玖源化工(集團)有限公司

Ko Yo Chemical (Group) Limited

(incorporated in the Cayman Islands with limited liability)

(Stock code: 00827)

ANNUAL REPORT 2018

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Corporate Information

DIRECTORS

Executive Directors

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

Non-executive Director

Mr. Zhang Fubo

Independent non-executive Directors

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

COMPANY SECRETARY

Mr. Chung Tin Ming, HKICPA, FCCA

QUALIFIED ACCOUNTANT

Mr. Chung Tin Ming, HKICPA, FCCA

AUDIT COMMITTEE

Mr. Shi Lei
Mr. Hu Xiao Ping
Mr. Zhang Fubo
Mr. Xu Congcai

AUTHORIZED REPRESENTATIVES

Mr. Tang Guoqiang
Mr. Li Weiruo

COMPLIANCE OFFICER

Mr. Zhang Weihua

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite No. 02, 31st Floor, Sino Plaza
255–257 Gloucester Road
Causeway Bay, Hong Kong

SHARE REGISTRAR

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

AUDITOR

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

PRINCIPAL BANKERS

China Construction Bank Corporation
— Dazhou Branch

Ping An Bank
— Chengdu City Wan Fu Branch

Bank of Dalian
— Chengdu Branch

China Mingsheng Banking Corp.
— Chengdu Branch

Huaxia Bank Co., Ltd.
— Chengdu Tianfu Branch

China Merchants Bank
— Chengdu Longhu Branch

Gui Yang Bank
— Chengdu Branch

STOCK CODE

827

WEBSITE

www.koyochem.com

Highlights

— For the year ended 31st December 2018, the net cash inflow from operating activities before working capital changes but after interest payment was approximately RMB123.6 million, which represent an increase of approximately RMB204.2 million as compared to the net cash outflow from operating activities before working capital changes but after interest payment of approximately RMB80.6 million in year 2017.

— For the year ended 31st December 2018, the loss attributable to shareholders was approximately RMB348 million, which represent a decrease a loss of approximately RMB106 million as compared to a loss of approximately RMB454 million in year 2017. If neglect the loss due to the impairment of assets and fair value change of derivative financial assets, the adjusted loss attributable to shareholders in year 2018 was approximately RMB137 million, which represent a decrease of RMB140 million as compare to the adjusted loss of approximately RMB277 million in year 2017.

— Basic loss per share was approximately RMB0.081 for the year ended 31st December 2018.

— For the year ended 31st December 2018, sale turnover was approximately RMB3,101 million, which represents an decrease of approximately 15.7% as compared to year 2017.

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

			% change compare with year 2017	
Type	**Sales amount** (million RMB)	**Sales quantities** (tonnes)	**Sales amount**	**Sales quantities**
BB & compound fertilizers	39	25,546	26	5
Urea	472	237,761	(16)	(38)
Ammonia	395	146,152	(14)	(38)
Methanol	777	327,201	6	(10)
Polyphenylene sulfide	53	1,318	(35)	(30)
Others — trading	1,365	N/A	(25)	N/A

— The Directors do not recommend the payment of any final dividend for the year ended 31st December 2018.

Chairman's Statement

TO SHAREHOLDERS

It's my honour to report to you the results of Ko Yo Chemical (Group) Limited (the "Company") together with its subsidiaries (collectively, the "Group") for the year ended 31 December 2018. I wish to express sincere appreciation on behalf of the Board of Directors to all shareholders and friends from all sectors of the society who concern for the development of the Group.

In 2018, the macro-economic conditions showed signs of improvement. Driven by the commitment of the state to safety and environmental protection, the great progress of coal and urea enterprises in reducing production capacity and the stable downstream demand, the chemical fertilizer and chemicals industry greatly recovered and prices for synthetic ammonia, urea and methanol products saw significant growth. Nonetheless, insufficient gas supply during the heating period at the beginning and the end of the year led to limited gas supply and production suspension in Dazhou Plant and Guangan Plant, which failed to meet their annual targets of equipment utilization rate and production volume. As a result, the Group remained in a loss position despite having largely improved from last year.

For the year ended 31 December 2018, the audited loss attributable to shareholders of the Group amounted to approximately RMB348 million. Basic loss per share was approximately RMB8.1 cent (2017: loss of RMB10.6 cent). The Group's turnover was approximately RMB3,101 million, which represents a decrease of 15.7% as compared to RMB3,678 million for the same period in 2017. The Group's sales volume (excluding trading) amounted to approximately 738,000 tonnes, representing a decrease of approximately 26.8% as compared to 1,008,000 tonnes for last year.

Led by the management, all staff of the Group devoted great efforts to production and sales through market-driven approach and safety and environmental protection measures; with the goal of management enhancement during the period under review. This has resulted in the improvement in operating results. There was no major safety incident in the year and the Group has done well in terms of environmental protection while maintaining a stable workforce.

The KAM facilities in Guangan Plant were launched successfully and in continuous operation. In addition to the ISO9001 quality management system, ISO14001 environmental management system and ISO50001 energy management system accreditation, the Group passed the assessment and obtained the certification of Class III Production Safety Standardization. It also passed the inspection and acceptance of the Central Environmental Inspection Group.

Dazhou Plant resumed production in February 2018. The facilities were under stable operation and passed the inspection and acceptance of the Central Environmental Inspection Group. The annual maintenance was commenced on 1 December as planned.

Due to the adjustment of the Group development strategy, Guangan New Material Plant ceased operation in late June 2018.

Sales were able to keep pace with production. The Group further optimized the sales market, and products with higher selling prices recorded the best growth in terms of market share. As a result, the sales revenue and profit of self-owned products improved drastically. Meanwhile, the OEM and trading business met the targets with regard to sales volume and efficiency. The market prices of urea, liquid ammonia and methanol rebounded and reached their highest in recent years, and the gross profit of self-owned products grew from the same period last year, leading to far less loss for 2018 as compared to 2017.

Considering the Group's results during the year under review, the Board does not recommend the payment of any final dividend for the year ended 31 December 2018. The Group has not declared any dividend for the year ended 31 December 2018 (2017: Nil).

