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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 00827)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

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:

Type	Sales amount *(million RMB)*	Sales quantities *(tonnes)*	% change compare with year 2018 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.

The board of directors (the "Board") is pleased to present the audited annual results of Ko Yo Chemical (Group) Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 December 2019.

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 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 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

	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

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.

(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%.

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**	**Impacts of adoption of HKFRS 16 "Leases"**	**Carrying amount as at 1 January 2019**
	RMB'000	*RMB'000*	*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

(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.

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.

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.

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.

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.

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.

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.

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.

(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.

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.

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.

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.

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.

(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.

(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.

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	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**
	RMB'000	*RMB'000*	*RMB'000*	*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

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	2018
	RMB'000	*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.

8. OTHER INCOME/(LOSS) — NET

	2019	2018
	RMB'000	*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	2018
	RMB'000	*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

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	2018
	RMB'000	*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	2018
	RMB'000	*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	**Salaries, allowances and benefits in-kind**	**Contributions to pension schemes**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***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**

	Fees	Salaries, allowances and benefits in-kind	Contributions to pension schemes	Total
	RMB'000	*RMB'000*	*RMB'000*	*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.

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

	2019	2018
	'000	*'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.

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 obsolete 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	2018
	RMB'000	*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).

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 RMB309,456,000 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 *RMB'000*	Construction permits *RMB'000*	Total *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

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%
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%

Name *(Note i)*	Place of incorporation/ establishment	Principal activities and place of operation	Particulars of issued share capital	Interest held
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%
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	2018
	RMB'000	*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	2018
	RMB'000	*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	2018
	RMB'000	*RMB'000*
0-90 days	**867**	54

Reconciliation of loss allowance for trade receivables:

	2019	2018
	RMB'000	*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	**–**	–

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.

The gearing ratio as at 31 December were as follows:

	2019	2018
	RMB'000	*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

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.

(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.

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 RMB109,093,000 (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	2018
	RMB'000	*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.

(b) Short-term borrowings

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

	2019	2018
	RMB'000	*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	2018
	RMB'000	*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.

	Liability component	Equity component	Total
	RMB'000	*RMB'000*	*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.

	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.

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**

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	2018
	RMB'000	*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

(a) Trade payables

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

	2019	2018
	RMB'000	*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	2018	2018
	RMB'000	*RMB'000*	*RMB'000*
Contract liabilities	**204,667**	141,670	301,517

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

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

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

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

Significant changes in contract liabilities during the year

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

(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	2018
	RMB'000	*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	2018
	RMB'000	*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	**Convertible bonds**	**Long-term and short-term borrowings**	**Total liabilities from financing activities**
	RMB'000	*RMB'000*	*RMB'000*	*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)
	–	136,528	2,017,089	2,153,617
As 31 December 2018 and 1 January 2019				
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**

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

	2019	2018
	RMB'000	*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.

EXTRACT OF INDEPENDENT AUDITOR'S REPORT

The following is the extract of the independent auditor's report from the external auditors of the Company:

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"), 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 announcement. 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.

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.

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.

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!

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.

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 results announcement 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 RMB109,904,000 (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.

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.

AUDITORS' PROCEDURES PERFORMED ON THIS RESULTS ANNOUNCEMENT

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and the related notes thereto for the year ended 31 December 2019 as set out in the preliminary announcement have been agreed by the Group's auditors, ZHONGHUI ANDA CPA Limited, to the amounts set out in the Group's audited consolidated financial statements for the year ended 31 December 2019. The work performed by ZHONGHUI ANDA CPA Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by ZHONGHUI ANDA CPA Limited on the preliminary announcement.

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.

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.

By Order of the Board
Ko Yo Chemical (Group) Limited
Tang Guoqiang
Chairman

Hong Kong 30 March 2020

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