amount equal to the expected credit losses that result from all possible default events over the expected life of that financial instrument ("lifetime expected credit losses") for trade receivables, or if the credit risk on that financial instrument has increased significantly since initial recognition.

If, at the end of the reporting period, the credit risk on a financial instrument (other than trade receivables) has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to the portion of lifetime expected credit losses that represents the expected credit losses that result from default events on that financial instrument that are possible within 12 months after the reporting period.

The amount of expected credit losses or reversal to adjust the loss allowance at the end of the reporting period to the required amount is recognised in profit or loss as an impairment gain or loss.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Convertible bonds

Convertible loans which entitle the holder to convert the loans into a fixed number of equity instruments at a fixed conversion price are regarded as compound instruments consist of a liability and an equity component. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt. The liability component is carried as a liability at amortised cost using the effective interest method until extinguished on conversion or redemption.

Transaction costs are apportioned between the liability and equity components of the convertible loans based on their relative carrying amounts at the date of issue. The portion relating to the equity component is charged directly to equity.

Financial guarantee contract liabilities

Financial guarantee contract liabilities are initially recognised at fair value and subsequently measured at the higher of:

— the loss allowance; and

— the amount initially recognised less cumulative amortisation recognised in profit or loss over the terms of the guarantee contracts.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Trade and other payables

Trade and other payables are stated initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Share-based payment transactions

The Group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees and others as consideration for equity instruments of the Group.

(a) Share options

The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save).

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payment transactions *(Continued)*

(b) Issue of convertible bonds as share-based payment transactions

If the identifiable consideration received by the Company appears to be less than the fair value of the convertible bonds issued, the Company measures the unidentifiable services received (to be received) as the difference between the fair value of the convertible bonds issued and that of the identifiable consideration received, and the difference is recognised in the profit or loss immediately unless qualified for capitalisation.

The equity component (i.e. the bondholder's right to demand settlement in the Company's shares) of the convertible bond will be accounted for as an equity-settled share-based payment transaction. The entity first measures the fair value of the debt component, and then measure the fair value of the equity component by taking into account that the bondholder must forfeit the right to receive cash in order to receive the equity instrument. Subsequent to initial recognition, the debt component of the convertible bond is carried as a liability at amortised cost using the effective interest method until extinguished on conversion or redemption.

The equity component is not remeasured subsequent to initial recognition.

Revenue from contracts with customers

Revenue is measured based on the consideration specified in a contract with a customer with reference to the customary business practices and excludes amounts collected on behalf of third parties. For a contract where the period between the payment by the customer and the transfer of the promised product or service exceeds one year, the consideration is adjusted for the effect of a significant financing component.

The Group recognises revenue when it satisfies a performance obligation by transferring control over a product or service to a customer. Depending on the terms of a contract and the laws that apply to that contract, a performance obligation can be satisfied over time or at a point in time. A performance obligation is satisfied over time if:

— the customer simultaneously receives and consumes the benefits provided by the Group's performance;

— the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or

— the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If a performance obligation is satisfied over time, revenue is recognised by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the product or service.

Interest revenue

Interest revenue is recognised using the effective interest method.

Other income

Rental income is recognised on a straight-line basis over the lease term.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Employee benefits

(a) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the end of the reporting period.

(b) Pension obligations

In accordance with the rules and regulations in the Mainland China, the Mainland China based employees of the Group participate in various defined contribution plans organised by the relevant municipal and provincial governments in the Mainland China under which the Group and the Mainland China based employees are required to make monthly contributions to these plans calculated as a percentage of the employees' salaries (subject to a floor and cap).

The municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired Mainland China based employees payable under the plans described above. Other than the monthly contributions, the Group has no further obligation for the payment of retirement and other post-retirement benefits of its employees. The assets of these plans are held separately from those of the Group in independently administrated funds managed by the governments.

The Group also participates in a retirement benefit scheme under the rules and regulations of the Mandatory Provident Fund Scheme Ordinance ("MPF Scheme") for its eligible employees in Hong Kong. The contributions to the MPF Scheme borne by the Group are calculated at 5% of the salaries and wages (monthly contributions is limited to HKD1,500 for each eligible employee) as calculated under the MPF legislation. The assets of this MPF Scheme are held separately from those of the Group in independently administered funds.

The Group's contributions to the defined contribution plans are expensed as incurred.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Government grants

A government grant is recognised when there is reasonable assurance that the Group will comply with the conditions attaching to it and that the grant will be received.

Government grants relating to income are deferred and recognised in profit or loss over the period to match them with the costs they are intended to compensate.

Government grants that become receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Government grants relating to the purchase of assets are recorded as deferred income and recognised in profit or loss on a straight-line bass over the useful lives of the related assets.

Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Related parties

A related party is a person or entity that is related to the Group.

(a) A person or a close member of that person's family is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Company or of a parent of the Company.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Company or to a parent of the Company.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and other intangible assets except goodwill, deferred tax assets, inventories and receivables to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the financial statements when material.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Critical judgements in applying accounting policies

In the process of applying the accounting policies, the directors have made the following judgements that have the most significant effect on the amounts recognised in the consolidated financial statements (apart from those involving estimations, which are dealt with below).

(a) Going concern basis

These consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the Group's ability to generate adequate financing cash inflows through successful renewal of its current bank loans upon expiry, obtaining additional bank borrowing, and securing other sources of financing; and generate adequate operating cash inflows. Details are explained in note 2 to consolidated financial statements.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

(a) Depreciation and impairment of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over their useful lives, after taking into account their estimated residual values. The Group assesses annually the useful lives and residual values of the property, plant and equipment. If the expectation differs from the original estimate, such difference will impact the depreciation charged in the year in which such estimate is changed.

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets exceeds its recoverable amount. The recoverable amount is determined with reference to the present value of estimated future cash flows. An impairment loss is measured as the difference between the asset's carrying amount and the recoverable amount. Where the future cash flows are less than expected or there are unfavourable events and change in facts and circumstance which result in revision of future estimate cash flow, a material impairment loss may arise.

(b) Impairment of mining right

In determining whether mining right and goodwill are impaired or the event previously causing the impairment no longer exists, management has to exercise judgement in the area of asset impairment, particularly in assessing: (1) whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence; (2) whether the carrying value of asset can be supported by the net present value of future cash flows which are estimated based upon the continued use of the asset or derecognising; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment in the cash flow projections, could materially affect the net present value used in the impairment test.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

Key sources of estimation uncertainty *(Continued)*

(c) Income taxes

The Group is mainly subject to income taxes in the Mainland China. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the tax losses can be utilised. Recognition of deferred tax assets primarily involves management judgement and estimations regarding the taxable profits of the entities in which the losses arose. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits.

6. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and cash flow and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Foreign exchange risk

The Group has minimal exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated the functional currencies of the Group entities, Renminbi ("RMB"). The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

(b) Cash flow and fair value interest rate risk

The Group's interest rate risk mainly arises from pledged bank deposits and borrowings. Long-term borrowing issued at variable rates expose the Group to cash flow risk which is partially offset by cash held at variable rates. The Group's pledged bank deposits, short-term borrowings and convertible bonds were issued at fixed rates and exposed the Group to fair value interest rate risk. During 2019 and 2018, the Group's long-term borrowings at variable rate were denominated in RMB.

The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

As at 31 December 2019, if interest rates on long-term borrowings had been increased/decreased by 20 basis points with all other variables held constant, post-tax loss for the year would have been increased/decreased by approximately RMB1,173,000 (2018: post-tax loss increased/decreased by approximately RMB1,555,000), mainly as a result of higher/lower interest expense on floating rate borrowings.

6. FINANCIAL RISK MANAGEMENT *(Continued)*

(c) Credit risk

The Group has no significant concentrations of credit risk. Credit risk arises from cash and cash equivalents, pledged bank deposits and trade and other receivables.