PROSPECT

Industry Overview and Outlook

I. Effective reduction of urea production capacity resulted in supply and demand equilibrium and surging price of nitrogen fertilizer in 2018

According to the China Nitrogen Fertilizer Industry Association, given the change of business of some enterprises and the phase–out of old facilities, exiting production capacity slightly exceeded the addition of new capacity, leading to the decrease in urea production capacity in 2018. From January to December, total urea production capacity was at approximately 69.54 million tonnes, representing a decrease of approximately 4.4% from last year. At the same time, total urea production volume dropped significantly to only around 52.07 million tonnes. The average operating rate of urea enterprises was approximately 58% for the year. In line with the diminishing urea demand from the PRC agricultural sector over recent years, the domestic agricultural demand declined by approximately 1% in 2018. In terms of raw materials, coal–to–gas conversion has fueled natural gas consumption and continued to tighten the supply of gas for the chemical fertilizer industry, hence gas price was on the rise in the second half of the year. The reduction of excess coal production capacity achieved great progress while coal import tightened. Domestic coal–based urea manufactures recorded a turnaround in profit; however, the high cost of coal as raw materials capped the improvement in profitability for the urea sector as a whole. In 2018, the average selling price of domestic urea increased by 20.8% year–on–year to RMB1,941/tonne and exceeded the annual average price since 2013.

In 2019, the urea market will be affected by the following key factors: 1. Global food production fails to keep pace with the demand and food shortage will boost food price and in turn the demand for and price of chemical fertilizers; 2. The PRC must secure the supply of chemical fertilizers to ensure sufficient supply of agricultural products, hence there will be stable agricultural demand for nitrogen fertilizers in China; 3. Surging industrial demand will become an important driver for growth in the domestic demand of nitrogen fertilizers; 4. The total production capacity of nitrogen fertilizers will be in decline as there is only limited additional capacity given the restrictions on efficiency and location as well as higher barriers to entry; 5. The recovery of crude oil price will support market price. The PRC nitrogen fertilizer industry is expected to maintain a general balance between supply and demand in 2019. While the market will perform steadily, it may see a retreat in profitability from 2018.

Chairman's Statement

II. The launch of the new downstream MTO/MTP facilities in 2018 boosted the methanol industry

According to the statistics of Sublime China Information, the total production capacity of methanol in the PRC was 81.42 million tonnes in 2018, including new capacity of 5.85 million tonnes. The total production volume was approximately 55.6566 million tonnes for the year, representing an increase of approximately 25.25% year–on–year. In view of the limited supply of natural gas in the country, methanol import reached approximately 7.429 million tonnes for the year, down 8.79% year–on–year. In 2018, methanol price fell after a rise. In the first three quarters, the methanol price remained at a high level with the southwestern market saw as high as over RMB3300/ tonne. The price then declined in the fourth quarter due to the US–China trade war and falling crude oil price.

In 2019, the overall methanol market is expected to outperform 2017 but lag behind 2018, mainly for the following reasons: firstly, the stiff prices of coal and natural gas using as upstream raw materials will provide strong support to the cost of methanol production; secondly, the demand for methanol will steadily increase, attributable to the launch of new downstream alkene facilities, the high operating rate of acetate enterprises and the development of methanol fuel; thirdly, crude oil price may become steady, which will help stabilise the prices of chemicals; fourthly, environmental inspection will remain stringent and the operating rate of some enterprises will be affected by the elimination of backward production capacity and business relocation. The subsequent methanol market will be primarily influenced by crude oil price, commodity price, China — United States relations and the macroeconomics of China.

III. The excess production capacity of synthetic ammonia eased off, leading to stable downstream demand and high price

According to the statistics from An Yun Si, total production capacity of synthetic ammonia decreased by 6.4% year-on-year to approximately 66.89 million tonnes in 2018. The production volume of synthetic ammonia exceeded approximately 56.01 million tonnes, representing a year-on-year decrease of 1.6%. The demand for synthetic ammonia remained stable at approximately 55.60 million tonnes, while the manufacturing and social sectors maintained a low inventory level that was higher than that in 2017. In 2018, the demand for synthetic ammonia was supported by the easing overcapacity of synthetic ammonia, the stable demand for downstream products such as urea, phosphamidon and ammonium nitrate, as well as the export of phosphamidon. As a result, the selling price of synthetic ammonia remained high for the year. The ex-factory price of synthetic ammonia in Southwest region increased to approximately RMB3,500/tonne from RMB2,800/tonne at the beginning of the year. The price started to fall in October when manufactures predicted that synthetic ammonia would generate more profits, which led to the oversupply in general. In view of the steady increase in downstream demand, the price of synthetic ammonia continued to rise to approximately RMB3,700/tonne. The higher operating rate of enterprises has resulted in declining price.

In 2019, given the easing supply of natural gas and stabilising coal supply, the synthetic ammonia market will generally perform better than in 2017, but slightly lag behind 2018. This is mainly caused by the following factors: firstly, safety and environmental protection requirements will remain stringent and the addition of production capacity will be limited, yet, operating rate of synthetic ammonia enterprises will rise due to the increase in gas supply; secondly, in terms of supply and demand, even with the stable demand for urea, phosphamidon and ammonium nitrate, the increasing supply of synthetic ammonia will lead to the decline in price; thirdly, it is unlikely that the price of synthetic ammonia, which is determined by the cost of natural gas and coal, will drop significantly as there will be product change and production load adjustment in the market when it reaches the break-even point; fourthly, the stable demand from the ammonia solution industry will provide some support to the synthetic ammonia market.

OBJECTIVES AND STRATEGIES

In 2018, the chemical fertilizers and chemicals industries continued to recover whilst the Group's production and operation improved gradually. Looking ahead to 2019, we will capitalize on opportunities arising from the recovery of the chemical fertilizers and chemicals industries and help the Company to turnaround from the current predicament and pave way for its healthy growth by implementing the following strategies and measures.

I. Stabilizing and optimizing existing business, and transforming the management model with a focus on efficiencies to realise safe, environmentally-friendly and stable operation in the long term.

