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 2023

HIGHLIGHTS

— For the year ended 31 December 2023, the net cash inflow from operating activities before working capital changes and profit tax and interest payment was approximately RMB306 million, which represent a decrease of approximately 62.8% as compared to that of approximately RMB823 million in year 2022.

— For the year ended 31 December 2023, the loss attributable to shareholders was approximately RMB152 million, which represent a decrease in profit of approximately RMB354 million as compared to the profit of approximately RMB202 million in year 2022.

— Basic loss per share was approximately RMB0.0253 for the year ended 31 December 2023.

— For the year ended 31 December 2023, sale turnover was approximately RMB2,905 million, which represents a decrease of approximately 9.4% as compared to year 2022.

— 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 2022 Sales amount	Sales quantities
Urea	888	398,990	(12.0)	1.2
Ammonia	1,058	358,875	(13.8)	6.7
Methanol	780	375,165	(14.5)	(6.0)
N-methylpyrrolidone	13	1,120	N/A	N/A
N,N-dimethylformamide	46	10,508	N/A	N/A
Others — trading	120	N/A	110.5	N/A

— The Directors do not recommend the payment of any final dividend for the year ended 31 December 2023.

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 2023.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2023

	Notes	**2023** *RMB'000*	2022 *RMB'000*
Revenue	*7*	**2,904,857**	3,205,226
Cost of sales		**(2,588,660)**	(2,411,956)
Gross profit		**316,197**	793,270
Distribution costs		**(42,047)**	(45,643)
Administrative expenses		**(149,103)**	(149,597)
Other income — net	*9*	**7,630**	5,871
Other expenses	*10*	**(1,404)**	(3,174)
Operating profit		**131,273**	600,727
Finance income	*11*	**6,544**	5,492
Finance expenses	*11*	**(245,469)**	(250,395)
(Loss)/profit before tax		**(107,652)**	355,824
Income tax expense	*12*	**(46,963)**	(154,780)
(Loss)/profit and total comprehensive (expense)/ income for the year	*13*	**(154,615)**	201,044
Attributable to:			
Equity holders of the Company		**(152,341)**	201,563
Non-controlling interests		**(2,274)**	(519)
		(154,615)	201,044
(Losses)/earnings per share attributable to the equity holders of the Company during the year (expressed in RMB per share)			
— Basic	*15*	**(0.0253)**	0.0344
— Diluted	*15*	**(0.0253)**	0.0190

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2023

	Notes	2023 RMB'000	2022 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	*16*	**3,386,449**	3,254,943
Investment properties	*17*	**7,861**	10,571
Right-of-use assets	*18*	**242,790**	251,796
Mining right	*19*	**334,306**	334,306
Other intangible assets	*20*	**69,619**	73,596
Prepayments	*24*	**788,029**	869,935
Deferred income tax assets	*32*	**16,411**	15,791
		4,845,465	4,810,938
Current assets			
Inventories	*23*	**216,104**	241,330
Trade and other receivables	*24*	**239,946**	177,482
Restricted bank balances	*25*	**31**	864
Pledged bank deposits	*25*	**901,856**	390,850
Cash and cash equivalents	*26*	**62,928**	224,058
		1,420,865	1,034,584
Total assets		**6,266,330**	5,845,522
EQUITY			
Equity attributable to owners of the Company			
Share capital	*27*	**520,569**	520,569
Reserves	*29*	**387,533**	538,470
		908,102	1,059,039
Non-controlling interests		**3,713**	1,087
Total equity		**911,815**	1,060,126

	Notes	**2023** *RMB'000*	2022 *RMB'000*
LIABILITIES			
Non-current liabilities			
Borrowings	*30*	**406,332**	494,908
Convertible bonds	*31*	**549,457**	810,623
Deferred income tax liabilities	*32*	**115,459**	115,743
Trade and other payables	*33*	**–**	6,080
Lease liabilities	*35*	**2,678**	4,889
		1,073,926	1,432,243
Current liabilities			
Trade and other payables	*33*	**785,907**	737,708
Contract liabilities	*34*	**61,963**	119,831
Due to a related company	*36*	**683,041**	660,863
Provision for tax		**17,667**	9,423
Borrowings	*30*	**2,387,146**	1,822,377
Convertible bonds	*31*	**342,654**	–
Lease liabilities	*35*	**2,211**	2,951
		4,280,589	3,353,153
Total liabilities		**5,354,515**	4,785,396
Total equity and liabilities		**6,266,330**	5,845,522
Net current liabilities		**(2,859,724)**	(2,318,569)
Total assets less current liabilities		**1,985,741**	2,492,369

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2023

	Attributable to equity holders of the Company											
	Share capital *RMB'000*	Share premium *RMB'000*	Merger reserve *RMB'000*	Share option reserve *RMB'000*	Convertible bonds reserve *RMB'000*	Reserve fund *RMB'000*	Enterprise expansion fund *RMB'000*	Accumulated loss *RMB'000*	Transaction with non-controlling interests *RMB'000*	Total *RMB'000*	Non-controlling interests *RMB'000*	Total equity *RMB'000*
At 1 January 2022	491,449	1,528,776	(22,041)	36,134	801,089	45,273	1,131	(2,056,231)	(3,509)	822,071	1,517	823,588
Total comprehensive income for the year	–	–	–	–	–	–	–	201,563	–	201,563	(519)	201,044
Share-based payments	–	–	–	3,174	–	–	–	–	–	3,174	–	3,174
Issue of shares:												
— Conversion of bonds	29,120	19,243	–	–	(16,132)	–	–	–	–	32,231	–	32,231
Acquisition of a subsidiary	–	–	–	–	–	–	–	–	–	–	89	89
At 31 December 2022	520,569	1,548,019	(22,041)	39,308	784,957	45,273	1,131	(1,854,668)	(3,509)	1,059,039	1,087	1,060,126
At 1 January 2023	**520,569**	**1,548,019**	**(22,041)**	**39,308**	**784,957**	**45,273**	**1,131**	**(1,854,668)**	**(3,509)**	**1,059,039**	**1,087**	**1,060,126**
Total comprehensive expense for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(152,341)**	**–**	**(152,341)**	**(2,274)**	**(154,615)**
Capital injection by non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**4,900**	**4,900**
Provision of statutory reserve	**–**	**–**	**–**	**–**	**–**	**8,989**	**–**	**(8,989)**	**–**	**–**	**–**	**–**
Share-based payments	**–**	**–**	**–**	**1,404**	**–**	**–**	**–**	**–**	**–**	**1,404**	**–**	**1,404**
At 31 December 2023	**520,569**	**1,548,019**	**(22,041)**	**40,712**	**784,957**	**54,262**	**1,131**	**(2,015,998)**	**(3,509)**	**908,102**	**3,713**	**911,815**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

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 RMB154,615,000 for the year ended 31 December 2023 and as at 31 December 2023 the Group had net current liabilities of approximately RMB2,859,724,000, despite the Group had a net operating cash inflow of approximately RMB224,469,000 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.

The directors of the Company have reviewed the Group's cash flow projections, which cover a period of twelve months from 31 December 2023. 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 2023 in light of the Group's plans and measures described below to improve its cash flows:

(i) The Group is actively negotiating with Group's bankers to renew and/or restructure the borrowings since 2021. Most of borrowings had been renewed, restructured or repaid;

(ii) For the convertible bonds which would mature in 2024, after the reporting period, the bondholders agreed not to demand for repayment of the relevant principal and interest in forcoming year;

(iii) It is expected that the new projects as stated in the Chairman's statement can further improve the liquidity and profitability of the Group; and

(iv) The Group will continue to take active measures to control the administrative and production costs.

In the opinion of the directors of the Company, 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 2023. Accordingly, the directors of the Company 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 2023. 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.

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. MATERIAL 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 of the Company 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 material 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 nonmonetary 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	5-14 years
— Motor vehicles	4-10 years
— Office equipment and others	3-7 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

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	40-50 years
Land and buildings	2-5 years

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.

Proprietary technology

Proprietary technology is stated at cost less accumulated amortisation and impairment losses. Amortisation is calculated on a straight-line basis over their estimated useful lives of 20 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 consolidated 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 consolidated 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 bonds which entitle the holder to convert the bonds 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 bonds 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:

(i) including any market performance conditions (for example, an entity's share price);

(ii) 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

(iii) 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 consolidated 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.

PRC land appreciation tax (“LAT”)

LAT is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds from sales of properties less deductible expenditures including land costs, borrowing costs, business taxes and all property development expenditures. LAT is recognised as an income tax expense. LAT paid is a deductible expense for the PRC enterprise income tax purposes.

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 consolidated financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the consolidated 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).

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 and goodwill

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, 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, borrowings and convertible bonds. The Group's pledged bank deposits, fixed rate borrowings and convertible bonds were issued at fixed rates and exposed the Group to fair value interest rate risk.

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

As at 31 December 2023, if interest rates on floating rate borrowings had been increased/decreased by 20 basis points with all other variables held constant, post-tax profit for the year would have been decreased/increased by approximately RMB1,973,000 (2022: RMB2,019,000), 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; and

— 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 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

(d) Liquidity risk

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

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

	Less than 1 year *RMB'000*	**Between 1 and 2 years** *RMB'000*	**Between 2 and 5 years** *RMB'000*
At 31 December 2023			
Trade and other payables	**780,948**	**–**	**–**
Due to a related company	**683,041**	**–**	**–**
Borrowings	**2,388,778**	**119,370**	**287,723**
Convertible bonds	**373,268**	**–**	**680,000**
Interest payment on borrowings and convertible bonds	**106,154**	**71,029**	**83,828**
Financial guarantee contracts issued — maximum amount guaranteed	**179,510**	**–**	**–**
At 31 December 2022			
Trade and other payables	724,996	6,080	–
Due to a related company	660,863	–	–
Borrowings	1,824,695	101,315	395,985
Convertible bonds	–	373,268	680,000
Interest payment on borrowings and convertible bonds	117,024	81,264	123,687
Financial guarantee contracts issued — maximum amount guaranteed	184,510	–	–

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 borrowings. As a result, the Group had net current liabilities of approximately RMB2,860 million as at 31 December 2023 (2022: approximately RMB2,319 million).

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

(e) Categories of financial instruments

	2023	2022
	RMB'000	*RMB'000*
Financial assets:		
Financial assets at amortised cost (including cash and cash equivalents)	**1,065,091**	657,170
Financial liabilities:		
Financial liabilities at amortised cost	**5,149,578**	4,519,847

(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 2023 and 2022, all revenue is derived from the PRC.

Major products	**2023**	2022
	RMB'000	*RMB'000*
Urea	**888,393**	1,009,200
Ammonia	**1,058,030**	1,226,887
Methanol	**780,420**	911,990
N-methylpyrrolidone	**12,636**	–
N,N-dimethylformamide	**45,660**	–
Others-trading	**119,718**	57,149
	2,904,857	3,205,226

Timing of revenue recognition

For the years ended 31 December 2023 and 2022, all revenue is recognised at a point of time.

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 liabilities.

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. SEGMENT INFORMATION

The Group's operating segment is manufacture and sale of chemical products and chemical fertilisers. Since this is the only one operating segment of the Group, no further analysis thereof is presented.

The Group's operation and operating assets are located in the PRC. Accordingly, no geographical segment information is presented.