For cash and cash equivalents and pledged bank deposits, management manages the credit risk by placing most bank deposits in the state-controlled and other listed banks in Mainland China and other high quality foreign banks without significant credit risk.

For trade and other receivables, the credit quality of the counterparties is assessed by taking into account their financial position, credit history and other factors. Individual credit limits are set based on the assessment of the credit quality. Given the constant repayment history, the directors are of the opinion that the risk of default by these counterparties is low. The Group has no significant concentrations of credit risk, with exposure spread over a large number of counterparties and customers.

The Group considers whether there has been a significant increase in credit risk of financial assets on an ongoing basis throughout each reporting period by comparing the risk of a default occurring as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following information is used:

— internal credit rating;

— actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations;

— actual or expected significant changes in the operating results of the borrower;

— significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers.

A significant increase in credit risk is presumed if a debtor is more than 30 days past due in making a contractual payment. A default on a financial asset is when the counterparty fails to make contractual payments within 60 days of when they fall due.

Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the Group. The Group normally categorises a receivable for write off when a debtor fails to make contractual payments greater than 365 days past due. Where receivables have been written off, the Group, if practicable and economical, continues to engage in enforcement activity to attempt to recover the receivable due.

6. FINANCIAL RISK MANAGEMENT *(Continued)*

(c) Credit risk *(Continued)*

The Group used two categories for non-trade loan receivables which reflect their credit risk and how the loan loss provision is determined for each of the categories. In calculating the expected credit loss rates, the Group considers historical loss rate for each category and adjusts for record looking data.

Category	Definition	Loss provision
Performing	Low risk of default and strong capacity to pay	12 month expected losses
Non-performing	Significant increase in credit risk	Lifetime expected losses

All of these trade and other receivables are considered to have low risk and under the 'Performing' category because they have a low risk of default and have strong ability to meet their obligations.

(d) Liquidity risk

The Group guarantees a sufficient liquidity by efficient cash management and by keeping adequate committed and uncommitted credit line available.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 1 year RMB'000	**Between 1 and 2 years** RMB'000	**Between 2 and 5 years** RMB'000	**Over 5 years** RMB'000
At 31 December 2019				
Trade and other payables	**329,440**	**–**	**–**	**–**
Short-term borrowings	**1,302,714**	**–**	**–**	**–**
Long-term borrowings	**158,419**	**164,500**	**263,800**	**–**
Convertible bonds	**–**	**–**	**376,940**	**–**
Interest payment on borrowings and convertible bonds	**140,817**	**49,535**	**84,815**	**–**
At 31 December 2018				
Trade and other payables	298,259	–	–	–
Short-term borrowings	1,239,668	–	–	–
Long-term borrowings	433,921	101,500	242,000	–
Convertible bonds	13,360	–	–	256,685
Interest payment on borrowings and convertible bonds	131,131	39,468	42,899	25,533

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

6. FINANCIAL RISK MANAGEMENT *(Continued)*

(d) Liquidity risk *(Continued)*

The Group aims to maintain sufficient cash and cash equivalents and ensure the availability of funding though an adequate amount of available financing, including short-term borrowings, long-term borrowings and capital contribution from investors. Due to the dynamic nature of the underlying businesses, management of the Group maintains flexibility in funding by maintaining adequate amount of cash and cash equivalents and flexibility in funding through having available sources of financing.

The Group has been investing in the construction of new production lines and a significant amount of the financing was obtained from short-term borrowings. As a result, the Group had net current liabilities of approximately RMB1,801 million as at 31 December 2019 (2018: approximately RMB1,941 million). Nevertheless, the Group has not experienced any significant difficulties in renewing its short-term borrowings upon their maturities.

The directors, having considered the current operation and business plan of the Group as well as the available funding sources as described in Note 2, are of opinion that the Group will have sufficient working capital to maintain its liquidity.

(e) Categories of financial instruments

	2019 RMB'000	2018 RMB'000
Financial assets:		
Financial assets at amortised cost (including cash and cash equivalents)	51,716	40,512
Financial liabilities:		
Financial liabilities at amortised cost	2,442,472	2,451,876

(f) Fair values

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values.

7. REVENUE

Revenue represents invoiced value of sale of chemical products and chemical fertilisers to customers in Mainland China, net of goods returned and value-added tax, where applicable.

Disaggregation of revenue from contracts with customers

Geographical information

For the years ended 31 December 2019 and 2018, all revenue is derived from the PRC.

Major products	**2019**	2018
	RMB'000	RMB'000
BB & compound fertilizers	**25,823**	38,609
Urea	**553,786**	472,140
Ammonia	**583,047**	395,286
Methanol	**788,864**	776,726
Polyphenylene sulfide	**–**	53,144
Others-trading	**12,956**	1,365,126
	1,964,476	3,101,031

Others are trading of methanol, urea, ammonia and various kind of fertilizers.

Timing of revenue recognition

For the years ended 31 December 2019 and 2018, all revenue is recognised at a point of time.

The Group's sales made in Mainland China are subject to value-added tax. The applicable rates of output value added tax range from 0% to 17% from 1 January 2018 to 30 April 2018 and from 0% to 16% from 1 May 2018 to 31 December 2018. The applicable rates of output value added tax range from 0% to 16% for the year ended 31 December 2019.

The Group has a number of customers and revenue generated from top two customers accounted for 10.42% (2018: 10.1%) and 10.12% (2018: 8.2%) respectively of the Group's revenue during the year.

Sale of chemical products and chemical fertilizers

The Group manufactures and sells chemical products and chemical fertilizers to the customers. Sales are recognised when control of the products has transferred, being when the products are delivered to a customer, there is no unfulfilled obligation that could affect the customer's acceptance of the products and the customer has obtained legal titles to the products.

Sales to customers are normally made with credit terms of 0 to 90 days. For new customers, deposits or cash on delivery may be required. Deposits received are recognised as a contract liability.

A receivable is recognised when the products are delivered to the customers as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

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For the year ended 31 December 2019

8. OTHER INCOME/(LOSS) — NET

	2019 RMB'000	2018 RMB'000
Deferred subsidy income recognised	622	654
Subsidy income	3,733	1,717
Rental income, net	3,205	2,411
Reversal of impairment loss on mining right	–	12,455
Fair value changes on derivative financial assets	–	(41,670)
Others, net	(2,056)	15
	5,504	(24,418)

9. OTHER EXPENSES

	2019 RMB'000	2018 RMB'000
Share-based payment arising from the issue of convertible bonds	223,058	–
Write off trade receivables	–	4,618
Write off prepayment	–	32,220
Impairment losses on goodwill	7,701	–
Impairment losses on mining rights	299	–
Impairment losses on property, plant and equipment	187,310	181,533
	418,368	218,371

10. FINANCE EXPENSES — NET

	2019 RMB'000	2018 RMB'000
Finance income:		
Exchange gain	–	(86)
Interest revenue	(348)	(223)
	(348)	(309)
Finance expenses:		
— lease interests expenses	37	–
Interest expense:		
— bank borrowings	109,404	132,397
— convertible bonds	45,820	30,305
Less: capitalisation in construction-in-progress	(716)	(462)
	154,545	162,240
Exchange loss	68	–
Others	1	2
	154,614	162,242
Finance expenses — net	154,266	161,933

11. INCOME TAX EXPENSE

No provision for profits tax in the Cayman Islands, 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 years ended 31 December 2019 and 2018.

The applicable income tax rate of other subsidiaries located in Mainland China in 2019 and 2018 is 25%.