1. Ensure compliance with laws and regulations in respect of safe production and environmental management.
2. Solve the problem of insufficient supply of natural gas from various aspects, and ensure existing facilities and equipment are operating at full capacities as far as possible in the long term.
3. Adjust the marketing team and marketing model to achieve more transparent pricing policies and clearer information, thereby realising a new customer-oriented marketing model.
4. Improve the performance incentive mechanism and broaden promotion channels for cadre and staff members to fully motivate all staff.
5. Focus on efficiencies and minimize non-production expenses.
6. Actively dispose of idle assets, reduce liabilities and improve the efficiency of capital utilisation.
7. Propose to carry out appropriate technological upgrade by leveraging the advantages of the Company in aspects such as existing facilities, equipment and natural gas, thereby extending the industry chain, increasing the output of high value-added products and entering into a virtuous cycle.

Chairman's Statement

II. Proposing to devote more efforts in developing the fine chemicals industry and leading Ko Yo Group on the robust development trajectory

1. **The 300,000-tonnes-per-year ethylene glycol project of Dazhou Plant**

   The project principally proposes to make full use of the existing equipment of Dazhou Company and hence enjoys a low investment cost and a short construction cycle. The production of ethylene glycol with the use of dimethyl oxalate in the project has the advantages of lower energy consumption and lower cost as compared to the use of petroleum ethylene. Coupled with the low investment, low financial costs, low depreciation, low repairing costs and low labour costs, the project has the advantage of low overall costs. The production capacity of ethylene glycol in Asia is far lower than the demand and thus relies heavily on imports, among which China is the largest importing country where there is prolonged short supply and heavy reliance on imports. The construction and commencement of production of the project will bring new profit growth to the Company.

2. **The 20,000-tonnes-per-year anthraquinone project in the new material factory**

   With the application of mature domestic technology, the project proposes to implement technology upgrade on the existing equipment of Guangan New Material and hence enjoys a low investment cost, a short construction cycle and low product cost. The project adopts advanced processing techniques with high automatic control level of safety technology, low impact on the environment and high added value of products. The upgraded equipment can adjust the anthraquinone and PPS level of the products based on market conditions. Anthraquinone will be mainly used as the carrier of hydrogen peroxide synthesis. With increasing demand for hydrogen peroxide in the domestic market, the demand for anthraquinone is also growing. The construction and commencement of production of the project will enrich the product mix of the Company, increase the added value of its products and enhance the Company's anti-risk capabilities.

3. **The 600,000-tonnes-per-year caprolactam project of Guangan Plant**

   The Group proposes to develop the 600,000-tonnes-per-year caprolactam project by utilizing the production buffer synthetic ammonia of Guangan Ko Yo Chemical Industry Co., Ltd. The project adopts the mainstream caprolactam process in the world and features the advantage of easily accessible raw materials as well as mature and reliable process. Domestically, caprolactam is mainly used for manufacturing Nylon 6. With the steadily growing consumption of Nylon 6 at a rate of over 10%, the demand for caprolactam also increases continuously.

The Company is conducting extensive research on the proposed construction of the above three new projects, which have not only fully utilized the existing resources of the Company, but also enriched the product mix of the Company, extended the industrial chain and optimized the industrial structure. The commencement of production of these projects will allow Ko Yo Group to turn challenges into opportunities and enter into a positive development trend, thereby transforming from a traditional chemical enterprise to a large modern chemical enterprise.

APPRECIATION

Looking back to the past year, the chemical fertilizers and chemicals industries experienced a progressive recovery. Under the leadership of our management and with the concerted efforts of all of our staff, we actively organized production and sales operation with a focus on efficiencies and achieved improvement in operation. This coming year is a crucial year for the Group to start a "new journey for new leap-forward". It is also a year for us to work together and embark on a new venture. We will seize new opportunities and overcome new challenges under the plan and leadership of the Board and strive to achieve the objective of "stable, long-term and optimization at full capacity". Meanwhile, the construction and commencement of production of the Group's new projects will bring new profit growth to us and definitely and substantially enhance our core competitiveness, and hence lay a solid foundation for our constant and stable development. We have reasons to firmly believe that with the continuous improvement in macro-economic conditions and our own efforts, the Group will gradually overcome the difficulties and have a more promising future.

I would like to take this opportunity to express my sincere appreciation on behalf of all fellow members of the Board to all shareholders, our clients, the management and the staff. Thank you for your wholehearted dedication for the year. As always, we will strive to bring more benefits and returns to our shareholders and the society.

Tang Guoqiang
Chairman

29 March 2019

Business Review

FINANCIAL PERFORMANCE

Results

For the year ended 31st December 2018, the Group remained focused on manufacture and distribution of chemical fertilizers and chemical products, including BB Fertilizers and complex fertilizers, methanol, polyphenylene sulfide, urea and ammonia.

During the year under review, the Group recorded turnover of approximately RMB3,101 million, a decrease of 15.7% as compared to last year. The decrease in turnover was mainly due to the decrease in trading portion of the turnover. The loss attributable to shareholders of the Company amounted to approximately RMB348 million, representing a decrease a loss of approximately RMB106 million as compared to last year. Basic loss per share amounted to approximately RMB0.081.

Cost and profit margin

Cost of sales of the Group amounted to approximately RMB2,877 million, representing a decrease of 21.0% as compared to the figure in 2017. The major reasons of decrease in cost of sales were due to the decrease in trading portion of the turnover.

Gross profit margin of the Group increased approximately from 0.9% in 2017 to 7.2% in 2018. The increase in the gross profit margin was due to the increase in selling price of products.

During the year under review, distribution costs decreased approximately by 20.7% as compared with last year. The decrease in distribution cost was due to the decrease in sales. The ratio of the distribution costs over sales was 1.08% in 2018 which was 0.07% lower than those in 2017.

In comparison with last year, there was an increase in administrative expenses of the Group by approximately 5.1% from approximately RMB126.9 million in 2017 to approximately RMB133.4 million in 2018. The increase in administrative expenses is mainly due to the written off of certain prepayment in 2018.