Geographical information

The Group's revenue are all derived from the PRC based on the location of goods sold and all of the Group's non-current assets are located in the PRC by physical location of assets.

Revenue from major customers

	2023	2022
Customer A	**13.81%**	15.11%

9. OTHER INCOME — NET

	2023	2022
	RMB'000	*RMB'000*
Rental income	**276**	209
Depreciation related to rental income	**(292)**	(354)
Rental income, net	**(16)**	(145)
Subsidy income	**1,164**	2,643
Loss on disposal of property, plant and equipment	**(2,339)**	(4,150)
Loss on disposal of investment properties	**(327)**	–
Gain on borrowing restructuring	**–**	5,495
Income from sales of raw materials	**7,361**	666
Others, net	**1,787**	1,362
	7,630	5,871

10. OTHER EXPENSES

	2023	2022
	RMB'000	*RMB'000*
Share-based payment arising from issue of share option	**1,404**	3,174

11. FINANCE EXPENSES — NET

	2023	2022
	RMB'000	*RMB'000*
Finance income:		
Interest revenue	**(6,544)**	(5,492)
Finance expenses:		
— leases interests expenses	**278**	348
Interest expense:		
— borrowings	**113,768**	122,501
— convertible bonds	**138,119**	127,726
Less: capitalisation in construction-in-progress	**(8,547)**	(2,409)
	243,618	248,166
Exchange loss	**1,851**	2,229
	245,469	250,395
Finance expenses — net	**238,925**	244,903

12. 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 2023 and 2022.

The applicable income tax rate of other subsidiaries located in Mainland China in 2023 and 2022 is 25%.

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

	2023	2022
	RMB'000	*RMB'000*
PRC Corporate Income Tax for Mainland China	**47,636**	131,984
LAT for Mainland China	**231**	–
Deferred income tax	**(904)**	22,796
	46,963	154,780

The taxation on the Group's (loss)/profit before income tax differs from the theoretical amount that would arise using the taxation rate of 25% (2022: 25%). The difference is analysed as follows:

	2023	2022
	RMB'000	*RMB'000*
(Loss)/profit before tax	**(107,652)**	355,824
Tax calculated at a taxation rate of 25% (2022: 25%)	**(26,913)**	88,956
Tax rate difference	**12,690**	12,066
LAT	**231**	–
Expenses not deductible for tax purposes	**33,085**	32,483
Tax losses previously recognised and reversed	**–**	13,978
Tax losses for which no deferred income tax was recognised	**28,290**	8,678
Income not subject to tax	**(420)**	(1,381)
Income tax expense	**46,963**	154,780

Under the Provisional Regulations on LAT implemented upon the issuance of the Provisional Regulations of the PRC on 27 January 1995, all gains arising from transfer of real estate property in the PRC effective from 1 January 1994 are subject to LAT at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sales of properties less deductible expenditures including land costs, borrowings costs and all property development expenditures.

13. (LOSS)/PROFIT FOR THE YEAR

The Group's (loss)/profit for the year is stated after charging the following:

	2023	2022
	RMB'000	*RMB'000*
Cost of inventories sold	**2,588,660**	2,411,956
Depreciation of property, plant and equipment	**157,240**	212,390
Depreciation of investment properties	**292**	354
Depreciation of right-of-use assets	**9,006**	6,500
Directors' emoluments *(note 14)*		
— As directors	**1,085**	1,031
— For management	**–**	6,000
Amortisation of other intangible assets	**3,977**	994
Auditors' remuneration		
— Audit services	**1,636**	1,596
— Non-audit services	**–**	665
Loss on disposal of property, plant and equipment	**2,339**	4,150
Loss on disposal of investment properties	**327**	–
Staff costs including directors' emoluments		
Salaries, bonus and allowances	**104,206**	90,663
Retirement benefits scheme contributions	**7,328**	5,444
Share-based payment arising from issue of share option	**1,404**	3,174
	112,938	99,281

Cost of inventories sold includes staff costs, depreciation of property, plant and equipment and expenses related to short-term lease of approximately RMB197,763,000 (2022: approximately RMB248,805,000) which are included in the amounts disclosed separately above.

14. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The remuneration of every director for the years ended 31 December 2023 and 2022 is set out below:

	Fees	Salaries, allowances and benefits in-kind	Total
	RMB'000	*RMB'000*	*RMB'000*
Executive directors			
Mr. Shi Jianmin	**–**	**–**	**–**
Mr. Tang Guoqiang	**542**	**–**	**542**
Mr. Zhang Weihua	**–**	**–**	**–**
Independent non-executive directors			
Mr. Xu Congcai	**181**	**–**	**181**
Mr. Le Yiren	**181**	**–**	**181**
Ms. Lu Yi *(Note ii)*	**181**	**–**	**181**
Total for 2023	**1,085**	**–**	**1,085**

	Fees	Salaries, allowances and benefits in-kind	Total
	RMB'000	*RMB'000*	*RMB'000*
Executive directors			
Mr. Shi Jianmin	–	6,000	6,000
Mr. Tang Guoqiang	515	–	515
Mr. Zhang Weihua	–	–	–
Independent non-executive directors			
Mr. Hu Xiaoping *(Note i)*	172	–	172
Mr. Xu Congcai	172	–	172
Mr. Le Yiren	172	–	172
Total for 2022	1,031	6,000	7,031

Notes:

(i) Mr. Hu Xiaoping was resigned as an independent non-executive director on 1 January 2023.

(ii) Ms. Lu Yi was appointed as an independent non-executive director on 1 January 2023.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include nil (2022: one) director whose emoluments is reflected in the analysis presented above. The emoluments of five (2022: four) individuals are set out below:

	2023	2022
	RMB'000	*RMB'000*
Salaries and other benefits	**4,306**	3,781
Retirement benefit scheme contributions	**87**	123
Share-based payments expense	**393**	682
	4,786	4,586

The emoluments fell within the following bands:

	Number of individuals	
	2023	2022
Nil to HK$1,000,000	**2**	–
HK$1,000,001 to HK$1,500,000	**3**	3
HK$1,500,001 to HK$2,000,000	**–**	1
	5	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.

15. (LOSSES)/EARNINGS PER SHARE

Basic

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

Diluted

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 losses per share because they are anti-dilutive for the year ended 31 December 2023.

For the year ended 31 December 2022, diluted earnings 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 earnings 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 earnings per share.

The calculation of the basic and diluted (losses)/earnings per share is based on the following:

	2023	2022
	RMB'000	*RMB'000*
(Losses)/earnings		
(Losses)/earnings for the purpose of calculating basic (losses)/ earnings per share	**(152,341)**	201,563
Finance costs saving on conversion of convertible bonds outstanding	**–**	85,779
(Losses)/earnings for the purpose of calculating diluted (losses)/ earnings per share	**(152,341)**	287,342

	2023	2022
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic (losses)/earnings per share	**6,028,043**	5,855,440
Effect of dilutive potential ordinary shares arising from share options outstanding	**–**	126,492
Effect of dilutive potential ordinary shares arising from convertible bonds outstanding	**–**	9,142,603
Weighted average number of ordinary shares for the purpose of calculating diluted (losses)/earnings per share	**6,028,043**	15,124,535

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 2022	882,025	2,492,368	5,034	25,573	458,751	3,863,751
Additions	2,141	3,343	1,818	1,026	606,308	614,636
Disposals	(246)	(32,939)	(192)	(46)	–	(33,423)
Transferred upon completion	11,739	17,294	–	–	(29,033)	–
Acquisition of a subsidiary *(note 40(b))*	–	24	163	83	999,951	1,000,221
At 31 December 2022	**895,659**	**2,480,090**	**6,823**	**26,636**	**2,035,977**	**5,445,185**
Additions	**7,257**	**909**	**339**	**4,622**	**279,772**	**292,899**
Disposals	**–**	**(19,287)**	**(425)**	**(6,239)**	**–**	**(25,951)**
Transferred upon completion	**1,441**	**810,990**	**–**	**4,492**	**(816,923)**	**–**
At 31 December 2023	**904,357**	**3,272,702**	**6,737**	**29,511**	**1,498,826**	**5,712,133**
Accumulated depreciation and impairment loss						
At 1 January 2022	(127,158)	(1,474,200)	(2,897)	(24,460)	(377,673)	(2,006,388)
Depreciation	(12,480)	(198,279)	(1,196)	(435)	–	(212,390)
Disposals	71	28,286	163	16	–	28,536
At 31 December 2022	**(139,567)**	**(1,644,193)**	**(3,930)**	**(24,879)**	**(377,673)**	**(2,190,242)**
Depreciation	**(18,607)**	**(135,254)**	**(303)**	**(3,076)**	**–**	**(157,240)**
Disposals	**–**	**16,065**	**91**	**5,642**	**–**	**21,798**
At 31 December 2023	**(158,174)**	**(1,763,382)**	**(4,142)**	**(22,313)**	**(377,673)**	**(2,325,684)**
Net book amount						
At 31 December 2023	**746,183**	**1,509,320**	**2,595**	**7,198**	**1,121,153**	**3,386,449**
At 31 December 2022	756,092	835,897	2,893	1,757	1,658,304	3,254,943

All the Group's buildings are located in Mainland China. As at 31 December 2023, property, plant and equipment with a total net book value of approximately RMB1,570,088,000 (2022: approximately RMB1,610,908,000) were pledged as collateral for the Group's bank borrowings.

As at 31 December 2023, property, plant and equipment with a total net book value of approximately RMB371,630,000 (2022: RMB368,449,000) were frozen by the court. Please refer to note 42 to consolidated financial statements for details.

For the year ended 31 December 2023, borrowing costs of approximately RMB8,547,000 (2022: RMB2,409,000) have been capitalised in the construction-in-progress.

17. INVESTMENT PROPERTIES

	2023	2022
	RMB'000	*RMB'000*
Cost		
As at 1 January	**14,032**	14,032
Disposals	**(3,228)**	–
As at 31 December	**10,804**	14,032
Accumulated depreciation and impairment loss		
As at 1 January	**(3,461)**	(3,107)
Charge for the year	**(292)**	(354)
Disposals	**810**	–
As at 31 December	**(2,943)**	(3,461)
Net book value		
As at 31 December	**7,861**	10,571
Fair value as at 31 December	**11,177**	14,028

All the Group's investment properties are located in Mainland China. As at 31 December 2023, investment properties with a total net book value of approximately RMB927,000 (2022: approximately RMB5,984,000) were pledged as collateral for the Group's bank borrowings.

The fair values of the investment properties as at 31 December 2023 were estimated on the open market basic value by reference to market evidence of recent transaction for similar properties by management.

The rental income arising from investment properties for the year 2023 of approximately RMB276,000 (2022: approximately RMB209,000) and depreciation charges are included in other income.

As at 31 December 2023, the Group had no unprovided contractual obligations for future repairs and maintenance (2022: Nil).