The amount of taxation charged to the consolidated statement of profit or loss and other comprehensive income represents:

	2019 RMB'000	2018 RMB'000
PRC Corporate Income Tax for Mainland China	–	–
Deferred income tax	19,570	601
	19,570	601

Notes to the Consolidated Financial Statements

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11. INCOME TAX EXPENSE *(Continued)*

The taxation on the Group's loss before income tax differs from the theoretical amount that would arise using the taxation rate of 25% (2018: 25%). The difference is analysed as follows:

	2019 RMB'000	2018 RMB'000
Loss before tax	(712,242)	(347,685)
Tax calculated at a taxation rate of 25% (2018: 25%)	(178,060)	(86,853)
Tax rate difference	23,567	6,915
Expenses not deductible for tax purposes	47,622	13,608
Utilization of tax losses previously not recognised	(25,774)	(16,026)
Tax losses previously recognised and reversed	47,470	–
Tax losses for which no deferred income tax was recognised	58,004	24,002
Temporary differences for which no deferred income tax was recognised	46,828	59,141
Income not subject to tax	(87)	(186)
Income tax expense	19,570	601

12. LOSS FOR THE YEAR

The Group's loss for the year is stated after charging the following:

	2019 RMB'000	2018 RMB'000
Raw materials and consumables used	589,433	998,498
Depreciation of property, plant and equipment	216,946	217,223
Depreciation of investment properties	1,844	1,844
Depreciation of right-of-use assets	3,555	–
Amortisation of land use rights	–	2,683
Amortisation of other intangible assets	270	270
Auditors' remuneration — Audit services	1,584	1,519
Operating lease payments	–	896
Loss on disposal of property, plant and equipment	529	1,532
Staff costs including directors' emoluments		
Salaries, bonus and allowances	74,620	77,007
Retirement benefits scheme contributions	2,068	2,882
	76,688	79,889

Cost of inventories sold includes staff costs, depreciation of property, plant and equipment and expenses related to short-term lease of approximately RMB69,089,000 (2018: staff costs, depreciation and operating lease charges of approximately RMB77,492,000) which are included in the amounts disclosed separately above.

13. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The remuneration of every director for the years ended 31 December 2019 and 2018 is set out below:

	Fees RMB'000	Salaries, allowances and benefits in-kind RMB'000	Contributions to pension schemes RMB'000	Total RMB'000
Executive directors				
Mr. Shi Jianmin *(Note iv)*	–	–	–	–
Mr. Tang Guoqiang *(Note v)*	528	–	–	528
Mr. Zhang Weihua *(Note vi)*	–	–	–	–
Mr. Li Weiruo *(Note viii)*	–	–	–	–
Name of non-executive director				
Mr. Zhang Fubo *(Note vii)*	183	–	–	183
Name of independent non-executive directors				
Mr. Hu Xiaoping	176	–	–	176
Mr. Shi Lei	176	–	–	176
Mr. Xu Congcai	176	–	–	176
Total for 2019	1,239	–	–	1,239

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13. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

(a) Directors' emoluments *(Continued)*

	Fees RMB'000	Salaries, allowances and benefits in-kind RMB'000	Contributions to pension schemes RMB'000	Total RMB'000
Executive directors				
Mr. Li Weiruo *(Note viii)*	743	521	–	1,264
Mr. Yuan Bai *(Note i)*	139	618	10	767
Mr. Wu Tianran *(Note ii)*	511	734	–	1,245
Mr. Wan Congxin *(Note iii)*	139	592	–	731
Mr. Shi Jianmin *(Note iv)*	–	–	–	–
Mr. Tang Guoqiang *(Note v)*	–	–	–	–
Mr. Zhang Weihua *(Note vi)*	–	–	–	–
Name of non-executive director				
Mr. Zhang Fubo *(Note vii)*	422	–	–	422
Name of independent non-executive directors				
Mr. Hu Xiaoping	169	–	–	169
Mr. Shi Lei	169	–	–	169
Mr. Xu Congcai	169	–	–	169
Total for 2018	2,461	2,465	10	4,936

Note:

(i) Mr. Yuan Bai was resigned as an executive director on 20 July 2018.

(ii) Mr. Wu Tianran was resigned as an executive director on 20 July 2018.

(iii) Mr. Wan Congxin was resigned as an executive director on 20 July 2018.

(iv) Mr. Shi Jianmin was appointed as an executive director on 20 July 2018.

(v) Mr. Tang Guoqiang was appointed as an executive director on 20 July 2018.

(vi) Mr. Zhang Weihua was appointed as an executive director on 20 July 2018.

(vii) Mr. Zhang Fubo was resigned as an non-executive director on 1 June 2019.

(viii) Mr. Li Weiruo was resigned as an executive director on 17 May 2019.

13. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include one (2018: five) director whose emoluments is reflected in the analysis presented above. The emoluments of the remaining four (2018: Nil) individuals are set out below:

	2019 RMB'000	2018 RMB'000
Salaries and other benefits	1,911	–
Retirement benefit scheme contributions	116	–
	2,027	–

The emoluments fell within the following bands:

	Number of individuals	
	2019	2018
Nil to HK$1,000,000	4	–

During the year, the Group did not pay any amount to the five highest paid individuals nor any other directors of the Company as an inducement to join or upon joining the Group or as compensation for loss of office and no directors waived any emoluments during the year.

14. LOSS PER SHARE

Basic

Basic loss per share are calculated by dividing the loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

Diluted

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: Convertible bonds and share options. The convertible bonds are assumed to have been converted into ordinary shares, and the net loss is adjusted to eliminate the interest expense less the tax effect. For the share options, the number of shares that would have been issued assuming the exercise of the share options less the number of shares that could have been issued at fair value (determined as the average market price per share for the year) for the same total proceeds is the number of shares issued for no consideration. The resulting number of shares issued for no consideration is included in the weighted average number of ordinary shares as the denominator for calculating diluted loss per share.

Potential ordinary shares arising from the assumed conversion of convertible bonds and the assumed exercise of share options have not been included in the calculation of diluted loss per share because they are anti-dilutive for the years ended 31 December 2018 and 2019.

The calculation of the basic and diluted loss per share is based on the following:

	2019 RMB'000	2018 RMB'000
Loss		
Loss for the purpose of calculating basic and diluted earnings per share	**(731,564)**	(348,209)

	2019 '000	2018 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic and diluted earnings per share	**4,579,275**	4,298,043

15. LAND USE RIGHTS

The Group's land use rights represent prepaid operating lease payments.

	2018
	RMB'000
Cost	
At 1 January and 31 December	127,969
Accumulated amortisation	
At 1 January	13,509
Amortisation charge for the year	2,683
At 31 December	16,192
Net book amount	
At 31 December	111,777

All the Group's land use rights are located in Mainland China. The remaining lease periods of the land use rights are between 40 to 46 years for the year ended 31 December 2018.

As at 31 December 2018, land use rights with a total net book value of approximately RMB58,781,000 were pledged as collateral for the Group's bank borrowings.

Amortisation charge had been charged in administrative expenses.