Other loss decreased from a loss of approximately RMB173.3 million in 2017 to a loss of approximately RMB24.4 million in 2018. It was mainly due to the loss from the changes in fair value on derivative financial assets decreased in 2018 as compare to those in 2017. Details are set out in Note 9 to consolidated financial statement. Other expenses amounted to approximately RMB218.4 million in 2018 (2017: approximately RMB0.3 million). The increase in other expenses in 2018 was mainly due to the impairment losses on the production equipments of phosphoric acid plant and the phase II of Dazhou plant. Details are set out in Note 10 to consolidated financial statement.

The Group's income tax expenses in 2018 amounted to approximately RMB0.6 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 31st December 2018. The Group has not declared any dividend for the year ended 31st December 2018 (2017: Nil).

PRODUCTS

Sales of the Group's products for the year 2017 and 2018 are as follows:

	Turnover in year 2018		Turnover in year 2017		**Percentage Change in turnover**
	RMB'000	**Composite %**	RMB'000	Composite %	**%**
BB & compound fertilizers	**39,000**	**1.3**	31,000	0.8	26
Urea	**472,000**	**15.2**	562,000	15.3	(16)
Ammonia	**395,000**	**12.7**	460,000	12.5	(14)
Methenol	**777,000**	**25.1**	731,000	19.9	6
Polyphenylene sulfide	**53,000**	**1.7**	82,000	2.2	(35)
Others — Trading	**1,365,000**	**44.0**	1,812,000	49.3	(25)

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

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31st December 2018, the Group had net current liabilities of approximately RMB1,940,660,000. Current assets as at 31st December 2018 comprised cash and bank deposits of approximately RMB4,545,000, pledged bank deposits of approximately RMB24,339,000, inventories of approximately RMB63,783,000, trade receivables of approximately RMB54,000 and prepayments and other current assets of approximately RMB122,153,000. Current liabilities as at 31st December 2018 comprised short-term borrowings of approximately RMB1,239,668,000, short-term portion for long-term borrowings of approximately RMB433,921,000, trade and notes payables of approximately RMB18,980,000, contract liabilities of approximately RMB141,670,000 and accrued charges and other payables of approximately RMB321,295,000. Details of the Group's adoption of going concern basis in preparing the consolidated financial statements is set out in Note 2 to the consolidated financial statements.

CAPITAL COMMITMENTS

As at 31st December 2018, the Group had outstanding capital commitments of approximately RMB120,132,000. Details of the Group's capital commitments are set out in Note 37 to the consolidated financial statements.

FINANCIAL RESOURCES

As at 31st December 2018, the Group had cash and bank deposits of approximately RMB4,545,000 and pledged bank deposits of approximately RMB24,339,000. The Company intends to finance the Group's future operations, capital expenditure and other capital requirements with the existing bank balances and the capital market.

As at 31st December 2018, the total borrowings and notes payable balances of the Group amounted to approximately RMB2,153,617,000.

GEARING RATIO

The Group's gearing ratios were approximately 78% and 70% as at 31st December 2018 and 31st December 2017 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 28 to the consolidated financial statements.

CONTINGENT LIABILITIES

The Group had no significant contingent liabilities as at 31st December 2018.

MATERIAL ACQUISITION/DISPOSAL

There was no material acquisition or disposal in the year 2018 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

Other than the plans in the chairman's statement of this annual report, the Directors do not have any future plans for material investment.

EXPOSURE ON EXCHANGE RATE FLUCTUATION

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

CHARGES ON THE GROUP'S ASSETS

As at 31st December 2018, land use rights with a total net book value of approximately RMB58,781,000 (2017: approximately RMB60,223,000), property, plant and machinery with a total net book value of approximately RMB1,130,436,000 (2017: approximately RMB1,168,227,000), investment properties with a total net book value of approximately RMB59,538,000 (2017: approximately RMB11,618,000), mining right with a total net book value of approximately RMB309,775,000 (2017: approximately RMB297,300,000) and bank deposits approximately RMB24,339,000 (2017: approximately RMB11,596,000) were pledged as collateral for the Group's borrowings and notes payable.

NUMBER OF EMPLOYEES

As at 31st December 2018, the Group had 725 (2017: 779) employees, comprising 5 (2017: 5) in management, 102 (2017: 94) in finance and administration, 574 (2017: 634) in production and 44 (2017: 46) in sales and marketing, 719 (2017: 773) of these employees were located in the PRC and 6 (2017: 6) were located in Hong Kong.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

For the year ended 31 December 2018, the Group's key business operations make continuous effort and investment on managing and monitoring environmental and social performance. Technology advancement, especially new materials development, continues to assist the Group achieve long-term business resilience, to achieve its economic, environmental and social sustainability. The group ensures strict compliance with and keeps a close eye on updates of any applicable regulations, laws, and standards. Engagement with stakeholders has resulted in raised concerns on key material issues, which include: Energy, Emissions, Effluents and Waste, Environmental Protection Policies, and Occupational Health and Safety. The Group will continue to identify areas of improvement for the concerned aspects and keep close communication with its stakeholders for advancing ESG management.

The Environmental, Social, Governance Report is set out on pages 27 to 39 of the annual report.

Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Tang Guoqiang, aged 61, is an Executive Director and chairman of the Board. Mr. Tang has over 28 years of management experience. He obtained a high school diploma from Jiangsu Province Liyang Middle School in 1977. Mr. Tang was previously the general manager of Liyang Economic Development Corporation from May 1990 to August 1996. From November 2003 to April 2007, he was an executive director of Zhenjiang Runfeng Real Estate Development Company Limited. He was the chairman of Shunfeng International Clean Energy Ltd. (stock code: 1165), a listed company on the Main Board of the Stock Exchange, from July 2011 to July 2013. Since March 2015, he has been the chairman of Liyang Huakan Jianda Health Company Limited.