18. LEASES AND RIGHT-OF-USE ASSETS

Disclosures of lease-related items:

	2023	2022
	RMB'000	*RMB'000*
At 31 December:		
Right-of-use assets		
— Land use rights	**238,188**	244,154
— Land and buildings	**4,602**	7,642
	242,790	251,796
The maturity analysis, based on undiscounted cash flows, of the Group's lease liabilities is as follows:		
— Less than 1 year	**2,359**	3,229
— In the second to fifth years, inclusive	**2,762**	5,121
	5,121	8,350
Year ended 31 December:		
Depreciation charge of right-of-use assets		
— Land use rights	**5,966**	3,478
— Land and buildings	**3,040**	3,022
	9,006	6,500
Lease interest expenses	**278**	348
Expenses related to short-term leases	**336**	302
Total cash outflow for leases	**3,565**	3,547
Right-of-use assets increased due to acquisition of a subsidiary	**–**	145,300
Additions to right-of-use assets	**–**	8,328

The Group leases various land use rights and land and buildings. Lease agreements are typically made for fixed periods of 40-50 and 2-5 years respectively. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

As at 31 December 2023, land use rights with a net book value of approximately RMB238,188,000 (2022: RMB244,154,000) were pledged as collateral for the Group's borrowings.

As at 31 December 2023, land use rights with a net book value of approximately RMB50,251,000 (2022: RMB51,656,000) were frozen by the court. Please refer to note 42 to consolidated financial statements for details.

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 16 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 to the consolidated financial statements.

As at 31 December 2023, mining right with a net book value of approximately RMB334,306,000 (2022: approximately RMB334,306,000) were pledged as collateral for the Group's bank borrowings.

As at 31 December 2023, mining right with a net book value of approximately RMB334,306,000 (2022: RMB334,306,000) were frozen by the court. Please refer to note 42 to consolidated financial statements for details.

20. OTHER INTANGIBLE ASSETS

	Goodwill *RMB'000*	Proprietary technology *RMB'000*	Total *RMB'000*
Cost			
At 1 January 2022	8,900	–	8,900
Acquisition of a subsidiary	26,199	48,391	74,590
At 31 December 2022, 1 January 2023 and 31 December 2023	**35,099**	**48,391**	**83,490**
Accumulated amortisation and impairment loss			
At 1 January 2022	(8,900)	–	(8,900)
Amortisation charge	–	(994)	(994)
At 31 December 2022 and 1 January 2023	**(8,900)**	**(994)**	**(9,894)**
Amortisation charge	**–**	**(3,977)**	**(3,977)**
At 31 December 2023	**(8,900)**	**(4,971)**	**(13,871)**
Net book amount			
At 31 December 2023	**26,199**	**43,420**	**69,619**
At 31 December 2022	26,199	47,397	73,596

21. IMPAIRMENT OF GOODWILL AND MINING RIGHT

The goodwill (note 20) of carrying amounts of nil 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.

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. No impairment losses (2022: nil) was provided on mining right for the year ended 31 December 2023.

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

	2023	2022
Phosphoric acid		
Growth rate	**2%**	3%
Discount rate (post-tax discount rate applied to the cash flow projections)	**15.52%**	16.57%
Years of cash flows projection	**33 years**	33 years

The goodwill (note 20) of carrying amount of RMB26,199,000 are allocated to the Group's CGU in relation to the chemical production plant located in Jiangsu, Mainland China and its production of propylene oxide. The recoverable amounts of the CGUs are determined on the basis of their value-in-use using discounted cash flow method (level 3 fair value measurements).

Management determined gross margin based on past market prices of the propylene oxide and management's estimation of production costs. The growth rates are based on long-term average economic growth rate of the geographical area in which the businesses of the CGUs operate. The discount rate used is pre-tax and reflects specific risks relating to the relevant CGU. The value-in-use as at 31 December 2023 is derived based on management's cash flow projections for 20 years.

The key assumptions used for the calculations of value-in-use are as follows:

	2023	2022
Propylene oxide		
Growth rate	**4%**	4%
Discount rate (pre-tax discount rate applied to the cash flow projections)	**13.33%**	14.67%
Years of cash flows projection	**20 years**	20 years

22. SUBSIDIARIES

Particulars of the Company's major subsidiaries as at 31 December 2023 and 2022 are set out below:

Name *(Note i)*	Place of incorporation/ establishment	Principal activities and place of operation	Particulars of issued and paid-up/registered share capital	Interest held 2023	Interest held 2022
Held directly:					
Ko Yo Ecological Agrotech (BVI) Limited ("Ko Yo BVI")	the British Virgin Islands ("BVI")	Investment holding, Hong Kong	100 ordinary shares of USD1 each	**100%**	100%
Bright Bridge Investments Limited	BVI	Investment holding, Hong Kong	1 ordinary share of USD1 each	**100%**	100%
Ko Yo Hong Kong New Material Company Limited ("Hong Kong New Material")	Hong Kong	Investment holding, Hong Kong	HK$2 ordinary shares	**100%**	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$10 ordinary shares	**100%**	100%
Dazhou Ko Yo Chemical Industry Co., Ltd. ("Dazhou Ko Yo Chemical") *(Note ii, iii and v)*	Mainland China	Manufacture and sale of chemical products, Mainland China	RMB420,000,000	**100%**	100%
Sichuan Chengyuan Chemical Industry Co., Ltd. ("Sichuan Cuyo") *(Note ii, iii and v)*	Mainland China	Exploration and exploitation of a phosphorous mine, Mainland China	RMB8,000,000	**100%**	100%
Sichuan Ko Yo Agrochem Co., Ltd. (Ko Yo Agrochem") *(Note ii and iii)*	Mainland China	Sale of chemical products and chemical fertilisers, Mainland China	RMB87,000,000	**100%**	100%
Guangan Ko Yo Chemical Industry Co., Ltd. ("Ko Yo GuangAn") *(Note ii, iii and v)*	Mainland China	Manufacture and sale of chemical products, Mainland China	RMB227,000,000	**100%**	100%
Guangan Lotusan Natural Gas Chemical Co., Ltd. ("Ko Yo Lotusan") *(Note ii and iv)*	Mainland China	Manufacture and sale of chemical products, Mainland China	RMB160,000,000	**100%**	100%

Name *(Note i)*	**Place of incorporation/ establishment**	**Principal activities and place of operation**	**Particulars of issued and paid-up/registered share capital**	**Interest held**	
				2023	**2022**
Guangan Ko Yo New Material Co., Ltd. ("Guangan New Material") *(Note ii and iii)*	Mainland China	Manufacture and sale of engineering plastics, Mainland China	RMB64,000,000	**100%**	100%
Guangan Trading and Commerce Co., Ltd. *(Note iii)*	Mainland China	Sale of chemical products, Mainland China	RMB50,000,000	**100%**	100%
Guangan Wan Yuen Chemcial Co., Ltd. *(Note iv)*	Mainland China	Manufacture and sale of chemical products, Mainland China	RMB60,000,000	**100%**	100%
Guangan Wan Yuen Techology Co., Ltd *(Note iv)*	Mainland China	Manufacture and sale of chemical products, Mainland China	RMB50,000,000	**100%**	100%
SiChuan Ko Yo GaoXin Material Co., Ltd. *(Note iii)*	Mainland China	Manufacturing of chemical products, Mainland China	RMB100,000,000	**100%**	100%
Dazhou New Material Co., Ltd. *(Note iv)*	Mainland China	Manufacture and sale of chemical products, Mainland China	RMB60,000,000	**100%**	100%
Fengjie (Sichuan) Investment Co., Ltd. (formerly known as: Dazhou Fengjie Trading Co., Ltd.) *(Note iv)*	Mainland China	Sale of chemical products, Mainland China	RMB375,000,000	**100%**	100%
Guangan Qianfeng Ko Yo Electronic Materials Co., Ltd. *(Note iv)*	Mainland China	Manufacture and sale of chemical products, Mainland China	RMB10,000,000	**100%**	100%
Sichuan Changcheng Ko Yo Technology Development Co., Ltd. *(Note iv)*	Mainland China	Sale of chemical products, Mainland China	RMB50,000,000	**100%**	100%
Jiangsu Bluestar Green Material Co., Ltd. *(Note iv)*	Mainland China	Manufacture and sale of chemical products, Mainland China	RMB30,000,000	**90%**	90%

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, Ko Yo Agrochem, Ko Yo GuangAn, Ko Yo Lotusan and Guangan New Material 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. These subsidiaries are foreign owned enterprises established in the PRC.

iv. These subsidiaries are wholly domestic owned enterprises established in the PRC.

v. At as 31 December 2023, 100% equity interest of Dazhou Ko Yo Chemical, Sichuan Cuyo, Ko Yo GuangAn and Guangan Ko Yo Phos-chemical Technology Co., Ltd. (2022: Dazhou Ko Yo Chemical, Sichuan Cuyo, Ko Yo GuangAn and Guangan Ko Yo Phos-chemical Technology Co., Ltd.) were frozen by the court. Please refer to note 42 to consolidated financial statements for details.

23. INVENTORIES

	2023	2022
	RMB'000	*RMB'000*
Raw materials	**170,407**	177,438
Finished goods	**45,697**	63,892
	216,104	241,330

There is no inventory written down as at 31 December 2023 (2022: Nil).

24. TRADE AND OTHER RECEIVABLES

	2023	2022
	RMB'000	*RMB'000*
Trade receivables *(Note a)*	**1,337**	9,280
Note receivables	**3,101**	6,780
Prepayments for raw materials	**87,692**	82,239
Prepayments for property, plant and equipment	**111,815**	150,182
Prepayment for construction costs	**676,214**	719,753
Prepayment for hazardous chemical disposal fee	**–**	15,150
Other tax receivables	**51,978**	38,695
Security deposits for borrowings *(Note b)*	**73,000**	–
Due from employees	**1,883**	7,855
Others	**20,955**	17,483
	1,027,975	1,047,417
Analysis as:		
— Non-current assets	**788,029**	869,935
— Current assets	**239,946**	177,482
	1,027,975	1,047,417

As at 31 December 2023 and 2022, 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.

(a) Trade receivables

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.

	2023	2022
	RMB'000	*RMB'000*
0-90 days	**1,337**	9,280

There is no movement of loss allowance for trade receivables for the years ended 31 December 2023 and 2022.

The Group's credit risk is primarily attributable to its trade receivables. In order to minimise credit risk, the directors of the Company have delegated a team to be responsible for the determination of credit limits, credit approvals and other monitoring procedures. In addition, the directors of the Company 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 of the Company 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 2023			
Weighted average expected loss rate	**0%**	**0%**	
Receivable amount *(RMB'000)*	**1,337**	**–**	**1,337**
Loss allowance *(RMB'000)*	**–**	**–**	**–**
At 31 December 2022			
Weighted average expected loss rate	0%	0%	
Receivable amount *(RMB'000)*	9,280	–	9,280
Loss allowance *(RMB'000)*	–	–	–

(b) Security deposits for borrowings

Security deposits for borrowings were pledged as security for certain borrowings.

25. RESTRICTED BANK BALANCES AND PLEDGED BANK DEPOSITS

The restricted bank balances carry interest at market rate of 0.20% p.a. and can only be applied to settle compensation from litigation loss cases. Please refer to note 42 to consolidated financial statements for details.

The pledged deposits are denominated in RMB and pledged for certain borrowings. The effective interest rates on pledged bank deposits are ranged from 0.20%-1.70% (2022: 1.45%-1.65%).

26. CASH AND CASH EQUIVALENTS

The effective interest rate on cash at bank at 31 December 2023 is ranged from 0.01%-1.65% (2022: 0.25%-1.90%).