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16. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Office equipment and others RMB'000	Construction-in-progress RMB'000	Total RMB'000
Cost						
At 1 January 2018	1,046,180	2,368,981	13,071	23,180	424,300	3,875,712
Additions	4,076	3,254	–	58	12,489	19,877
Disposals	(17,534)	(2,553)	(505)	(43)	–	(20,635)
Cost adjustment	(68,149)	–	–	–	(74,473)	(142,622)
Transferred to investment properties	(59,190)	–	–	–	–	(59,190)
At 31 December 2018	**905,383**	**2,369,682**	**12,566**	**23,195**	**362,316**	**3,673,142**
Additions	**6,787**	**105,434**	**–**	**28**	**18,314**	**130,563**
Disposals	**–**	**(792)**	**(2,454)**	**(248)**	**–**	**(3,494)**
At 31 December 2019	**912,170**	**2,474,324**	**10,112**	**22,975**	**380,630**	**3,800,211**
Accumulated depreciation and impairment loss						
At 1 January 2018	(85,802)	(693,305)	(8,172)	(22,081)	–	(809,360)
Depreciation	(28,017)	(187,718)	(723)	(765)	–	(217,223)
Disposals	–	1,478	253	431	–	2,162
Impairment loss	–	–	–	–	(181,533)	(181,533)
Transferred to investment properties	9,426	–	–	–	–	9,426
At 31 December 2018	**(104,393)**	**(879,545)**	**(8,642)**	**(22,415)**	**(181,533)**	**(1,196,528)**
Depreciation	**(12,988)**	**(202,718)**	**(547)**	**(693)**	**–**	**(216,946)**
Disposals	**–**	**574**	**1,964**	**191**	**–**	**2,729**
Impairment loss	**–**	**(4,637)**	**–**	**–**	**(182,673)**	**(187,310)**
At 31 December 2019	**(117,381)**	**(1,086,326)**	**(7,225)**	**(22,917)**	**(364,206)**	**(1,598,055)**
Net book amount						
At 31 December 2019	**794,789**	**1,387,998**	**2,887**	**58**	**16,424**	**2,202,156**
At 31 December 2018	800,990	1,490,137	3,924	780	180,783	2,476,614

Impairment loss of approximately RMB187,310,000 (2018: RMB181,533,000) was recognised in profit or loss for property, plant and equipment.

All the Group's buildings are located in Mainland China. As at 31 December 2019, property, plant and equipment with a total net book value of approximately RMB1,538,018,000 (2018: approximately RMB1,130,436,000) were pledged as collateral for the Group's bank borrowings.

For the year ended 31 December 2019, borrowing costs of approximately RMB716,000 (2018: approximately RMB462,000) have been capitalised in the construction-in-progress.

17. INVESTMENT PROPERTIES

	2019 RMB'000	2018 RMB'000
Cost		
As at 1 January and 31 December	73,052	13,862
Transferred from property, plant and equipment	–	59,190
As at 1 January and 31 December	73,052	73,052
Accumulated depreciation and impairment loss		
As at 1 January	(13,514)	(2,244)
Charge for the year	(1,844)	(1,844)
Transferred from property, plant and equipment	–	(9,426)
As at 31 December	(15,358)	(13,514)
Net book value		
As at 31 December	57,694	59,538
Fair value as at 31 December	78,000	75,000

All the Group's investment properties are located in Mainland China. As at 31 December 2019, investment properties with a total net book value of approximately RMB57,694,000 (2018: approximately RMB59,538,000) were pledged as collateral for the Group's bank borrowings.

The fair values of the investment properties as at 31 December 2019 were estimated on the open market basic value by reference to market evidence of recent transaction for similar properties by management. It falls under level 2 in the fair value hierarchy.

The rental income arising from investment properties for the year 2019 of approximately RMB5,049,000 (2018: approximately RMB4,255,000) and depreciation charges are included in other income.

As at 31 December 2019, the Group had no unprovided contractual obligations for future repairs and maintenance (2018: Nil).

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18. LEASES AND RIGHT-OF-USE ASSETS

Disclosures of lease-related items:

	2019 RMB'000
At 31 December:	
Right-of-use assets	
— Land use rights	109,094
— Land and buildings	290
	109,384
The maturity analysis, based on undiscounted cash flows, of the Group's lease liabilities is as follows:	
— Less than 1 year	300
Year ended 31 December:	
Depreciation charge of right-of-use assets	
— Land use rights	2,683
— Land and buildings	872
	3,555
Lease interest expenses	37
Expenses related to short-term leases	252
Total cash outflow for leases	1,154

The Group leases various land use rights and land and buildings. Lease agreements are typically made for fixed periods of 40-46 and 2 years respectively. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

As at 31 December 2019, land use rights with a net book value of approximately RMB109,094,000 were pledged as collateral for the Group's borrowings.

19. MINING RIGHT

The mining right represents the right to conduct mining activities in a phosphate mine located in Sichuan, Mainland China, which has a remaining legal life of 20 years, expiring in 2039.

The Group has not commenced any mining activities, therefore no amortisation was charged in this year. The impairment test information of mining right is set out in Note 21.

As at 31 December 2019, the mining right with a total net book value of approximately RMB309,456,000 (2018: approximately RMB309,755,000) were pledged as collateral for the Group's bank borrowings.

20. OTHER INTANGIBLE ASSETS

	Goodwill	Construction permits	Total
	RMB'000	RMB'000	RMB'000
Cost			
At 1 January 2018, 31 December 2018 and 31 December 2019	8,900	2,700	11,600
Accumulated amortisation and impairment loss			
At 1 January 2018	(1,199)	(1,782)	(2,981)
Amortisation charge	–	(270)	(270)
At 31 December 2018	**(1,199)**	**(2,052)**	**(3,251)**
Amortisation charge	**–**	**(270)**	**(270)**
Impairment loss	**(7,701)**	**–**	**(7,701)**
At 31 December 2019	**(8,900)**	**(2,322)**	**(11,222)**
Net book amount			
At 31 December 2019	**–**	**378**	**378**
At 31 December 2018	7,701	648	8,349

Construction permits represent the permissions granted by the government for the construction of GuangAn Project. Amortisation charge of approximately RMB270,000 (2018: approximately RMB270,000) is included in administrative expenses.

21. IMPAIRMENT OF GOODWILL AND MINING RIGHT

The goodwill (Note 20) and mining right (Note 19) are allocated to the Group's cash-generating unit ("CGU") in relation to the mining activities of the phosphate mine located in Sichuan, Mainland China and its production of phosphoric acid. The recoverable amount of the CGU is determined based on fair value less costs of disposal calculations. The fair value less costs of disposal is derived by using discounted cash flow approach which incorporates assumptions that market participants would use in estimating the CGU's fair value. It falls under level 3 in the fair value hierarchy.

The key assumptions used for the calculations of fair value less costs of disposal are as follows:

	2019	2018
Growth rate	**3%**	3%
Discount rate (post-tax discount rate applied to the cash flow projections)	**16.00%**	16.00%
Years of cash flows projection (expected mining period of the phosphate mine)	**30 years**	30 years

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21. IMPAIRMENT OF GOODWILL AND MINING RIGHT *(Continued)*

Management determined gross margin based on past market prices of the phosphoric acid which are produced from phosphate ore and management's estimation of exploitation and production costs. The discount rate used is post-tax and reflects specific risks relating to the relevant CGU. Expected mining period of the phosphate mine is determined based on extractable reserve of the phosphate mine and the Group's production capacity. The legal life of mining right can be extended upon maturity to enable the Group to conduct mining activities in the expected mining period. Impairment losses of approximately RMB299,000 and RMB7,701,000 were provided on mining right and goodwill respectively for the year ended 31 December 2019 (Reversal of impairment losses of approximately RMB12,455,000 was provided on mining right for the year ended 31 December 2018).