Mr. Li Weiruo, aged 64, is an Executive Director, vice chairman of the Board and the founder of the Group. Mr. Li graduated from Sichuan Institute of Finance and Economics with a certificate in economics in 1985. Mr. Li has over 20 years' experience in corporate management in the PRC. He was awarded a certificate for "Chief Economists of Large-to-Medium Sized Enterprises in the PRC" after completing "The Study Course for Chief Economists of Large-to-Medium Sized Enterprises" commissioned by the State Economics Commission at the Southwest University of Finance and Economics in 1986. He is one of the authors of "Modern Corporate Management" which was published by the Sichuan Education Publisher. Mr. Li was the former Vice-director of China Nonferrous Metal Corporation in Chengdu. Mr. Li moved to Hong Kong in 1994 and became a permanent resident of Hong Kong in 2001. He was appointed as a member of the Chinese People's Political Consultative Conference of Sichuan Province in 2003. Mr. Li was appointed as the vice chairman of the China Association for Quality Inspection in August 2005. In May 2006, Mr. Li was awarded the "Outstanding Entrepreneur of Privately- owned Petroleum and Chemical Enterprises in China 2006" by the China Petroleum and Chemical Industry Association. In September 2007, Mr. Li received the "Asia 10 Brand Innovative Personality Award" by the Asia Brand Ceremony Organizing Committee. In December 2008, he was accredited the award of "World Economy Top 10 Outstanding Chinese Entrepreneurs" by the "2008 Asia Pacific Annual Chinese-Economy Council for Investment & Financing".

Mr. Shi Jianmin, aged 51, is an Executive Director and the chief executive officer of the Group. Mr. Shi has over 22 years of management experience. Mr. Shi obtained a diploma in business administration from the E-learning College, Shanghai Jiao Tong University in July 2007 and studied an EMBA business course in Xiamen University in the autumn of 2011. He was previously the president of Guanghua Sub-branch of ICBC Changzhou and the general manager of the electronic bank department of ICBC Changzhou. From September 2011 to June 2017, Mr. Shi was the deputy chairman and executive director of Shunfeng International Clean Energy Ltd. (stock code: 1165), a company listed on the Stock Exchange. Since August 2017, Mr. Shi has been an executive director of Jiangsu Wei Lan Photovoltaic System Integrated Ltd. in the People's Republic of China.

Mr. Zhang Weihua, aged 56, is an Executive Director and the compliance officer of the Group. Mr. Zhang has over 33 years of management experience. He has been the deputy chairman and general manager of Changzhou Kangmei Chemical Industry Co., Ltd. since 1995, the chairman of Jiangsu Kangtai Biomedical Science Technology Co., Ltd. since 2009, and the chairman of Jiangsu Kangtai Holdings Group Co., Ltd. since 2011. Mr. Zhang was a member of the National People's Congress representing Jintan city from 2003 to 2017.

NON-EXECUTIVE DIRECTOR

Mr. Zhang Fubo, aged 56, an economist, graduated from East China Normal University in 2004 with a doctoral degree in international economics. Prior to joining the Group, Mr. Zhang served at Guotai Securities Company Limited where he held various positions including general manager of agency for share transfer centre, director of brokerage business and assistant to the president. He is also currently serving as an independent non- executive director of Shanghai Shenhua Holdings Company Limited and the chairman of Shunfeng International Clean Energy Limited. He joined the Ko Yo Group on 16 May 2015.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Hu Xiaoping, aged 68, is an Independent Non-Executive Director of the Group. He obtained a bachelor degree in Economics from Sichuan Institute of Finance and Economics in 1982 and a master degree in Economics from Southwest University of Finance and Economics in 1987. Mr. Hu is currently a professor of the Southwest University of Finance and Economics. Mr. Hu has been involved in various research projects at both the provincial and state level and has published numerous articles in financial and economics publications in the PRC. He was appointed as an Independent Non-Executive Director of the Group in June 2003.

Mr. Shi Lei, aged 61, is an Independent Non-Executive Director of the Group. He obtained his doctorate degree from the Institute of Economics at Shanghai Academy of Social Sciences in 1993. Mr. Shi joined Fudan University as a post-doctorate researcher in 1993 and maintained a teaching role at Fudan University on a full-time basis thereafter. Mr. Shi is currently serving as a tutor and professor in economics at Fudan University and is also the director of the Center for Public Economy Research at Fudan University. Mr. Shi's main fields of research and teaching include industrial structure and policy, modern enterprise theory and practice and modern economics in China. Mr. Shi has won numerous provincial level research and teaching awards. Mr. Shi was appointed as a special advisor to the Shanghai City Government and is also currently a commentator at the China Central Television. He was appointed as an Independent Non-Executive Director of the Group on 15 January 2017.

Mr. Xu Congcai, aged 67, is an Independent Non-Executive Director of the Group. He received a bachelor degree in political economics from Anhui University of Finance and Economics (formerly known as Anhui Institute of Finance and Trade) in 1982, and in 1998, received a doctorate in economics from the School of Economics, Fudan University. Mr. Xu was admitted to the Special Allowance Program for Outstanding Experts sponsored by the State Council. In 1996, he was recognized as a Young and Middle-aged Expert with Outstanding Contribution. In 2002, he began to serve as an instructor for doctoral candidates to be admitted to the industrial economics programs in Renmin University of China. Currently, he is a professor at Nanjing University of Finance and Economics, a vice president at the Commerce Economy Association of China, a member of the Seventh Session of the Higher Education Institution Approval Committee under the Ministry of Education (from 2017 to 2021), and an executive dean of Taihu University of Wuxi. In addition, Mr. Xu is an independent director of Daqian Ecology and Landscape Co. Ltd. He was previously an independent director of Wuxi Rural Commercial Bank. He was appointed as an Independent Non-Executive Director of the Group on 1 August 2017.

Directors and Senior Management

SENIOR MANAGEMENT

Mr. Li Ciping, aged 52, is the managing vice president of the Group. He was an Executive Director of the Group from 1 July 2014 to 15 January 2017. He graduated from Fuzhou University in 1985, majoring in Chemical Engineering. Mr. Li joined Ko Yo Group in 2008. Before joining Ko Yo Group, he was the director and general manager of Max Giant International Group Limited in Hong Kong. He had an extensive experience in corporate management.