As at 31 December 2023, the bank and cash balances of the Group denominated in RMB amounted to RMB16,951,000 (2022: RMB220,143,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations.

27. SHARE CAPITAL

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

	Number of shares		Share capital	
	2023	2022	**2023**	2022
	'000	*'000*	***HKD'000***	*HKD'000*
Authorised (Ordinary share of HK$0.10 each):				
At the beginning and the end of the year	**20,000,000**	20,000,000	**2,000,000**	2,000,000

Ordinary shares, issued and fully paid:

	Number of shares		Share capital	
	2023	2022	**2023**	2022
	'000	*'000*	***RMB'000***	*RMB'000*
At the beginning of the year	**6,028,043**	5,688,043	**520,569**	491,449
Issue of shares:				
— Conversion of bonds *(Note a)*	**–**	340,000	**–**	29,120
At the end of the year	**6,028,043**	6,028,043	**520,569**	520,569

(a) Conversion of bonds

During the year ended 31 December 2022, the convertible bonds holders exercised certain convertible bonds to subscribe 40,000,000 and 300,000,000 ordinary shares at an exercise price of HKD0.108 and HKD0.141 per share, respectively.

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:

	2023	2022
	RMB'000	*RMB'000*
Borrowings	**2,793,478**	2,317,285
Convertible bonds	**892,111**	810,623
Total borrowings	**3,685,589**	3,127,908
Less:		
Cash and cash equivalents	**(62,928)**	(224,058)
Pledged bank deposits	**(901,856)**	(390,850)
Net debt	**2,720,805**	2,513,000
Total equity	**911,815**	1,060,126
Total capital	**3,632,620**	3,573,126
Gearing ratio	**75%**	70%

The increase (2022: decrease) in the gearing ratio resulted mainly from the loss for the year and increase in borrowings (2022: profit for the year and issuance of convertible bonds).

28. SHARE-BASED PAYMENT

All share options have duration period of 10 years from the date of grant. Excepted for share options granted on 22 November 2021, which vesting period is 3 years and the vesting schedule is 35% after 12 calendar months from the grant date, 35% after 24 calendar months from the grant date, 30% after 36 calendar months from the grant date; its exercise periods are (i) 35% of the share options are exercisable from 22 November 2022 to 21 November 2031 (both days inclusive); (ii) 35% of the share options are exercisable from 22 November 2023 to 21 November 2031 (both days inclusive); and (iii) the remaining 30% of the share options are exercisable from 22 November 2024 to 21 November 2031 (both days inclusive), all other share options are exercisable on the date of granted.

Share Option Schemes

On 8 September 2008, the Company adopted a share option scheme (the "2008 Share Option Scheme") had been expired on 17 September 2018. On 9 October 2020, the Company adopted a new share option scheme (the "2020 Share Option Scheme"). The details of share options outstanding are as follows:

Date of grant	28 March 2013	22 June 2016	23 October 2020	22 November 2021	Total Number of Share Options	Weighted average exercise price (HKD)
Exercise price (HKD per option)	0.595	0.151	0.141	0.182		
Remaining life	N/A	2.47 year	6.81 year	7.9 year		
Granted to	4 executive directors and 2 independent directors and 21 employees	1 executive director and 3 employees	1 executive director	135 employees		
At 31 December 2021 and 2022	4,200,000	1,500,000	300,000,000	77,312,000	383,012,000	0.1543
Lapsed	(4,200,000)	–	–	–	(4,200,000)	0.5950
At 31 December 2023	–	1,500,000	300,000,000	77,312,000	378,812,000	0.1494

For the year ended 31 December 2023, the Group recognised share-based payments of HKD1,710,000 (equivalent to approximately RMB1,404,000) (2022: HKD3,696,000 (equivalent to approximately RMB3,174,000)) in profit or loss and the corresponding amount has been credited to share option reserve.

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 option sreserve *RMB'000*	Convertible bonds reserve *RMB'000*	Accumulated losses *RMB'000*	Total *RMB'000*
At 1 January 2022	1,528,776	37,162	36,134	801,089	(2,072,539)	330,622
Total comprehensive income for the year	–	–	–	–	201,563	201,563
Share-based payments	–	–	3,174	–	–	3,174
Issue of shares:						
— Conversion of bonds	19,243	–	–	(16,132)	–	3,111
At 31 December 2022	1,548,019	37,162	39,308	784,957	(1,870,976)	538,470
At 1 January 2023	**1,548,019**	**37,162**	**39,308**	**784,957**	**(1,870,976)**	**538,470**
Total comprehensive expense for the year	**–**	**–**	**–**	**–**	**(152,341)**	**(152,341)**
Share-based payments	**–**	**–**	**1,404**	**–**	**–**	**1,404**
At 31 December 2023	**1,548,019**	**37,162**	**40,712**	**784,957**	**(2,023,317)**	**387,533**

(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 reorganisation prior to the listing, and represents the difference between the nominal value of the shares issued and the underlying assets of the acquired subsidiary.

30. BORROWINGS

	2023	2022
	RMB'000	*RMB'000*
The borrowings are repayable as follows:		
On demand or within one year	**2,387,146**	1,822,377
In the second year	**118,836**	99,683
In the third to fifth years, inclusive	**287,496**	395,225
	2,793,478	2,317,285
Less: Amount due for settlement within 12 months (shown under current liabilities)	**(2,387,146)**	(1,822,377)
Amount due for settlement after 12 months	**406,332**	494,908

The borrowings are:

— secured by the Group's pledged bank deposits of RMB901,856,000 (2022: RMB390,850,000), other receivables of RMB73,000,000 (2022: nil), property, plant and equipment with a total net book value of RMB1,570,088,000 (2022: RMB1,610,908,000), investment properties with a total net book value of RMB927,000 (2022: RMB5,984,000), mining right with a total net book value of RMB334,306,000 (2022: RMB334,306,000), right-of-use assets with total net book value of RMB238,188,000 (2022: RMB244,154,000), 100% equity interest in Dazhou Ko Yo Chemical, Sichuan Cuyo, Ko Yo Argochem, Ko Yo GuangAn, Ko Yo Lotusan and Guangan New Material (2022: 100% equity interest in Dazhou Ko Yo Chemical, Sichuan Cuyo, Ko Yo Argochem, Ko Yo GuangAn, Ko Yo Lotusan and Guangan New Material).

— guaranteed by related companies;

— personal guarantee provided by a director and his spouse;

— guaranteed by a independent third party;

— secured by certain properties owned by related companies; and

— secured by certain properties owned by a director.

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

	2023	2022
	RMB'000	*RMB'000*
At floating rate in RMB	**986,588**	1,009,291
At fixed rates in RMB	**1,806,890**	1,307,994

The borrowings were issued at interest rates which range from 3.70% to 8.64% (2022: 3.30% to 8.70%) per annum. The fair value of borrowings approximate to their carrying amounts. The borrowings arranged at fixed interest rates and expose the Group to fair value interest rate risk. For other borrowings are arranged at floating rates and expose the Group to cash flow interest rate risk.

The borrowings include note payables of RMB927,056,000 (2022: RMB414,750,000) which are repayable within one year and secured by pledged bank deposits of RMB901,856,000 (2022: RMB390,750,000).

31. CONVERTIBLE BONDS

	2023	2022
	RMB'000	*RMB'000*
Liability component		
Convertible bonds 1	**224,103**	194,167
Convertible bonds 2	**30,219**	27,618
Convertible bonds 3	**88,332**	80,931
Convertible bonds 4	**549,457**	507,907
	892,111	810,623

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 2022	170,189	218,947	389,136
Interest expense accrued	41,946	–	41,946
Interest expense charged to accrued expense	(17,968)	–	(17,968)
At 31 December 2022	194,167	218,947	413,114
At 1 January 2023	**194,167**	**218,947**	**413,114**
Interest expense accrued	**47,904**	**–**	**47,904**
Interest expense charged to accrued expense	**(17,968)**	**–**	**(17,968)**
At 31 December 2023	**224,103**	**218,947**	**443,050**

The principal amount of the convertible bonds as at 31 December 2023 is approximately RMB256,685,000 (2022: approximately RMB256,685,000).

Convertible bonds 2

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	**Equity component**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2022	28,509	40,051	68,560
Interest expense accrued	3,487	–	3,487
Interest expense charged to accrued expense	(1,285)	–	(1,285)
Converted during the year	(3,093)	(4,450)	(7,543)
At 31 December 2022	27,618	35,601	63,219
At 1 January 2023	**27,618**	**35,601**	**63,219**
Interest expense accrued	**3,776**	**–**	**3,776**
Interest expense charged to accrued expense	**(1,175)**	**–**	**(1,175)**
At 31 December 2023	**30,219**	**35,601**	**65,820**

The principal amount of the convertible bonds as at 31 December 2023 is approximately RMB29,375,000 (2022: approximately RMB29,375,000).

Convertible bonds 3

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*
At 1 January 2022	74,434	123,338	197,772
Interest expense accrued	9,985	–	9,985
Interest expense charged to accrued expense	(3,488)	–	(3,488)
At 31 December 2022	80,931	123,338	204,269
At 1 January 2023	**80,931**	**123,338**	**204,269**
Interest expense accrued	**10,889**	**–**	**10,889**
Interest expense charged to accrued expense	**(3,488)**	**–**	**(3,488)**
At 31 December 2023	**88,332**	**123,338**	**211,670**

The principal amount of the convertible bonds as at 31 December 2023 is approximately RMB87,208,000 (2022: approximately RMB87,208,000).

Convertible bonds 4

On 30 November 2021, the convertible bonds in the principal amount of HKD831,600,000 was subscribed by the subscriber, pursuant to the subscription agreement entered into between the Company and the subscriber on 10 July 2019. The convertible bonds bears interest at 5% 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 November 2026. If the convertible bonds have not been converted, they will be redeemed at par on 30 November 2026. The convertible bonds shall be translated at the exchange rate of RMB1.00 to HKD1.2229.

	Liability component	**Equity component**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2022	471,762	407,071	878,833
Interest expense accrued	70,145	–	70,145
Interest expense charged to accrued expense	(34,000)	–	(34,000)
At 31 December 2022	507,907	407,071	914,978
At 1 January 2023	**507,907**	**407,071**	**914,978**
Interest expense accrued	**75,550**	**–**	**75,550**
Interest expense charged to accrued expense	**(34,000)**	**–**	**(34,000)**
At 31 December 2023	**549,457**	**407,071**	**956,528**

The principal amount of the convertible bonds as at 31 December 2023 is approximately RMB680,000,000 (2022: approximately RMB680,000,000).

32. DEFERRED INCOME TAX

There were no offsetting of deferred income tax assets and liabilities in 2023 and 2022.