22. SUBSIDIARIES

Particulars of the Company's major subsidiaries are set out below:

Name *(Note i)*	Place of incorporation/ establishment	Principal activities and place of operation	Particulars of issued share capital	Interest held
Held directly:				
Ko Yo Ecological Agrotech (BVI) Limited ("Ko Yo BVI")	the British Virgin Islands (the "BVI")	Investment holding, the BVI	100 ordinary shares of USD1 each	100%
Bright Bridge Investments Limited	BVI	Investment holding, the BVI	1 ordinary share of USD1 each	100%
Ko Yo Hong Kong New Material Company Limited ("Hong Kong New Material")	Hong Kong	Investment holding, Hong Kong	HK$10,000 ordinary shares	100%
Held indirectly:				
Ko Yo Development Company Limited ("Ko Yo Hong Kong")	Hong Kong	Investment holding, Hong Kong	3,000,000 non-voting deferred shares and HK$100 ordinary shares	100%
Chengdu Ko Yo Compound Fertilisers Co., Ltd. ("Chengdu Ko Yo Compound")	Mainland China	Manufacture, research, development and sale of bulk blended fertilisers, Mainland China	RMB15,000,000	100%
Dazhou Ko Yo Chemical Industry Co., Ltd ("Dazhou Ko Yo Chemical") (Note ii)	Mainland China	Manufacture and sale of chemical products, Mainland China	RMB350,000,000	100%

22. SUBSIDIARIES *(Continued)*

Name *(Note i)*	Place of incorporation/ establishment	Principal activities and place of operation	Particulars of issued share capital	Interest held
Qingdao Ko Yo Chemical Industry Co., Ltd. ("Qingdao Ko Yo Chemical")	Mainland China	Manufacture, research, development and sale of bulk blended fertilisers, Mainland China	USD2,100,000	100%
Hong Kong Cuyo Investment Limited ("Hong Kong Cuyo")	Hong Kong	Investment holding, Hong Kong	HK$4,720,000 ordinary shares	100%
Sichuan Chengyuan Chemical Industry Co., Ltd ("Sichuan Cuyo") *(Note ii)*	Mainland China	Exploration and exploitation of a phosphorous mine, Mainland China	RMB5,000,000	100%
Sichuan Ko Yo Agrochem Co., Ltd ("Ko Yo Agrochem")	Mainland China	Sale of chemical products and chemical fertilisers, Mainland China	RMB24,000,000	100%
Guangan Ko Yo Chemical Industry Co., Ltd ("Ko Yo GuangAn") *(Note ii)*	Mainland China	Manufacture and sale of chemical products, Mainland China	RMB160,000,000	100%
Chengdu Dayuan Chemical Industry Co., Ltd ("Ko Yo Dayuan")	Mainland China	Investment holding, Mainland China	RMB100,000	100%
Chengdu Meiyuan Chemical Industry Co., Ltd ("Ko Yo Meiyuan")	Mainland China	Investment holding, Mainland China	RMB100,000	100%
Guangan Lotusan Natural Gas Chemicals Co., Ltd ("Ko Yo Lotusan") *(Note ii)*	Mainland China	Manufacture and sale of chemical products, Mainland China	RMB43,000,000	100%
Sichuan Ko Chang Technology Co., Ltd ("Ko Yo Ko Chang")	Mainland China	Development of phosphoric acid production technology	RMB10,000,000	55%
Guangan Ko Yo New Material Co., Ltd ("Guangan New Material") *(Note ii)*	Mainland China	Manufacture and sale of engineering plastics, Mainland China	RMB64,000,000	100%

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22. SUBSIDIARIES *(Continued)*

Name *(Note i)*	Place of incorporation/ establishment	Principal activities and place of operation	Particulars of issued share capital	Interest held
Sichuan KoYo Chemical Sci-tech Development Co., Ltd	Mainland China	Development of chemical production technology, Mainland China	–	100%
Guangan Ko Yo Phos-chemical Technology Co., Ltd ("Guangan Phos")	Mainland China	Manufacture and sale of chemical products, Mainland China	RMB100,000,000	100%
Guangan Ko Yo Commercial and Trading Co., Ltd	Mainland China	Sale of chemical products and chemical fertilisers, Mainland China	RMB50,000,000	100%

Notes:

i. The English name of certain companies referred in these consolidated financial statements represent management's best effort at translating the Chinese names of these companies as no English names have been registered.

ii. 100% equity interest of Dazhou Ko Yo Chemical, Sichuan Cuyo, Guangan New Material, Ko Yo GuangAn, Ko Yo Lotusan and Ko Yo Agrochem were pledged as collateral for the Group's borrowings. There is no restriction on the subsidiary's ability to transfer funds to its parent in the form of cash dividends or to repay loans or advances.

iii. The subsidiaries incorporated in Mainland China are foreign owned enterprises established in the PRC.

23. INVENTORIES

	2019 RMB'000	2018 RMB'000
Raw materials	**70,068**	51,628
Finished goods	**6,987**	12,155
	77,055	63,783

There is no inventory written down as at 31 December 2019 (2018: Nil).

24. TRADE AND OTHER RECEIVABLES

	2019 RMB'000	2018 RMB'000
Trade receivables	867	54
Less: loss allowance for trade receivables	–	–
Trade receivables — net	867	54
Note receivables	1,000	1,000
Prepayments for raw materials	81,487	87,459
Other tax receivables	11,117	23,120
Due from employees	5,419	1,977
Others	4,204	8,597
	104,094	122,207

As at 31 December 2019 and 2018, the fair value of trade and other receivables of the Group approximated to their carrying amounts.

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivable mentioned above. The Group does not hold any collateral as security.

The Group allows an average credit period of 0 to 90 days to its trade customers. The following is an aged analysis of trade receivables, net of allowance for trade receivables, presented based on the invoice date at the end of the reporting period.

	2019 RMB'000	2018 RMB'000
0-90 days	867	54

Reconciliation of loss allowance for trade receivables:

	2019 RMB'000	2018 RMB'000
At the beginning of the year, as previously stated	–	7,153
Write off during the year	–	(7,153)
At the end of the year	–	–

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24. TRADE AND OTHER RECEIVABLES *(Continued)*

The Group's credit risk is primarily attributable to its trade receivables. In order to minimise credit risk, the directors have delegated a team to be responsible for the determination of credit limits, credit approvals and other monitoring procedures. In addition, the directors review the recoverable amount of each individual trade debt regularly to ensure that adequate impairment losses are recognised for irrecoverable debts. In this regard, the directors consider that the Group's credit risk is significantly reduced.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

The Group applies the simplified approach under HKFRS 9 to provide for expected credit losses using the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The weighted average expected credit losses also incorporate forward looking information.

	Current	Over 365 days past due	Total
At 31 December 2019			
Weighted average expected loss rate	**0%**	**0%**	
Receivable amount (RMB'000)	**867**	**–**	**867**
Loss allowance (RMB'000)	**–**	**–**	**–**
At 31 December 2018			
Weighted average expected loss rate	0%	0%	
Receivable amount (RMB'000)	54	–	54
Loss allowance (RMB'000)	–	–	–

25. PLEDGED BANK DEPOSITS

The deposits are denominated in RMB and pledged for certain bank borrowings. The effective interest rates on pledged bank deposits are ranging from 0.15% to 2.80% (2018: 0.15% to 2.80%).

26. CASH AND CASH EQUIVALENTS

The weighting average effective interest rate on cash at bank at 31 December 2019 is 0.35% (2018: 0.35%).

27. SHARE CAPITAL

Movements of the share capital of the Company are as follows:

	Number of shares		Share capital	
	2019	2018	**2019**	2018
	'000	'000	**HKD'000**	HKD'000
Authorised				
(Ordinary share of HK$0.10 each):				
At the beginning and the end of the year	**8,000,000**	8,000,000	**800,000**	800,000

Ordinary shares, issued and fully paid:

	Number of shares		Share capital	
	2019	2018	**2019**	2018
	'000	'000	**RMB'000**	RMB'000
At the beginning of the year	**4,298,043**	4,298,043	**368,394**	368,394
Issue of shares:				
— Conversion of bonds *(Note a)*	**1,190,000**	–	**106,485**	–
At the end of the year	**5,488,043**	4,298,043	**474,879**	368,394

(a) Conversion of bonds

During the year, the convertible bonds holders exercised certain convertible bonds to subscribe 1,190,000,000 ordinary shares at an exercise price HKD0.108 per share. No convertible bonds were exercised during the year ended 31 December 2018.

Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may issue new shares, borrow or repay debts or adjust the amount of dividends paid to shareholders.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents and pledged bank deposits. Total capital is calculated as "equity" as shown in the consolidated statement of financial position plus net debt.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

27. SHARE CAPITAL *(Continued)*

(a) Conversion of bonds *(Continued)*

Capital management *(Continued)*

The gearing ratio as at 31 December were as follows:

	2019 RMB'000	2018 RMB'000
Short-term borrowings	1,302,714	1,239,668
Long-term borrowings	586,719	777,421
Convertible bonds	223,599	136,528
Total borrowings	2,113,032	2,153,617
Less:		
Cash and cash equivalents	(10,110)	(4,545)
Pledged bank deposits	(30,116)	(24,339)
Net debt	2,072,806	2,124,733
Total equity	233,380	585,211
Total capital	2,306,186	2,709,944
Gearing ratio	90%	78%

The increase in the gearing ratio resulted mainly from the increase in loss for the year.

28. SHARE-BASED PAYMENT

All share options have duration period of 10 years from the date of grant and the options can be exercised from the date of grant.

New Share Option Scheme

On 18 September 2008, the Company adopted a new share option scheme (the "New Share Option Scheme"). The details of share options outstanding are as follows:

Date of grant	14 January 2010	23 November 2010	28 March 2013	22 June 2016	Total
Exercise price (HKD per option)	1.15	1.1	0.595	0.151	
Remaining life	0.04 year	0.90 year	3.24 years	6.47 years	
Granted to	5 executive directors and 8 employees	3 independent directors	4 executive directors and 2 independent directors and 21 employees	1 executive director and 3 employees	
1 January 2018	4,700,000	1,600,000	10,000,000	1,900,000	18,200,000
Lapsed	(800,000)	(800,000)	(3,800,000)	(400,000)	(5,800,000)
1 January 2018	3,900,000	800,000	6,200,000	1,500,000	12,400,000
1 January 2019	3,900,000	800,000	6,200,000	1,500,000	12,400,000
Cancelled	(500,000)	–	(2,000,000)	–	(2,500,000)
31 December 2019	3,400,000	800,000	4,200,000	1,500,000	9,900,000

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

29. RESERVES

(a) Group

The amounts of the Group's reserves and movements therein are presented in the consolidated statement of profit or loss and other comprehensive income and consolidated statement of changes in equity.

(b) Company

	Share premium RMB'000	Contributed surplus RMB'000	Share-based compensation reserve — share options RMB'000	Share-based compensation reserve — convertible bonds RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2018	1,409,065	37,162	28,269	224,903	(1,136,178)	563,221
Total comprehensive loss for the year	–	–	–	–	(348,209)	(348,209)
At 31 December 2018	1,409,065	37,162	28,269	224,903	(1,484,387)	215,012
At 1 January 2019	**1,409,065**	**37,162**	**28,269**	**224,903**	**(1,484,387)**	**215,012**
Total comprehensive loss for the year	**–**	**–**	**–**	**–**	**(731,564)**	**(731,564)**
Issue of shares:						
— Matured during the year	**–**	**–**	**–**	**(5,956)**	**5,956**	**–**
— Conversion of bonds	**110,107**	**–**	**–**	**(138,894)**	**–**	**(28,787)**
Issuance of convertible bonds	**–**	**–**	**–**	**302,283**	**–**	**302,283**
At 31 December 2019	**1,519,172**	**37,162**	**28,269**	**382,336**	**(2,209,995)**	**(243,056)**

(c) Nature and purpose of reserves

(i) Merger reserve

Merger reserve of the Group represents the difference between the nominal value of the share capital issued by the Company and share capital and share premium of a subsidiary acquired through an exchange of shares.

29. RESERVES *(Continued)*

(c) Nature and purpose of reserves *(Continued)*

(ii) Reserve fund

The appropriation represents the profit appropriation to reserve fund and enterprise expansion fund made by the subsidiaries of the Company established in Mainland China. These subsidiaries are governed by the laws and regulations of Mainland China and their articles of association. They are required to provide for certain statutory funds, namely, reserve fund and enterprise expansion fund which are appropriated from net profit after taxation but before dividend distribution based on the local statutory financial statements prepared in accordance with accounting principles and relevant financial regulations applicable to enterprises established in Mainland China. They are required to allocate at least 10% of their net profit to the reserve fund until the balance of such fund has reached 50% of its registered capital. Appropriation of enterprise expansion fund is determined at the discretion of its directors. The reserve fund can only be used, upon approval by the relevant authorities, to offset accumulated losses or increase capital. The enterprise expansion fund can only be used to increase capital upon approval by the relevant authorities.

(iii) Contributed surplus

Contributed surplus of approximately RMB37,162,000 was resulted from the reorganization prior to the listing, and represents the difference between the nominal value of the shares issued and the underlying assets of the acquired subsidiary.

(iv) Transfer of equity interest to non-controlling interests

Ko Yo Ko Chang was established by the Group with fully paid share capital of RMB10,000,000 in May 2012.

On 19 October 2012, the Group transferred 36% equity interest in Ko Yo Ko Chang at a cash consideration of RMB1 to Changsha Research Institute of Mining and Metallurgy Co., Ltd. The resulting loss of approximately RMB3,600,000 is recorded in equity, as a transaction with non-controlling interests.

On 28 April 2014, the Group transferred 9% equity interest in Ko Yo Ko Chang at a cash consideration of approximately RMB900,000 to Changsha Haosheng Chemical Technology Co., Ltd. The resulting gain of RMB91,000 is recorded in equity, as a transaction with non-controlling interests.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

30. BORROWINGS

	2019 RMB'000	2018 RMB'000
Non-current portion of long-term bank borrowings *(Note a)*	**428,300**	343,500
Current portion of long-term bank borrowings *(Note a)*	**158,419**	433,921
Short-term borrowings *(Note b)*	**1,302,714**	1,239,668
	1,889,433	2,017,089

The borrowings are secured by bank deposits of approximately RMB30,116,000 (2018: approximately RMB24,339,000), property, plant and equipment with a total net book value of approximately RMB1,538,018,000 (2018: approximately RMB1,130,436,000), investment properties with a total net book value of approximately RMB57,694,000 (2018: approximately RMB59,538,000), mining right with a total net book value of approximately RMB309,456,000 (2018: approximately RMB309,755,000), right-of-use assets with total net book value of approximately RMB109,094,000 (2018: land use rights with total net book value of approximately RMB58,781,000), 100% equity interest in Dazhou Ko Yo Chemical, Sichuan Cuyo, Guangan New Material, Ko Yo GuangAn, Ko Yo Lotusan and Ko Yo Argochem, (2018: 100% equity interest in Guangan New Material) and guaranteed by the Company (2018: Mr. Li Weiruo and the Company).

(a) Long-term bank borrowings

The average effective interest rate of bank borrowings as at 31 December 2019 is 6.24% (2018: 6.03%).

As at 31 December 2019 and 2018, the Group's long-term bank borrowings were repayable as follows:

	2019 RMB'000	2018 RMB'000
Within 1 year	**158,419**	433,921
Between 1 and 2 years	**164,500**	101,500
Between 2 and 3 years	**263,800**	95,000
Between 3 and 5 years	**–**	147,000
Over 5 years	**–**	–
	586,719	777,421
Within 1 year included in current liabilities	**(158,419)**	(433,921)
	428,300	343,500

All of the Group's long-term bank borrowings are denominated in RMB.

The carrying amounts of the long-term borrowings approximate to their fair values as the market borrowing interest rate approximates to their effective interest rates.