Ms. Chi Chuan, aged 63, is the vice president of the Group. She was an Executive Director of the Group from 25 February 2002 to 15 January 2017. She graduated from Sichuan Normal College with a bachelor degree in science in 1982. Ms. Chi has over 20 years' experience in finance and accounting. Prior to joining the Group in July 1999, Ms. Chi was the finance manager of Leshan Economic and Trade General Company, a trading company in the PRC. Ms. Chi is primarily responsible for the financial management of the Group since she joined the Group in July 1999.

Ms. Man Au Vivian, aged 54, is the general manger of Ko Yo Development Company Limited. She was an Executive Director of the Group from 17 April 2002 to 15 January 2017. Ms. Man graduated from the University of International Business and Economics with a bachelor degree in economics in 1986. Ms. Man has over 15 years' experience in international trade. She formerly worked for China National Light Industrial Products Import and Export Corporation of MOFTEC. She joined the Group in January 1997 and she is responsible for general administration outside mainland China of the Group.

Mr. Chung Tin Ming, aged 48 is the financial controller and company secretary of the Group. Mr. Chung is an associate member of each of the Hong Kong Institute of Certified Public Accountants and Association of Chartered Certified Accountants. Mr. Chung graduated from the Chinese University of Hong Kong with a bachelor degree in science, and received a master degree in Financial Engineering and Electronic Engineering from the City University of Hong Kong and a master degree in laws from University of Wolverhampton. Prior to joining the Group in January 2006, he was a director of Keen Ocean Industrial Limited in Hong Kong. Mr. Chung has over 20 years of related working experience in accounting and financial management.

Mr. Wen Jinfu, aged 56, is the vice president of the Group, who is mainly responsible for safety issues, environmental management affairs of the Group. He was a senior engineer who graduated from The Communist Party of China Sichuan Provincial Committee Party School majoring in economic management in 1996. Mr. Wen joined Koyo Group in 1999, before that, he was appointed as the deputy general manager of Xindu Nitrogen Fertilizer Plant.

Report of the Directors

The Directors have the pleasure of presenting their report together with the audited financial statements of the Company and its subsidiaries for the year ended 31st December 2018.

GENERAL INFORMATION

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

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

PRINCIPAL ACTIVITIES

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

RESULTS AND APPROPRIATIONS

Details of the Group's profits for the year ended 31st December 2018 are set out in the consolidated statement of profit or loss and other comprehensive income.

The Directors do not recommend the payment of any final dividend for the year ended 31st December 2018 (2017: Nil).

SHARE CAPITAL

Details of movements in share capital of the Company are set out in Note 28 to the consolidated financial statements.

RESERVES

Movements in the reserves of the Group and of the Company during the year are set out in Note 30 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31st December 2018 amounted to approximately RMB215,012,000 (2017: approximately RMB563,221,000).

RIGHTS OF DIRECTORS AND EMPLOYEES TO ACQUIRE SHARES OR DEBENTURES

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

Report of the Directors

PRE-EMPTIVE RIGHTS

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

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out in page 108.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the year are set out in Note 17 to the consolidated financial statements.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The Directors who held office during the year ended 31st December 2018 and up to the date of this report are:

Executive Directors

Mr. Tang Guoqiang (Appointed on 20 July 2018)
Mr. Li Weiruo
Mr. Shi Jianmin (Appointed on 20 July 2018)
Mr. Zhang Weihua (Appointed on 20 July 2018)
Mr. Wu Tianran (Resigned on 20 July 2018)
Mr. Yuan Bai (Resigned on 20 July 2018)
Mr. Wan Congxin (Resigned on 20 July 2018)

Non-Executive Director

Mr. Zhang Fubo

Independent Non-Executive Directors

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

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

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

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

SHARE OPTIONS

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

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

Report of the Directors

Share Option Scheme

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

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

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

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

During the year ended 31st December 2018, no share options were exercised. Details of option outstanding and movements are disclosed in the following table:

Number of share options

	Held at 1 January 2018 ('000)	Grant during period ('000)	Exercised during period ('000)	Forfeited/ Lapsed during period ('000)	Held at 31 December 2018 ('000)	*Share Options A ('000)	*Share Options B ('000)	*Share Options C ('000)	*Share Options D ('000)
Directors (31.12.2018)									
Tang Guoqiang	–	–	–	–	**–**	–	–	–	–
Li Weiruo	–	–	–	–	**–**	–	–	–	–
Shi Jianmin	–	–	–	–	**–**	–	–	–	–
Zhang Weihua	–	–	–	–	**–**	–	–	–	–
Zhang Fubo	–	–	–	–	**–**	–	–	–	–
Hu Xiaoping	1,200	–	–	–	**1,200**	–	800	400	–
Shi Lei	–	–	–	–	**–**	–	–	–	–
Xu Congcai	–	–	–	–	**–**	–	–	–	–
Employees	17,000	–	–	5,800	**11,200**	3,900	–	5,800	1,500
Total	18,200	–	–	5,800	**12,400**	3,900	800	6,200	1,500

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

DIRECTORS' INTERESTS IN SHARES

As at 31st December 2018, the interests and short positions of the Directors and Chief Executives in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) to be recorded in the register required to be kept under section 352 of the SFO; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in Listing Rules were as follows:

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

Directors (as at 31.12.2018)	Personal long position in shares (beneficial owner)	Personal long position in share options and convertible bonds (beneficial owner)	Aggregate long position in shares and underlying shares	Total interests in the issued share capital
Tang Guoqiang	100,000,000	–	100,000,000	2.33%
Li Weiruo	410,392,000	–	410,392,000	9.55%
Shi Jianmin	300,000	30,000,000	30,300,000	0.70%
Zhang Fubo	5,000,000	–	5,000,000	0.12%
Hu Xiaoping	–	1,200,000	1,200,000	0.03%

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

Name of Director (as at 31.12.2018)	Name of company	Number of non-voting deferred shares	Capacity	Type of interest	Approximate interests in holding
Li Weiruo	Ko Yo Development Co., Ltd ("Ko Yo Hong Kong") *(Note)*	2,100,000	Beneficial Owner	Personal	70%

Note: A wholly-owned subsidiary of the Company

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

Number of Director (as at 31.12.2018)	Name of company	Number of non-voting deferred shares	Capacity	Type of interest	Approximate interests in holding of such class
Li Weiruo	Ko Yo Hong Kong	2,100,000	Beneficial Owner	Personal	70%

Note: Mr. Li Weiruo owns equal number of long positions and short positions in the non-voting deferred shares of Ko Yo Hong Kong, thus the net number of non-voting deferred shares of Ko Yo Hong Kong held by him is zero.