	2023	2022
	RMB'000	*RMB'000*
Deferred tax assets:		
— To be recovered after more than 12 months	**16,411**	15,791
— To be recovered within 12 months	**–**	–
	16,411	15,791
Deferred tax liabilities		
— To be settled after more than 12 months	**(115,459)**	(115,743)
— To be settled within 12 months	**–**	–
	(115,459)	(115,743)

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

Deferred income tax assets:

	Tax losses
	RMB'000
At 1 January 2022	38,658
Charged to profit or loss	(22,867)
At 31 December 2022	15,791
At 1 January 2023	**15,791**
Credited to profit or loss	**620**
At 31 December 2023	**16,411**

Deferred income tax liabilities:

	Mining right	Revaluation of acquisition of a subsidiary	Total
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2022	(80,867)	–	(80,867)
Acquisition of a subsidiary	–	(34,947)	(34,947)
Credited to profit or loss	–	71	71
At 31 December 2022	(80,867)	(34,876)	(115,743)
At 1 January 2023	**(80,867)**	**(34,876)**	**(115,743)**
Credited to profit or loss	**–**	**284**	**284**
At 31 December 2023	**(80,867)**	**(34,592)**	**(115,459)**

As at 31 December 2023, the Group had total unused tax losses of approximately RMB364,411,000 (2022: RMB332,007,000). No deferred tax asset has been recognised in respect of tax losses of certain subsidiaries of approximately RMB298,767,000 (2022: RMB268,844,000) due to the unpredictability of future profit streams of these subsidiaries. Deferred tax assets of approximately RMB16,411,000 (2022: RMB15,791,000) have been recognised in respect of the tax losses of certain subsidiaries of approximately RMB65,644,000 (2022: RMB63,163,000) as management considered it is probable that these subsidiaries can generate sufficient taxable profit to utilise the above tax losses. These tax losses will expire from year 2024 to 2028 (2022: 2023 to 2027).

33. TRADE AND OTHER PAYABLES

	2023	2022
	RMB'000	*RMB'000*
Trade payables *(Note a)*	**31,717**	39,912
Construction payable	**426,390**	434,180
Accrued expenses	**35,286**	28,522
Interest payables *(Note b)*	**197,958**	142,394
Other taxes payable	**4,959**	12,712
Proprietary technology cost payables	**69,000**	69,000
Others	**20,597**	17,068
	785,907	743,788

(a) Trade payables

The ageing analysis of trade payables, based on the date of receipt of goods, is as follows:

	2023	2022
	RMB'000	*RMB'000*
Less than 1 year	**29,559**	39,562
Over 1 year	**2,158**	350
	31,717	39,912

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

(b) Interest payables

	2023	2022
	RMB'000	*RMB'000*
Analysis as:		
— Non-current liabilities	**–**	6,080
— Current liabilities	**197,958**	136,314
	197,958	142,394

34. CONTRACT LIABILITIES

	At 31 December		At 1 January
Disclosures of revenue-related items:	**2023**	2022	2022
	RMB'000	*RMB'000*	*RMB'000*
Contract liabilities	**61,963**	119,831	117,322

	At 31 December		At 1 January
	2023	2022	2022
	RMB'000	*RMB'000*	*RMB'000*
Contract receivables (included in trade receivables)	**1,337**	9,280	1,891

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

	2023	2022
	RMB'000	*RMB'000*
— 2023	**N/A**	119,831
— 2024	**61,963**	–
	61,963	119,831

Year ended 31 December

	2023	2022
	RMB'000	*RMB'000*
Revenue recognised in the year that was included in contract liabilities at beginning of year	**119,111**	116,742

Significant changes in contract liabilities during the year:

	2023	2022
	RMB'000	*RMB'000*
Increase due to operations in the year	**61,243**	119,251
Transfer of contract liabilities to revenue	**(119,111)**	(116,742)

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.

35. LEASE LIABILITIES

	2023	2022
	RMB'000	*RMB'000*
Minimum lease payments		
Within one year	**2,359**	3,229
In the second to fifth years, inclusive	**2,762**	5,121
	5,121	8,350
Less: Future finance charges	**(232)**	(510)
Present value of lease obligations	**4,889**	7,840

	2023	2022
	RMB'000	*RMB'000*
Present value of minimum lease payments		
Within one year	**2,211**	2,951
In the second to fifth years, inclusive	**2,678**	4,889
	4,889	7,840
Less: Amount due for settlement within 12 months (shown under current liabilities)	**(2,211)**	(2,951)
Amount due for settlement after 12 months	**2,678**	4,889

At 31 December 2023, the average effective borrowing rate was 4.60% (2022: 4.60%) . Interest rates are fixed at the contract dates and thus expose the Group to fair value interest rate risk.

36. DUE TO A RELATED COMPANY

The advance is unsecured, non-interest bearing and has no fixed repayment terms.

37. COMMITMENTS

(a) Capital commitments

	2023	2022
	RMB'000	*RMB'000*
Constructions-in-progress:		
Contracted but not provided for	**3,035,598**	2,788,724

(b) Operating leases rental receivables

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

	2023	2022
	RMB'000	*RMB'000*
Not later than 1 year	**180**	185
More than one year but not exceeding five years	**324**	505
	504	690

38. RELATED-PARTY TRANSACTIONS

In addition to those related party transactions and balances disclosed elsewhere in the consolidated financial statements, the Group had the following transactions with its related parties during the year:

	2023	2022
	RMB'000	*RMB'000*
Purchase from a related company *(note)*	**6,311**	–
Handing fee income from a related company *(note)*	**182**	–

Note: A director, Mr. Zhang Weihua has control over the related company.

At 31 December 2023, borrowings of approximately RMB1,340,210,000 (2022: approximately RMB1,352,594,000) from Huaxia Bank, Bohai Bank, Bank of Dalian, Evergrowing Bank, Bank of Communications ("BOCOM"), Export-Import Bank of China ("EXIM Bank"), Shanghai Pudong Development Bank ("SPD Bank"), Bank of Shanghai, China Industrial Bank ("CIB"), China Merchants Bank ("CMB"), Changzhou Jingliyuan Photovoltaic Technology Company, Guangan Jinxiang Small Loan Company Limited, Guangan Hongxin Small Loan Company Limited and China Bond Insurance Corporation (2022: Huaxia Bank, Bohai Bank, Bank of Dalian, Evergrowing Bank, BOCOM, EXIM Bank, SPD Bank, Bank of Shanghai, CIB, CMB, Changzhou Jingliyuan Photovoltaic Technology Company, Guangan Jinxiang Small Loan Company Limited and China Bond Insurance Corporation) were guaranteed by the Company. In the opinion of the directors of the Company, the fair value of guarantee provided by the Company is insignificant to the Group. Such guarantee has not been accounted for by the Group.

39. KEY MANAGEMENT COMPENSATION (EXCLUDING DIRECTORS' EMOLUMENTS)

	2023	2022
	RMB'000	*RMB'000*
Salaries and other benefits	**3,476**	3,557
Retirement benefit scheme contributions	**63**	123
Share-based payments expense	**338**	763
	3,877	4,443

40. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Changes in liabilities arising from financing activities

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

	Due to a related company *RMB'000*	Lease liabilities *RMB'000*	Convertible bonds *RMB'000*	Borrowings *RMB'000*	Total liabilities from financing activities *RMB'000*
At 1 January 2022	–	2,409	771,869	1,783,709	2,557,987
Changes in cash flows	48,769	(3,245)	–	226,902	272,426
Non-cash changes					
— additions	–	8,328	–	–	8,328
— acquisition of a subsidiary	612,094	–	–	311,545	923,639
— converted during the year	–	–	(32,231)	–	(32,231)
— gain on borrowing restructuring	–	–	–	(5,495)	(5,495)
— interest capitalization	–	–	–	62,898	62,898
— interest charged	–	348	127,726	785	128,859
— proceeds from disposal of properties withhold by the court and paid to banks	–	–	–	(107,809)	(107,809)
— issurance of note payables	–	–	–	44,750	44,750
— reallocation to interest payables including in other payables	–	–	(56,741)	–	(56,741)
At 31 December 2022 and 1 January 2023	**660,863**	**7,840**	**810,623**	**2,317,285**	**3,796,611**
Changes in cash flows	**22,178**	**(3,229)**	**–**	**381,442**	**400,391**
Non-cash changes					
— interest capitalization	**–**	**–**	**–**	**41,377**	**41,377**
— interest charged	**–**	**278**	**138,119**	**2,318**	**140,715**
— issurance of note payables	**–**	**–**	**–**	**51,056**	**51,056**
— reallocation to interest payables including in other payables	**–**	**–**	**(56,631)**	**–**	**(56,631)**
At 31 December 2023	**683,041**	**4,889**	**892,111**	**2,793,478**	**4,373,519**

(b) Acquisition of a subsidiary

On 30 September 2022, the Group acquired 90% of the issued share capital of Jiangsu Bluestar Green Material Co., Ltd. for a cash consideration of RMB27,000,000. Jiangsu Bluestar Green Material Co., Ltd. was engaged in manufacture and sale of chemical products in the PRC during the year. The reason for the acquisition is that the Group intends to combine its existing competitive advantages in downstream distribution with the upstream fertilizer production through the acquisition, and to benefit from the synergies arising from further vertical business integration in the future. In addition, the vertical integration is expected to secure a steadier demand for the Group's chemical fertilizers and chemical products, provide greater insights into downstream customers' needs and generate synergies through streamlining resources management in the long run.

The fair value of the identifiable assets and liabilities of Jiangsu Bluestar Green Material Co., Ltd. acquired as at its date of acquisition is as follows:

Net assets acquired:	*RMB'000*
Property, plant and equipment	1,000,221
Right-of-use assets	145,300
Other intangible assets	48,391
Inventories	49,852
Trade and other receivables	49,456
Pledged bank deposits	6,100
Cash and cash equivalents	2,466
Due to a related company	(612,094)
Deferred income tax liabilities	(34,947)
Trade and other payables	(342,310)
Borrowings	(311,545)
	890
Non-controlling interest	(89)
Goodwill	26,199
	27,000
Satisfied by:	
Cash and total consideration transferred	27,000
Net cash outflow arising on acquisition:	
Cash consideration paid	27,000
Cash and cash equivalents acquired	(2,466)
	24,534

The goodwill arising on the acquisition of Jiangsu Bluestar Green Material Co., Ltd. is attributable to the anticipated profitability of new chemical product production line and the anticipated future operating synergies from the combination.

Jiangsu Bluestar Green Material Co., Ltd. contributed revenue of approximately RMB531,000 and net loss of RMB5,085,000 to the Group respectively for the period between the date of acquisition and the end of the reporting period.

If the acquisition had been completed on 1 January 2022, total Group revenue for the year would have been RMB3,207,527,000, and profit for the year would have been RMB185,416,000. The proforma information is for illustrative purposes only and is not necessarily an indication of the revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2022 nor is intended to be a projection of future results.