30. BORROWINGS *(Continued)*

(b) Short-term borrowings

An analysis of the carrying amounts of the short-term borrowings by nature and currency is as follows:

	2019 RMB'000	2018 RMB'000
At fixed rates in RMB	**1,302,714**	1,239,668

The short-term borrowings were issued at interest rates which range from 4.35% to 8% (2018: 4.35% to 11.50%) per annum. The fair value of short-term borrowings approximate to their carrying amounts.

31. CONVERTIBLE BONDS

	2019 RMB'000	2018 RMB'000
Liability component		
Convertible bonds 1	**135,597**	123,274
Convertible bonds 2	**–**	13,254
Convertible bonds 3	**24,296**	–
Convertible bonds 4	**63,706**	–
	223,599	136,528

Convertible bonds 1

On 13 November 2014, the Company issued convertible bonds to Asia Pacific Resources Development Investment Limited, with a principal amount of HKD832,000,000 (equivalent to approximately RMB665,600,000) pursuant to the subscription agreement entered into between the Company and Asia Pacific Resources Development Investment Limited on 30 July 2014. The convertible bonds bears interest at 7% per annum on the principal amount of the convertible bonds outstanding from time to time. The convertible bonds can be converted into ordinary shares at a conversion price of HKD0.32 from the day immediately following the date of the issue of convertible bonds to the maturity date which is 12 November 2024. If the convertible bonds have not been converted, they will be redeemed at par on 12 November 2024 in RMB using a predetermined fixed rate of exchange of RMB1.00 to HKD1.25. Interest will be paid annually in RMB using a pre-determined fixed rate of exchange of RMB1.00 to HKD1.25 until the maturity date.

31. CONVERTIBLE BONDS *(Continued)*

Convertible bonds 1 *(Continued)*

	Liability component RMB'000	Equity component RMB'000	Total RMB'000
At 1 January 2018	113,403	218,947	332,350
Interest expense accrued	27,839	–	27,839
Interest expense charged to accrued expense	(17,968)	–	(17,968)
At 31 December 2018	123,274	218,947	342,221
At 1 January 2019	**123,274**	**218,947**	**342,221**
Interest expense accrued	**30,291**	**–**	**30,291**
Interest expense charged to accrued expense	**(17,968)**	**–**	**(17,968)**
At 31 December 2019	**135,597**	**218,947**	**354,544**

The principal amount of the convertible bonds as at 31 December 2019 is approximately RMB256,685,000 (2018: approximately RMB256,685,000).

Convertible bonds 2

On 15 January 2016, the convertible bonds in the aggregate principal amount of HKD23,200,000 have been successfully placed by the Placing Agent to two subscribers pursuant to the terms and conditions of the Placing Agreement. The convertible bonds are non-interest bearing. The convertible bonds can be converted into ordinary shares at a conversion price of HKD0.40 from the day immediately following the date of the issue of convertible bonds to the maturity date which is 14 January 2019. If the convertible bonds have not been converted, they will be redeemed at par on 14 January 2019 in RMB using a pre-determined fixed rate of exchange of RMB1.00 to HKD1.1976. Interest will be paid annually in RMB using a pre-determined fixed rate of exchange of RMB1.00 to HKD1.1976 until the maturity date.

31. CONVERTIBLE BONDS *(Continued)*

Convertible bonds 2 *(Continued)*

	Liability component RMB'000	Equity component RMB'000	Total RMB'000
At 1 January 2018	10,788	5,956	16,744
Interest expense accrued	2,466	–	2,466
At 31 December 2018	13,254	5,956	19,210
At 1 January 2019	**13,254**	**5,956**	**19,210**
Interest expense accrued	**105**	**–**	**105**
Matured during the year	**(13,359)**	**(5,956)**	**(19,315)**
At 31 December 2019	**–**	**–**	**–**

Convertible bonds 3

On 31 January 2019, the convertible bonds in the principal amount of HKD129,600,000 was subscribed by the subscriber, pursuant to the subscription agreement entered into between the Company and the subscriber on 19 July 2018. The convertible bonds bears interest at 4% per annum on the principal amount of the convertible bonds outstanding from time to time. The convertible bonds can be converted into ordinary shares at a conversion price of HKD0.108 from the day immediately following the date of the issue of convertible bonds to the maturity date which is 30 January 2024. If the convertible bonds have not been converted, they will be redeemed at par on 30 January 2024. The convertible bonds shall be translated at the fixed exchange rate of RMB1.00 to HKD1.1765.

	Liability component RMB'000	Equity component RMB'000	Total RMB'000
Fair value of convertible bonds on grant date	71,707	133,505	205,212
Interest expense accrued	7,151	–	7,151
Converted during the year	(54,562)	(93,454)	(148,016)
At 31 December 2019	24,296	40,051	64,347

The principal amount of the convertible bonds as at 31 December 2019 is approximately RMB33,047,000.

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For the year ended 31 December 2019

31. CONVERTIBLE BONDS *(Continued)*

Convertible bonds 4

On 15 March 2019, the convertible bonds in the principal amount of HKD140,400,000 was subscribed by the subscriber, pursuant to the subscription agreement entered into between the Company and the subscriber on 19 July 2018. The convertible bonds bears interest at 4% per annum on the principal amount of the convertible bonds outstanding from time to time. The convertible bonds can be converted into ordinary shares at a conversion price of HKD0.108 from the day immediately following the date of the issue of convertible bonds to the maturity date which is 14 March 2024. If the convertible bonds have not been converted, they will be redeemed at par on 14 March 2024. The convertible bonds shall be translated at the exchange rate of RMB1.00 to HKD1.1765.

	Liability component RMB'000	**Equity component** RMB'000	**Total** RMB'000
Fair value of convertible bonds on grant date	78,569	168,778	247,347
Interest expense accrued	8,273	–	8,273
Converted during the year	(23,136)	(45,440)	(68,576)
At 31 December 2019	63,706	123,338	187,044

The principal amount of the convertible bonds as at 31 December 2019 is approximately RMB87,208,000.

32. DEFERRED SUBSIDY INCOME

Government grant for production facilities

	2019 **RMB'000**	2018 RMB'000
At 1 January	**622**	1,276
Subsidy income recognised	**(622)**	(654)
At 31 December	**–**	622

33. DEFERRED INCOME TAX

There were no offsetting of deferred income tax assets and liabilities in 2019 and 2018.

	2019 RMB'000	2018 RMB'000
Deferred tax assets:		
— To be recovered after more than 12 months	82,319	101,912
— To be recovered within 12 months	–	52
	82,319	101,964
Deferred tax liabilities:		
— To be settled after more than 12 months	(74,655)	(74,730)
— To be settled within 12 months	–	–
	(74,655)	(74,730)

The movements in deferred income tax assets and liabilities are as follows:

Deferred income tax assets:

	Tax losses RMB'000	Deferred subsidy income RMB'000	Total RMB'000
At 1 January 2018	99,291	160	99,451
Credited to profit or loss	2,565	(52)	2,513
At 31 December 2018	101,856	108	101,964
At 1 January 2019	**101,856**	**108**	**101,964**
Debited to profit or loss	**(19,537)**	**(108)**	**(19,645)**
At 31 December 2019	**82,319**	**–**	**82,319**

33. DEFERRED INCOME TAX *(Continued)*

Deferred income tax liabilities:

	Mining right RMB'000
At 1 January 2018	(71,616)
Charged to profit or loss	(3,114)
At 31 December 2018	(74,730)
At 1 January 2019	**(74,730)**
Credited to profit or loss	**75**
At 31 December 2019	**(74,655)**

As at 31 December 2019, the Group had total unused tax losses of approximately RMB939,429,000 (2018: approximately RMB998,715,000). No deferred tax asset has been recognised in respect of tax losses of certain subsidiaries of approximately RMB610,152,000 (2018: approximately RMB590,859,000) due to the unpredictability of future profit streams of these subsidiaries. Deferred tax asset of approximately RMB82,319,000 (2018: approximately RMB101,856,000) has been recognised in respect of the tax losses of certain subsidiaries of approximately RMB329,277,000 (2018: approximately RMB407,856,000) as management considered it is probable that these subsidiaries can generate sufficient taxable profit to utilise the above tax loss.