SUBSTANTIAL SHAREHOLDERS

As at 31st December 2018, so far as is known to any Director or Chief Executive of the Company, the following person (not being a director or a Chief Executive of the Company) had an interest or short positions in the shares or underlying shares of the Company which are required to be notified to the Company and the Stock Exchange under Divisions 2 and 3 of Part XV of the SFO and recorded in the register required to be kept under section 336 of the SFO, and who were directly or indirectly deemed to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company.

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

Name	Capacity	Number of shares	Approximate shareholding percentage
Cheng Kin Ming	Interest of corporation controlled	800,000,000	18.61%

Note: As at 31 December 2018, Asia Pacific Resources Development Investment Limited which is wholly owned by Cheng Kin Ming held a total amount of HK$320,440,000 convertible bonds of the Company which can be converted into 1,001,375,000 shares of the Company.

INTEREST OF OTHER PERSONS IN THE COMPANY

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

As at 31st December 2018, so far as is known to any Director or Chief Executive of the Company and save as disclosed above, no person had an interest or short positions in the shares or underlying shares of the Company which are required to be notified to the Company and the Stock Exchange under Divisions 2 and 3 of Part XV of the SFO and recorded in the register required to be kept under section 336 of the SFO, and who were directly or indirectly deemed to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company.

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

Name	Name of company	Number and description of shares	Capacity	Type of interest	Approximate percentage of holding
Tang Shiguo *(Note)*	Ko Yo Hong Kong	300,000 non-voting deferred shares	Beneficial owner	Personal	10%

Note: Mr. Tang Shiguo ceased to be a director of the Company with effect from 29th April 2004.

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

Name	Capacity	Name of company	Number and description of shares
Tang Shiguo	Beneficial owner	Ko Yo Hong Kong	300,000 non-voting deferred shares

Note: Mr. Tang Shiguo owns equal number of long positions and short positions in the non-voting deferred shares of Ko Yo Hong Kong, thus the net number of non-voting deferred shares of Ko Yo Hong Kong held by him is zero.

Report of the Directors

Outstanding Convertible Securities

As at 31 December 2018, the outstanding convertible securities (the "Convertible Securities 1") that issued on 13 November 2014 can convert into 1,002,675,000 shares (the "Shares") of the Company and the outstanding convertible securities (the "Convertible Securities 2") that issued on 15 January 2016 can convert into 40,000,000 Shares. Assuming all outstanding convertibles securities converted into shares as at 31 December 2018, set out below is the shareholding structure of the Company before and after such conversion:

As at 31/12/2018	No. of shares before conversion of outstanding convertible securities	% of holdings	No. of shares from conversion of outstanding convertible securities	No. of shares after conversion of outstanding convertible securities	% of holdings
Mr. Li Wei Ruo	410,392,000	9.55	–	410,392,000	7.68
Other Directors	105,300,000	2.45	30,000,000	135,300,000	2.53
Mr. Cheng Kin Ming	800,000,000	18.61	1,001,375,000	1,801,375,000	33.73
Public	2,982,350,599	69.39	11,300,000	2,993,650,599	56.06
Total	4,298,042,599	100.00	1,042,675,000	5,340,717,599	100.00

The diluted loss per shares for the year ended 31 December 2018 assuming all outstanding convertible securities being converted was RMB0.065 which is calculated by dividing the loss attribute to the shareholders of the Company by the total number of Shares after all outstanding convertible securities being converted. The calculation method of this diluted loss is not the same as those used in this annual report. According to Hong Kong Accounting Standard 33 paragraphs 43, potential ordinary shares are antidilutive when their conversion to ordinary shares would increase earnings per share or decrease loss per share from continuing operations. The calculation of diluted earnings per share does not assume conversion, exercise, or other issue of potential ordinary shares that would have an antidilutive effect on earnings per share. The conversion of outstanding convertible securities would have an antidilutive effect on earnings per share and therefore the calculation of diluted earnings per share in this annual report does not assume such conversion.

Base on the cash and cash equivalent as at 31 December 2018 and the cash flow from the operation of the Company, the Company has its ability to meet its redemption obligations under Convertible Securities 2 but not Convertible Securities 1. The maturity dates of Convertible Securities 1 and Convertible Securities 2 are 12 November 2024 and 14 January 2019 respectively. All the remaining Convertible Securities 2 had been redeemed.

Based on the implied internal rate of returns and other relevant parameters of Convertible Securities 1, the share prices at which it would be equally financially advantageous for the securities holders to convert or redeem were as follows:

Convertible Securities 1

Date	**31–12–2019**	**31–12–2020**	**31–12–2021**	**31–12–2022**	**31–12–2023**
Share price (HK$)	0.295	0.305	0.317	0.330	0.345

ISSUE OF CONVERTIBLE BONDS

As disclosed in the announcements dated 31 January 2019 and 15 March 2019, the Company had issued the convertible bonds (the "Convertible Bonds") in a total principal amount of HK$270,000,000 with initial conversion price of HK$0.108 per share of the Company, 4% annual interest rate and maturity on the 5th anniversary of the issue date of Convertible Bonds. Net proceeds from the issue of Convertible Bonds was approximately HK$269,000,000. The usages of net proceeds are as follows: 1) approximately RMB11 million had been used to repay the loans; 2) approximately RMB53 million had been used to compensate the decrease in working capital that due to the decrease of advances from customer; and 3) approximately RMB11 million had been used in maintenance of the production equipments.

SUFFICIENCY OF PUBLIC FLOAT

Based on the public information available to and within the knowledge of the Directors, it is confirmed that there is sufficient public float of more than 25% of the Company's issued shares at 29 March 2019.