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

	2023	2022
	RMB'000	*RMB'000*
ASSETS		
Non-current assets		
Interests in subsidiaries	**107,264**	107,264
Loan to subsidiaries	**1,961,836**	2,005,736
	2,069,100	2,113,000
Current assets		
Other receivables	**507**	462
Cash and cash equivalents	**24**	22
	531	484
Total assets	**2,069,631**	2,113,484
EQUITY		
Capital and reserves attributable to equity holders of the Company		
Share capital	**520,569**	520,569
Reserves	**387,533**	538,470
Total equity	**908,102**	1,059,039
LIABILITIES		
Non-current liabilities		
Convertible bonds	**549,457**	810,623
Current liabilities		
Accruals and other payables	**137,780**	87,312
Financial guarantee liabilities	**131,639**	156,510
Convertible bonds	**342,653**	–
	612,072	243,822
Total liabilities	**1,161,529**	1,054,445
Total equity and liabilities	**2,069,631**	2,113,484
Net current liabilities	**(611,541)**	(243,338)
Total assets less current liabilities	**1,457,559**	1,869,662

42. LITIGATIONS

The following table shows the Group's assets frozen by the court due to litigation as below:

	2023	2022
	RMB'000	*RMB'000*
Property, plant and equipment	**371,630**	368,449
Land use rights	**50,251**	51,656
Mining right	**334,306**	334,306
Restricted bank balances	**31**	864
	756,218	755,275

On 15 September 2020, Koyo Agrochem and BOCOM entered into a loan agreement for an aggregate principal loan amount of RMB68,000,000 ("Agrochem Loan A"). On 30 October 2020, the Intermediate People's Court of Chengdu Municipality, Sichuan Province* (四川省成都市中級人民法院) (the "Chengdu Intermediate Court") issued a judgment (the "Judgment") pursuant to which Koyo Agrochem was required to repay the Agrochem Loan A. On 31 August 2021, the Chengdu Intermediate Court made enforcement action on auction of pledged properties held by the Group located on Qingdao (the "Pledged Properties A"). The Pledged Properties A were disposed of and gross proceeds of approximately RMB24,720,000 were used to repay Agrochem Loan A. On 26 December 2022, the Group reached a settlement agreement with BOCOM. During the year ended 31 December 2023, the Group is repaying the Agrochem Loan A according to the settlement agreement.

In March 2019, Guangan New Material and EXIM Bank entered into a supplemental agreement to the loan agreement dated 31 July 2015 in relation to the renewal of an aggregate principal loan amount of RMB90,000,000 ("New Material Loan"), pursuant to which the last repayment of the New Material Loan were extended to March 2021. EXIM Bank subsequently requested for an early repayment of the New Material Loan, and initiated legal action against Guangan New Material in relation to the New Material Loan with outstanding amount of approximately RMB76,919,000 at the No.4 Intermediate People's Court of Beijing Municipality* (北京市第四中級人民法院). On 28 December 2020, the No.4 Intermediate People's Court of Beijing Municipality* issued a judgment (the "New Material Judgment") pursuant to which Guangan New Material was required to repay the New Material Loan. Following the handing down of the New Material Judgment, the Group lodged an appeal against the New Material Judgment. On 30 June 2021, the High People's Court of Beijing* (北京市高級人民法院) dismissed the appeal upheld. On 19 August 2022, the Group reached a settlement agreement with EXIM bank. During the year ended 31 December 2023, the Group is repaying the New Material Loan according to the settlement agreement.

In 2021, CIB claimed Koyo Agrochem, Dazhou Koyo Chemical, Sichuan Cuyo, Ko Yo Lotusan, Ko Yo GuangAn and Guangan New Material at the Chengdu Intermediate Court, in respect of an outstanding debt of approximately RMB44,745,000 together with accrued interests and costs. An enforcement action was instituted at Chengdu Intermediate Court on 4 February 2021. The enforcement action was terminated after the Group's negotiation with CIB. The Group has submitted its proposed repayment schedule to CIB, and the Group is awaiting CIB to revert on their views on the proposal.

During November 2019, Koyo Agrochem, Dazhou Ko Yo Chemical and Ko Yo Guangan entered into a loan agreements with SPD Bank for an aggregate principal loan amount of RMB177,400,000 ("Loan B"). On 21 July 2021, the Chengdu Intermediate Court issued a judgment pursuant to which Koyo Agrochem, Dazhou Ko Yo Chemical and Ko Yo Guangan were required to repay the Loan B together with accrued interest and costs. An execution notice was issued by Chengdu Intermediate Court on 15 November 2021. On 13 December 2022, the Group reached a settlement agreement with SPD Bank. During the year ended 31 December 2023, the Group is repaying the Loan B according to the settlement agreement.

During March 2021, Dazhou Ko Yo Chemical entered into a loan agreement with Bank of Dalian for aggregate principal loan amount of RMB80,000,000 ("Loan C"). On 24 August 2021, the Chengdu Intermediate Court issued a notice pursuant to which Dazhou Ko Yo Chemical were required to repay the Loan C together with accrued interest and costs in according to notarization made. An enforcement action was enforced by Chengdu Intermediate Court on 8 December 2021. On 31 August 2022, the Group reached a settlement agreement with Bank of Dalian. During the year ended 31 December 2023, the Group is repaying the Loan C according to the settlement agreement.

During June 2020, Dazhou Ko Yo Chemical entered into a loan agreement with Evergrowing Bank for an aggregate principal loan amount of RMB79,000,000 ("Loan E"). On 11 October 2021, the Chengdu Intermediate Court issued a notice pursuant to which Dazhou Ko Yo Chemical were required to repay the Loan E together with accrued interest and costs in according to notarization made. The Group is engaged in the negotiation process with Evergrowing Bank with an aim to renew and/or restructure the Loan E. The Group has submitted its proposed repayment schedule to Evergrowing Bank, and the Group is awaiting Evergrowing Bank to revert on their views on the proposal.

43. CONTINGENT LIABILITIES

As at 31 December 2023, the Group has issued guarantees of RMB179,510,000 (2022: RMB184,510,000) to a bank in respect of banking facilities granted to a related company. The amount disclosed above represents the aggregate amounts that could be required to be paid if the guarantees were called upon in entirety. In the opinion of the directors of the Company, the fair values of the financial guarantee contracts are not significant as the possibility of default by a related company is remote and, in case of default in payments, the net realisable value of the pledged properties by other parties can recover the repayment of the outstanding principals together with the accrued interest and penalty. Accordingly, no provision has been made in the consolidated financial statements for these guarantees.

44. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements were approved and authorised for issue by the Board of Directors on 28 March 2024.

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") set out on pages 57 to 123, which comprise the consolidated statement of financial position as at 31 December 2023, 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 material accounting policy information.

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 2023, 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 mentions that the Group incurred a loss of approximately RMB154,615,000 for the year ended 31 December 2023 and as at 31 December 2023 the Group had net current liabilities of approximately RMB2,859,724,000, despite the Group had a net operating cash inflow of approximately RMB224,469,000 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 RMB3,386,449,000 as at 31 December 2023 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 note 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 RMB334,306,000 as at 31 December 2023 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 the Company;

— 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

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 auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do 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 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. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

A further description of our responsibilities for the audit of the consolidated financial statements is located at the HKICPA's website at:
https://www.hkicpa.org.hk/en/Standards-setting/Standards/Our-views/auditre
This description forms part of our auditor's report.

CHAIRMAN'S STATEMENT

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

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

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

Guang'an Ko Yo Plant

In 2023, Guang'an Plant's alcohol-ammonia unit operated constantly for a long period of time, which achieved the best performance since the unit was built and put into operation. The losses from unplanned shutdown were significantly reduced. The methanol unit set a new record by having no unplanned shutdown during a production cycle. Despite the Company's best-ever results in terms of cost control and unit operation, the operating conditions fell short of expectations due to the tight supply of natural gas and the significant increase in the price of natural gas.

The carbon monoxide purification project and pipeline project were commissioned in mid-May 2023 and successfully commissioned in just one run. After subsequent operation optimisation and defect rectification, the project has achieved the designed capacity and quality targets and realised economic value.

Dazhou Ko Yo Plant

In 2023, the Company achieved "production before the year, overhaul after the year" production organisation mode this year for the first time. It twice postponed the overhaul schedule to make certain contributions for the Group's economic efficiency. Under the premise of guaranteed natural gas supply, the synthetic ammonia unit and urea unit, after resumption of production, achieved record high output and energy consumption, with the daily output of the synthetic ammonia unit reaching the highest level in history and the comprehensive energy consumption of synthetic ammonia product per unit reaching the lowest level in history. During the period, with the PetroChina and Sinopec dual gas sources, it successfully avoided a natural gas supply interruption due to external risks of forced shutdowns, to ensure a long-term, safe and stable operation of units.

Guang'an Ko Yo New Material Plant

The 100,000 tons/year DMF (N,N-dimethylformamide) and 100,000 tons/year NMP (N-methylpyrrolidone) projects achieved a successful commissioning on 22 May 2023 in just one run, producing qualified products, such as DMF (N,N-dimethylformamide), and on 15 September 2023, producing electronic-grade NMP, with all consumption and indicators meeting the standards as well as stable production.

Jiangsu Bluestar Plant

At present, the main construction of the project is basically completed and has entered the debugging and defect elimination stage, with the completion of the system scanning, single test and joint test of mechanical pumps; It is expected to enter trial production in the second quarter of 2024. Upon commissioning of the project, it is expected to generate annual sales of approximately RMB4.0 billion.

Industry Review and Outlook

I. Price of methanol fell followed by a rise in 2023, driven by the coal price and supply and demand.

China's methanol market showed an overall "V-shape" trend in 2023. China's new methanol production capacity in 2023 was approximately 5.45 million tons, with a total production capacity of approximately 107.56 million tons. Domestic methanol production was approximately 78.52 million tons, with a capacity utilisation rate of approximately 73%.

In the first half of 2023, the methanol price continued to move down to the lowest point in the year, with an average national price of about RMB1,944 per ton, mainly due to pressure on coal price and a weak supply-demand structure. In the first half of the year, with weakening macroeconomic support as expected and the slow resumption of work in the downstream, coupled with the sharp decline in energy prices, chemicals prices went downward under pressure. Against the backdrop of lower coal prices and weak demand for methanol, methanol prices were in a downward trend in the first quarter. In the second quarter, methanol units underwent the spring inspection period in April with a seasonal decline in the start-up rate. Additionally, the methanol price experienced a phased upward trend due to the restart of some ports and Northwest MTO units, downstream pre-holiday stockpiling, and low manufacturer inventories. In May-June, methanol prices faced pressure due to the rapid decline in coal prices and the gradual emergence of supply and demand pressures, leading to the lowest point of the year. In the second half of the year, methanol prices gradually recovered, and the market price centre shifted upward. With the rebound of energy and coal prices, winter gas restrictions, and new real estate policies and other macroeconomic support, the level of inventories accumulated in the off-season was less than expected. Besides, the overall market gradually recovered as a result of the restart or new commissioning of some large MTO units as well as driven by the traditional peak season of demand.

Looking ahead to 2024, under the guidance of the national dual-carbon policy on the supply side, it will be difficult to release the new capacity of domestic coal chemical industry, and the growth rate of methanol industry supply will gradually slow down. However, the overseas methanol industry in Iran is still in the stage of capacity expansion, and therefore, domestic ports may face the impact of high imports. In respect of demand, MTO units still has no capacity release, but for traditional downstream formaldehyde, dimethyl ether, acetic acid, etc. demand are relatively stable under the national macro-control. New growth points may arise in methanol fuel and other emerging industries. However, in the context of the unstable international geopolitical situation and potential long-term persistence of energy crisis, coupled with the current low profit margins of methanol, the overall methanol price in 2024 may shift upward slightly due to the slowdown in supply and driven by the energy crisis and macro-situation.

II. In 2023, China's synthetic ammonia market showed an overall downward and then upward trend, mainly attributable to the coal price and supply and demand.