34. TRADE AND OTHER PAYABLES

	2019 **RMB'000**	2018 RMB'000
Trade payables *(Note a)*	**14,740**	18,980
Construction payable	**156,995**	137,899
Accrued expenses	**140,001**	127,871
Interest payables	**12,694**	6,896
Other taxes payable	**26,139**	27,610
Others	**5,010**	6,613
	355,579	325,869

34. TRADE AND OTHER PAYABLES

(a) Trade payables

The ageing analysis of trade payables of the Group is as follows:

	2019 RMB'000	2018 RMB'000
Less than 1 year	**14,740**	18,980

All of the carrying amounts of the Group's trade payables are denominated in RMB.

35. CONTRACT LIABILITIES

	At 31 December		At 1 January
Disclosures of revenue-related items:	**2019** **RMB'000**	2018 RMB'000	2018 RMB'000
Contract liabilities	**204,667**	141,670	301,517

	At 31 December		At 1 January
	2019 **RMB'000**	2018 RMB'000	2018 RMB'000
Contract receivables (included in trade receivables)	**867**	54	9,271

	2019 RMB'000	2018 RMB'000
Revenue recognised in the year that was included in contract liabilities at beginning of year	**139,072**	301,517

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

35. CONTRACT LIABILITIES *(Continued)*

Transaction prices allocated to performance obligations unsatisfied at end of year and expected to be recognised as revenue in:

	2019 RMB'000	2018 RMB'000
— 2019	N/A	141,670
— 2020	204,667	–
	204,667	141,670

Significant changes in contract liabilities during the year

	2019 RMB'000	2018 RMB'000
Increase due to operations in the year	202,069	141,670
Transfer of contract liabilities to revenue	(139,072)	(301,517)

A contract liability represents the Group's obligation to transfer products or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

36. LEASE LIABILITIES

	2019 RMB'000
Minimum lease payments	
Within one year	300
In the second to fifth years, inclusive	–
	300
Less: Future finance charges	(3)
Present value of lease obligations	297
Present value of minimum lease payments	
Within one year	297
In the second to fifth years, inclusive	–
	297
Less: Amount due for settlement within 12 months (shown under current liabilities)	(297)
Amount due for settlement after 12 months	–

At 31 December 2019, the average effective borrowing rate was 4.75%. Interest rates are fixed at the contract dates and thus expose the Group to fair value interest rate risk.

37. COMMITMENTS

(a) Capital commitments

	2019 RMB'000	2018 RMB'000
Constructions-in-progress:		
Contracted but not provided for	85,217	120,132

37. COMMITMENTS *(Continued)*

(b) Commitments under operating leases

The Group leases offices under non-cancellable operating lease agreement. The lease term is 2 years, and the majority of lease agreements are renewable at the end of the period at market rate.

The Group had future aggregate minimum lease payments under non-cancellable operating leases for land and buildings are as follows:

	2018 RMB'000
Not later than 1 year	901
More than 1 year but not exceeding 2 years	300
Total operating commitments	1,201

(c) Operating leases rental receivables

The future aggregate minimum lease rentals receivable under non-cancellable operating leases in respect of buildings are as follows:

	2019 **RMB'000**	2018 RMB'000
Not later than 1 year	**4,362**	3,127
More than one year but not exceeding five years	**4,013**	5,950
	8,375	9,077

38. RELATED-PARTY TRANSACTIONS

At 31 December 2019, long-term borrowings of approximately RMB54,500,000 (2018: approximately RMB263,460,000) and short-term borrowings of approximately RMB1,112,412,000 (2018: approximately RMB596,440,000) were guaranteed by the Company (2018: Mr. Li Weiruo). In the opinion of the directors of the Company, the fair value of guarantee provided by the Company (2018: Mr. Li Weiruo) is insignificant to the Group. Such guarantee has not been accounted for by the Group.

39. KEY MANAGEMENT COMPENSATION (EXCLUDING DIRECTORS' EMOLUMENTS)

	2019 **RMB'000**	2018 RMB'000
Salaries and other short-term employee benefits	**1,176**	2,062

40. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in liabilities arising from financing activities

The following table shows the Group changes in liabilities arising from financing activities during the year:

	Lease liabilities RMB'000	Convertible bonds RMB'000	Long-term and short-term borrowings RMB'000	Total liabilities from financing activities RMB'000
At 1 January 2018	–	124,191	2,086,775	2,210,966
Changes in cash flows	–	–	(69,686)	(69,686)
Non-cash changes				
— interest charged	–	30,305	–	30,305
— reallocation to interest payables including in other payables	–	(17,968)	–	(17,968)
As at 31 December 2018 and 1 January 2019	**–**	**136,528**	**2,017,089**	**2,153,617**
Changes in cash flows	**(902)**	**216,142**	**(127,656)**	**87,584**
Non-cash changes				
— impact of adoption of HKFRS 16 "Leases"	**1,162**	**–**	**–**	**1,162**
— classified as equity component	**–**	**(302,283)**	**–**	**(302,283)**
— interest charged	**37**	**45,820**	**–**	**45,857**
— reallocation to interest payables including in other payables	**–**	**(17,968)**	**–**	**(17,968)**
— converted during the year	**–**	**(77,698)**	**–**	**(77,698)**
— share-based payment arising from the issue of convertible bonds	**–**	**223,058**	**–**	**223,058**
At 31 December 2019	**297**	**223,599**	**1,889,433**	**2,113,329**

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

41. STATEMENT OF FINANCIAL POSITION OF THE COMPANY AS AT 31 DECEMBER

	2019 RMB'000	2018 RMB'000
ASSETS		
Non-current assets		
Interests in subsidiaries	107,264	184,189
Loan to subsidiaries	515,877	782,261
	623,141	966,450
Current assets		
Other receivables	368	368
Cash and cash equivalents	19	19
	387	387
Total assets	623,528	966,837
EQUITY		
Capital and reserves attributable to equity holders of the Company		
Share capital	474,879	368,394
Reserves	(243,056)	215,012
Total equity	231,823	583,406
LIABILITIES		
Non-current liabilities		
Convertible bonds	223,599	123,274
Current liabilities		
Accruals and other payables	11,455	66,539
Convertible bonds	–	13,254
Financial guarantee liabilities	156,651	180,364
	168,106	260,157
Total liabilities	391,705	383,431
Total equity and liabilities	623,528	966,837
Net current liabilities	(167,719)	(259,770)
Total assets less current liabilities	455,422	706,680

42. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved and authorised for issue by the Board of Directors on 30 March 2020.

Five Year Financial Summary

FIVE YEAR FINANCIAL SUMMARY

The following table summarizes the audited results, assets and liabilities of the Group for the five years ended 31st December 2019.

	2019 **RMB'000**	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000
Turnover	**1,964,476**	3,101,031	3,678,169	1,947,027	1,928,147
Loss before taxation	**(712,242)**	(347,685)	(471,170)	(417,039)	(149,367)
Taxation	**(19,570)**	(601)	16,737	9,054	43,094
Minority interest	**(248)**	(77)	(94)	(831)	(627)
Loss after taxation	**(731,564)**	(348,209)	(454,339)	(407,154)	(105,646)
Total assets	**2,982,762**	3,282,871	3,954,871	4,494,129	5,334,231
Total liabilities	**(2,749,382)**	(2,697,660)	(3,021,374)	(3,107,238)	(3,593,889)
Total equity	**233,380**	585,211	933,497	1,386,891	1,740,342