China's synthetic ammonia market showed an overall "V-shape" trend in 2023. In 2023, China's new synthetic ammonia production capacity was approximately 6.96 million tons, with a national capacity reaching approximately 82 million tons. National synthetic ammonia production was approximately 54.9 million tons, with a capacity utilisation rate of approximately 67%.

In 2023, the price centre of China's synthetic ammonia shifted downward in the first half and upward in the second half amidst oscillations. In the first quarter, as at the beginning of the year, leading gas enterprises in the Southwest China shut down units for overhaul, which was also conducted in the main production area, the local supply contraction was obvious, benefiting the market. The synthetic ammonia price remained stable for a short period of time, and then rose to a stage of high, leading to the dissatisfied market sentiment in the downstream. In the second quarter, agricultural demand was delayed while industrial demand was relatively stable. In addition, the synthetic ammonia price gradually shifted downwards due to the impact of imports from East China. In the third quarter, with much more overhauls coupled with the postponement of the release of new production capacity, the operation of units in main production areas was unstable. Furthermore, the agricultural demand was significantly released, leading to the upward trend in the price centre of the synthetic ammonia. In the fourth quarter, with coal heating and gas supply constraints, support was given to the energy price and macroeconomy was expected to be positive. As the leading gas enterprises gradually entered the overhaul cycle and units of plants in Shanxi, Henan and other places experienced shutdown or breakdown, the supply contracted. Moreover, autumn fertilization and fertilizer preparation were conducted in the downstream. In addition, industrial caprolactam, nitric acid and other demand enhanced, coupled with the low-to-mid level of overall plant inventory. As a result, the overall market sentiment maintained stable. Nevertheless, in December, the branch in Jingzhou, Hualu, Hubei and in Lefeng, Chongqing in the southwestern China enhanced a new production capacity of 1.2 million tons and 200,000 tons, respectively. Under this background, the pattern of supply and demand changes in Central China and Southwest China, leading to a significant increase in the supply, while the downstream was undergoing the agricultural off-season, and therefore, operating rate of nitric acid and caprolactam units declined, thereby decreasing the price of synthetic ammonia.

Looking forward to 2024, for China's synthetic ammonia in 2024, it is expected to have 3-6 million tons of units put into production, mostly concentrated in East China and Central China. The supply of synthetic ammonia in 2024 will be in line with the new production capacity put into operation and the market price of synthetic ammonia is likely to face pressure. As the agricultural demand is largely influenced by the seasonal cycle and policy formulation, and demand for acrylonitrile, nitric acid, and others are affected by the demand cycle and the environmental protection policies, the demand for synthetic ammonia is difficult to improve, or with the same level of that in 2023. However, for the raw material, thanks to the national policy to protect the supply and stabilise the price, the price of it will remain relatively stable with a small fluctuation. The overall supply-demand structure of the synthetic ammonia market in 2024 will show a loose trend, and the synthetic ammonia price may show a downward trend with fluctuations.

III. *In 2023, urea prices underwent a downward trend and then rose, mainly driven by the coal price, supply and demand, and the Indian urea bidding.*

China's urea market in 2023 showed an overall downward and then upward trend. In terms of new production capacity, the new production capacity of urea in 2023 was approximately 4.36 million tons, and the total production capacity was approximately 78.12 million tons. National urea production was approximately 59 million tons, with a capacity utilisation rate of approximately 76%.

The overall price centre of urea prices shifted downwards in the first half of 2023. In the first quarter, in the peak season and with many orders yet to be satisfied, the upstream manufacturers desired strongly to raise prices, but subject to the upstream high inventory and high supply pressure, the stocking was conducted more cautiously in the down and middle stream. Because of the constant movement in the supply and demand, prices experienced a wide range of oscillation. In the second quarter, urea prices gradually fell, mainly due to the decline in coal prices and high supply relative to weak demand. Additionally, with overseas urea prices continuing to be low, the downstream was filled with pessimistic sentiment, with poor willingness to stock up goods, resulting in the constant delay of demand and the inventory accumulation of manufacturers. In the third quarter, which is the domestic peak season of topdressing, postponed demand was released significantly, and domestic agricultural demand was unexpected. At the same time, as the rebound in overseas gas prices gave a support to the upward shift of urea costs, the international demand was released explosively. Besides, during the peak consumption season of golden September and silver October and under the backdrop of breakdown or short-term shutdown of certain plants' units in the main production area, the supply contracted. Subsequently, the Indian urea bidding was published, boosting the market up. In the fourth quarter, with coal heating and gas supply constraints, support was given to the energy price. As the leading gas enterprises gradually entered the overhaul cycle as scheduled, coupled with environmental policies in Shanxi and other places, the supply contracted. Besides, autumn fertilization and fertilizer preparation were conducted in the downstream to drive up national reserves and other demand. Furthermore, driven by the growth of futures, the market conditions gradually improved and urea prices rose until the middle and end of December when the national policy imposed strong suppression on the futures prices. As a result, the price centre of the market gradually shifted downward.

Looking forward to 2024, urea will be still in a high production cycle. It is expected that in 2024, there will be nearly 6.5 million tons of new production capacity planned to be put into operation, mainly through plant expansion. Based on this, the total production capacity may be more than 84 million tons, leading to a strong impact brought by the domestic high supply. As it is expected that exports will still be subject to the legal inspection policy, superimposed with the same large-scale production start-ups overseas, the export volume is expected to decline year-on-year. In respect of demand, under the policy support and the expectation of a favourable macro recovery, agricultural and industrial demand may continue to show incremental growth next year, but the growth rate is expected to slow down. Overall, in 2024, the contradiction between supply and demand of urea may be highlighted in the second half of the year, and the urea price may show a trend of rising and then falling.

IV. The overall DMF market in 2023 was sluggish and oscillating, mainly driven by supply and demand.

China's DMF market was sluggish and oscillating in 2023. The total domestic production capacity of DMF was 1.72 million tons, with an annual production of approximately 790,000 tons and a capacity utilisation rate of approximately 46%. The overall downstream demand for DMF was approximately 700,000-800,000 tons, with supply exceeding demand.

In the first quarter of 2023, the main downstream pulp market presented a slow start-up recovery. As the shrinking downstream demand was unfavourable to the market, the market prices, subject to the downstream demand, fluctuated in general. The price peak appeared before the Spring Festival, because the downstream made replenishment for rigid demand, and then the price rose to a high level. However, the downstream began to express dissatisfaction to the rocketing price, causing a downturn in transactions and a subsequent price decrease. In the second quarter, the prices of methanol and synthetic ammonia, costs of DMF, were low, so were the cost support. Additionally, with the release of new DMF production capacity, the supply increased, and manufacturers continued to accumulate inventory. The market conditions continued to weaken under the weak downstream demand. The DMF price fell to the lowest point in the year. In the third quarter, a number of manufacturers' units shut down or reduced production. Driven by the Asian Games in Hangzhou, superimposed with the downstream replenishment before the National Day, the market experienced a phasal enhancement, but slipped with the end of replenishment. In the fourth quarter, the end demand from downstream pulp plants was again weakening, and units under previous shutdown were restarted. At the same time, the demand continued to be sluggish and the weak cost support was given to raw materials. As a result, the overall DMF market presented supply exceeding demand. The price even fell below the cost.

Looking ahead to 2024, the DMF market may continue to develop in a weak and oscillating manner. In the first half of 2024, as there will still be 300,000 tons of new production capacity to be put into production, the supply side will continue to be under pressure. For demand, the demand for the main downstream pulp will hardly improve, and the overall industry start-up is expected to remain at a low-medium level. In respect of raw materials, the methanol market price may be strong and oscillating during the year, and its overall price centre may be slightly higher than that in 2023. For another raw material, synthetic ammonia, its price centre may be significantly lower than that in 2023 due to the release of the new production capacity. In general, the costs of DMF are likely to decrease amidst oscillation, so DMF cost support will be weak. In summary, the overall market will be weak with some fluctuations as the supply and demand structure continued to weaken.

V. The overall NMP market witnessed a continuous downward trend in 2023, mainly driven by supply and demand.

The NMP market condition was in a downturn in 2023. The NMP synthetic liquid supply capacity in 2023 was approximately 700,000 tons with a production of approximately 245,000 tons and a capacity utilisation rate of approximately 35%.

In 2023, NMP purification units continued to deliver a capacity of approximately 2 million tons, offering a very sufficient supply for the market. For demand, as the downstream lithium battery industry just ordered for rigid demand, demand hardly improved with an overall demand for NMP of 250,000 tons. Accordingly, the market supply and demand structure were seriously imbalanced. In respect of costs, with the constant release of new production capacity, the price of the raw material, BDO, remained at a low level with fluctuations, and therefore, the cost support was limited. Consequently, the overall NMP market condition throughout the year continued to worsen.

Looking forward to 2024, the overall NMP market may remain at a low level with some fluctuations, and its market prices may be low. In terms of supply, the new production capacity of NMP synthetic liquid will be about 400,000 tons with a total capacity of about 1.1 million tons. Further, with the new production capacity of NMP purification units, the supply will significantly exceed the demand. For demand, under the sluggish international economic environment, it is difficult to improve the demand from the lithium battery industry, the pharmaceutical industry and the electronics pharmaceutical in the short term, which may be comparable to that in 2023. In respect of costs, with new BDO units continued to be put into operation in 2024, pressure on the BDO supply will intensify. Overall, the NMP market trend in 2024 will be dominated by negative factors, and prices may still decrease.

STRATEGIES

In 2023, due to the domestic and international environment, the fertilizer and chemical industry will experience sharp fluctuations and market oscillations, which will increase the difficulty of market forecasting. In the face of these difficulties, the Group mainly focused on internal reforms and innovations: on the one hand, through our technological transformation, to reduce the production and operation costs, especially minimising the loss from unplanned shutdown to the lowest level; on the other hand, through our continuous adjustment of the sales model, to introduce a bidding mechanism; to control the sales plans, and seize opportunities in market fluctuations, thus increasing revenue of the Company. In 2024, we will seize the real-time dynamics of changes in the fertiliser and chemical industries and adopt the following strategies and measures for the Company to emerge completely from difficulties and keep itself on a right track.

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

II. The Company will continue to promote special improvement, and seek for and promote the implementation of various measures of "increasing revenue while reducing expenditure, cutting costs while increasing efficiency" to reduce operating costs and waste;

III. The Company will continue to promote measures such as performance appraisal, compensation reform, special rewards and skill assessment, gather together all the staff in the Group to exercise unified leadership, and inspire the creativity and execution of the team, in a bid to achieve good operation results;

IV. The Company will strengthen the training of the workforce to improve the technical level and management capabilities of all staff;

V. The Company will promote sales model optimization, enhance the quantity of product bidding, and increase the proportion of direct sales to customers, and increase the size of sales to local customers. At the same time, the Company will optimise the rhythm of signing contracts, establish an internal sales competition mechanism, and maximize sales benefits;

VI. The Company will do a good job in preparing for the annual overhaul of the device, reduce the number of unplanned shutdown during the year, increase production and reduce consumption; under the premise that the supply of natural gas is gradually eased, the Company will explore the feasibility of repairing the device from once a year to every two years;

VII. The Company will promote the reform of spare parts inventory, gradually reduce the amount of inventory funds occupied, promote the brand construction of core spare parts, improve the safety and reliability of the device, and at the same time establish safety inventory and inventory management methods to improve the safety factor and reduce costs;

VIII. The Company will promote the reform of the authorization system to improve the decision-making efficiency of subsidiaries;

IX. The Company will promote the approval, start and construction of new projects, revitalize existing assets, gradually realize the upgrading of products, transform from pure basic chemical industry to vigorously develop fine chemical industry based on basic chemical industry, and enhance the competitiveness of the Group;

X. The Company will continuously promote standardisation, such as technical standardisation, management standardisation, work standardisation, inspection standardisation, etc., and continuously consolidating the management foundation in order to safeguard the Group's stable operation;

XI. The Company will deepen the reform of the "procurement system", gradually reduce the proportion of exclusive suppliers, and solve the industry-specific problems, to improve purchasing quality and reduce costs;

XII. The Company will promote the gradual optimisation and marketisation of the DMF & NMP project and the propylene oxide project, as well as the enhancement of business teams in the supply chain and sales, so as to form a new point of growth for the Group in terms of sales and profits.

ACKNOWLEDGEMENT

Looking back on the past year, there have been certain fluctuations in the chemical fertilizer and chemical industries. Under the leadership of the Board of Directors and management, all employees are united, adhere to market-oriented production and operation activities, follow up market conditions in a timely manner, and make real-time calculations to ensure the best operating efficiency of the device and realize the long-term stable operation of the device. In 2024, with decisions and strategies devised by the Board and under the leadership of the management, we will successfully stabilise the basic chemical business, explore new projects and capitalise on market opportunities.

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

FINANCIAL PERFORMANCE

Results

During the year under review, the Group recorded turnover of approximately RMB2,905 million, decrease of 9.4% as compared to last year. The decrease in turnover was mainly due to the decrease in market price of products. The loss attributable to shareholders of the Company amounted to approximately RMB152 million, representing a decrease in profit of approximately RMB354 million as compared to last year. Basic earnings per loss amounted to approximately RMB0.0253.

Cost and profit margin

Cost of sales of the Group amounted to approximately RMB2,589 million, representing an increase of 7.3% as compared to the figure in 2022. The major reasons of increase in cost of sales were due to the increase in market price of raw material.

Gross profit margin of the Group decreased approximately from 24.7% in 2022 to 10.9% in 2023. The decrease in the gross profit margin was due to the decrease in market price of products and the increase in market price of raw material.

During the year under review, distribution costs decreased approximately by 7.9% as compared with last year. The decrease in distribution cost was due to the decrease in turnover. The ratio of the distribution costs over sales was 1.45% in 2023 which was 0.03% higher than those in 2022.

In comparison with last year, there was a slight decrease in administrative expenses of the Group by approximately 0.3% from approximately RMB149.6 million in 2022 to approximately RMB149.1 million in 2023. The decrease in administrative expenses is mainly due to strictly cost control.

Other income increased from approximately RMB5.9 million in 2022 to approximately RMB7.6 million in 2023. The difference was mainly due to the increase in income from the sales of raw materials. Details are set out in Note 9 to consolidated financial statements. Other expenses amounted to approximately RMB1.4 million in 2023 (2022: approximately RMB3.2 million). The decrease in other expenses in 2023 was mainly due to decrease in share-based payment arising from issue of share option. Details are set out in Note 10 to consolidated financial statements.

The Group's income tax expenses in 2023 amounted to approximately RMB47.0 million. Details of tax schemes are set out in Note 12 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 31 December 2023. The Group has not declared any dividend for the year ended 31 December 2023 (2022: Nil).

PRODUCTS

Sales of the Group's products for the year 2022 and 2023 are as follows:

	Turnover in year 2023		Turnover in year 2022		**Percentage Change in turnover**
	RMB million	***Composite %***	*RMB million*	*Composite %*	*%*
Urea	**888**	**30.6**	1,009	31.5	(12.0)
Ammonia	**1,058**	**36.4**	1,227	38.3	(13.8)
Methanol	**780**	**26.9**	912	28.4	(14.5)
N-methylpyrrolidone	**13**	**0.4**	–	–	N/A
N,N-dimethylformamide	**46**	**1.6**	–	–	N/A
Others — Trading	**120**	**4.1**	57	1.8	110.5

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2023, the Group had net current liabilities of approximately RMB2,859,724,000. Current assets as at 31 December 2023 comprised cash and bank deposits of approximately RMB62,928,000, pledged bank deposits of approximately RMB901,856,000, restricted bank balances of approximately RMB31,000, inventories of approximately RMB216,104,000, trade receivables of approximately RMB1,337,000, note receivable of approximately RMB3,101,000, and prepayments and other current assets of approximately RMB235,508,000. Current liabilities as at 31 December 2023 comprised short-term borrowings of approximately RMB2,387,146,000, convertible bonds of approximately RMB342,654,000, trade payables of approximately RMB31,717,000, contract liabilities of approximately RMB61,963,000, due to a related company of approximately RMB683,041,000 and accrued charges and other payables of approximately RMB774,068,000. 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 31 December 2023, the Group had outstanding capital commitments of approximately RMB3,035,598,000. Details of the Group's capital commitments are set out in Note 37 to the consolidated financial statements.

FINANCIAL RESOURCES

As at 31 December 2023, the Group had cash and bank deposits of approximately RMB62,928,000, pledged bank deposits and restricted bank balances of approximately RMB901,887,000. The Company intends to finance the Group's future operations, capital expenditure and other capital requirements with the existing bank balances and the operation income.

As at 31 December 2023, the total borrowings, convertible bonds and notes payable balances of the Group amounted to approximately RMB3,685,589,000.

GEARING RATIO

The Group's gearing ratios were approximately 75% and 70% as at 31 December 2023 and 31 December 2022 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

Details of the Group's contingent liabilities are set out in Note 43 to the consolidated financial statement.

MATERIAL ACQUISITION/DISPOSAL

There was no material acquisition or disposal in the year 2023 which would have been required to be disclosed under the Rules Governing the Listing of Securities ("Listing Rules") on Stock Exchange.

SEGMENTAL INFORMATION

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

DETAILS OF FUTURE PLANS FOR MATERIAL INVESTMENT OR CAPITAL ASSETS

Save as disclosed of the plans stated in the chairman's statement of this annual report, the circulars dated 4 December 2020 (Dazhou new production line, Guangan new production line and the PBAT production line) and 23 March 2022 (the acquisition of Jiangsu Bluestar Green Material Co., Limited which in the establishment of production line of propylene oxide), 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 31 December 2023, land use rights with a total net book value of approximately RMB238,188,000 (2022: approximately RMB244,154,000), property, plant and machinery with a total net book value of approximately RMB1,570,088,000 (2022: approximately RMB1,610,908,000), investment properties with a total net book value of approximately RMB927,000 (2022: approximately RMB5,984,000), mining right with a total net book value of approximately RMB334,306,000 (2022: approximately RMB334,306,000), other receivables of approximately RMB73,000,000 (2022: nil), and bank deposits of approximately RMB901,856,000 (2022: 390,850,000) were pledged as collateral for the Group's borrowings and notes payable.

NUMBER OF EMPLOYEES

As at 31 December 2023, the Group had 843 (2022: 802) employees, comprising 6 (2022: 6) in management, 117 (2022: 124) in finance and administration, 702 (2022: 652) in production, 16 (2022: 17) in sales and marketing and 2 (2022: 3) in research and development of these employees, 839 (2022: 798) were located in the PRC and 4 (2022: 4) were located in Hong Kong.

RETIREMENT BENEFITS SCHEME

During the years ended 31 December 2022 and 2023, there were no contributions forfeited by the Group on behalf of its employees who leave the plan prior to vesting fully in such contribution, nor had there been any utilization of such forfeited contributions to reduce future contributions. As at 31 December 2022 and 2023, no forfeited contributions were available for utilization by the Group to reduce the existing level of contributions as described in paragraph 26(2) of Appendix 16 to the Listing Rules.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

For the year ended 31 December 2023, the Group's key business operations make continuous effort and investment on managing and monitoring environmental and social performance. Technology advancement, especially new materials development, continues to assist the Group achieve long-term business resilience, to achieve its economic, environmental and social sustainability. The group ensures strict compliance with and keeps a close eye on updates of any applicable regulations, laws, and standards. Engagement with stakeholders has resulted in raised concerns on key material issues, which include: Energy, Emissions, Effluents and Waste, Environmental Protection Policies, and Occupational Health and Safety. The Group will continue to identify areas of improvement for the concerned aspects and keep close communication with its stakeholders for advancing ESG management.

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 10 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 three members comprising the three Independent Non-Executive Directors, namely, Mr. Xu Congcai, Mr. Le Yiren and Ms. Lu Yi.

The audit committee has reviewed with 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 consolidated financial statements of the Company and the Group for the year ended 31 December 2023.

The audit committee is in agreement with the Management with respect to the Group's ability to continue as a going concern, and in particular the actions and measures had been implemented by the management of the Group. The audit committee's views are based on a strict review of the management of the Group's actions and measures, current operating situation and future development of the Group's plants, and the cash flow position of the Group in 2023, and also the discussions with the Management and the Auditor. With the Group's positive operating cash flow in 2023, the audit committee is of the view that the Management should continue the actions and measures.

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 2023 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 2023. The work performed by ZHONGHUI ANDA CPA Limited in this respect did not constitute an assurance engagement and consequently no opinion or assurance conclusion 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, except for the disclosable transactions mentioned in the announcement dated 6 September 2022 which the Company failed to comply with Chapter 14 of the Listing Rule to report the disclosable transactions at the material time, the Company has complied with the Corporate Governance Code.

GOING CONCERN AND MITIGATION MEASURES

As described in Note 2 to the consolidated financial statements, the Group's ability to continue as a going concern is largely dependent on the ongoing availability of finance supports from the bankers to the Group and the profitability of the Group's plants.

A number of measures have been undertaken to improve the Group's liquidity and financial position since 2020 and the Group's financial position was continuously improved. The Group's net cash inflow from operating activities before working capital changes and profit tax and interest payment was approximately RMB306 million in 2023.

The Group will undertake the following measures to further improve the Group's liquidity and financial position:

1) The Group has been actively negotiating with a number of banks for renewal or restructuring of the loans since 2021. Most of the bank loans had been renewed, restructured or repaid. There is an amount of approximately RMB121 million bank loans that are in negotiation of renewal or restructuring;

2) For the convertible bonds which would mature in 2024, after the reporting period, the bondholders agreed not to demand for repayment of the relevant principal and interest in forcoming year;

3) It is expected that the new projects as stated in the Chairman's Statement can further improve the liquidity and profitability of the Group; and

4) The Group will continue to take active measures as stated in the headlines under the Chairman's Statement "Strategies" to control the administrative and production costs.

Taking into account the completion of the above-mentioned plans and measures, the existing cash balance in bank, the positive operating cash flow, profitability of the Group's plants, the Directors are of the opinion that the Group will have sufficient working capital to finance its operations for the next twelve months from the end of the report date. Accordingly, the Directors are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis. Should the Group be unable to continue as a going concern, adjustments would have to be made to the consolidated financial statements to adjust the value of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively.

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, 28 March 2024

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. Xu Congcai, Mr. Le Yiren and Ms. Lu Yi.