DIRECTORS' INTEREST IN COMPETING BUSINESS

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

DIRECTORS' INTERESTS IN CONTRACTS

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

MANAGEMENT CONTRACTS

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

AUDIT COMMITTEE

The Company established an audit committee on 10th June 2003 and has adopted the term of reference in line with the Code on Corporate Governance Practice issued by the Stock Exchange. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Company and provide advice and comments to the Directors. The audit committee has four members comprising the three Independent Non-Executive Directors, namely, Mr. Hu Xiaoping, Mr. Shi Lei and Mr. Xu Congcai, and one Non-Executive Director, namely Mr. Zhang Fubo.

The audit committee has reviewed with management the accounting principles and practices adopted by the Company and the Group and discussed internal controls and financial reporting matters including a review of the audited financial statements of the Company and the Group for the year ended 31 December 2018.

PURCHASE, SALE OR REDEMPTION OF SHARES

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

CUSTOMERS AND SUPPLIERS

For the year ended 31st December 2018, the five largest customers accounted for approximately 35.4% of the Group's total turnover and the five largest suppliers of the Group accounted for approximately 69.3% of the Group's total purchases. The largest customer of the Group accounted for approximately 9.8% of the Group's total turnover and the largest supplier accounted for approximately 22.6% of the Group's total purchases.

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

CORPORATE GOVERNANCE

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

AUDITORS

ZHONGHUI ANDA CPA Limited was appointed as the auditor of the Group since 19 February 2016 and was re-appointed as the auditor of the Group on 25 May 2018.

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

On behalf of the Board,

Tang Guoqiang
Chairman

29 March 2019

SCOPE AND REPORTING PERIOD

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

The Group is principally engaged in the research and development, manufacture, marketing and distribution of chemical fertilizers and chemical products. This ESG report covers the Group's overall performance in two subject areas, namely, Environmental and Social of below three business operations in Sichuan Province, Mainland China from 1 January 2018 to 31 December 2018, unless otherwise stated.

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

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

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

There were no major changes in the scope compared with the last reporting period. No major changes in the number of employees and operational location have occurred. The same three operational sites (with a total floor area of 29,481.81 m^2) as the last reporting period were included in the scope of this ESG report. Operations at Dazhou and Guangan were affected during the month of January and February 2018 as there was supply shortage of natural gas.

STAKEHOLDER ENGAGEMENT AND MATERIALITY

In order to identify the most significant aspects for the Group to report on for this ESG report, the Group collects views and discusses ESG issues with internal stakeholders through thematic meetings related to quality, safety, environmental protection and human resources, and with external stakeholders through surveys and regular dialogue and meetings. During the reporting period, the Group has specifically engaged board members, senior management, frontline staff, suppliers and distributors/clients to gain further insights on ESG material aspects and challenges, and have identified the following top 5 material aspects:

— Energy

— Occupational Health and Safety

— Air Emission

— Product Health and Safety

— Environmental Protection Measures

The Group keeps close communication with its stakeholders for material aspects identified and will look into opportunities in establishing and monitoring ESG strategy and commits in the evaluation and identification of ESG-related risks, as well as the implementation of ESG risk management and internal risk control.

Environmental, Social, Governance Report

STAKEHOLDERS' FEEDBACK

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

THE GROUP'S MISSION AND VISION ON SUSTAINABILITY COMMITMENT

With the increasing government's support on non–state–owned economy with various policies, the Group expects to expand its business operations and production capacity in the next reporting period. Management and new projects will embrace an elevated focus on safety and environmental conservation, in response to the national's movement on energy and emission reduction. One major ESG commitment from the Group is to maintain the stability of its business and provides employment opportunities to the communities where the Group operates, at the same time, continues supporting the poverty alleviation measures for the local rural villages.

The Group ensures strict compliance with any applicable regulations, laws, guidelines and standards. When the Group is achieving success with the development of its enterprise, it also attaches great importance to the social and environmental aspects of the society and is committed to promoting its economic and infrastructure development. Thus, the Group aims to reinforce its operations, management and technology update on heavy chemicals projects, at the same time it accelerates the development and commissioning of new projects in fine chemicals industry to meet future needs and challenges.

The Group keeps implementing the three management systems— ISO 9001 Quality management System, ISO 14001 Environmental Management System, and ISO 50001 Energy Management System —in an integrative manner. Guangan has established three management systems during the reporting period, while New Material is still in the process of obtaining certifications. In addition, the Group closely monitored updates on relevant laws and standards such as the new "Standard for Emission of Air Pollutants in Chemical Fertilizer Industry" and will make sure it gets fully prepared to comply with more stringent regulations.

A. ENVIRONMENTAL

A1. Emissions

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

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

— Environmental Protection Law of the People's Republic of China ("PRC")

— Air Pollution Prevention and Control Law of the PRC

— Water Pollution Prevention and Control Law of the PRC

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

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

In particular, the Group closely monitors the requirement and guidelines as stated in The Directory of National Hazardous Waste and Management on Hazardous Waste's Transfer and Disposal Documentation.

Per Environmental protection tax law of the PRC, the pollution discharge fee has been changed to environmental tax since January 1, 2018, and the budget for Group's tax expenditure in the next reporting period is 2.6 million yuan. For better economic and environmental outcomes, the Group will further support pollution control policies, expenditures, and implementation, and explore opportunities from it.

A1.1 Air Emissions

During the reporting period, natural gas was extensively used for manufacturing processes in Guangan and Dazhou. Relatively small amount of liquified petroleum gas ("LPG") was also used in New Material for canteen. Moreover, various types of vehicles (passenger cars, vans, trucks and other mobile machinery) using petrol and diesel were used for daily operation, commuting and business travel. As a result, the Group contributed to the emissions of 414.70 kg of nitrogen oxides ("NO_x"), 83,143.60 kg of sulphur oxides ("SO_x") and 6.53 kg of respiratory suspended particles ("PM").

A1.2 Greenhouse Gas Emissions

The Group's operation contributed to 1,307,909.92 tonnes of carbon dioxide equivalent ("tCO_2e") (carbon dioxide, methane, nitrous oxide and hydrofluorocarbons) emission, with an intensity of intensity of 44.36 m^3/m^2 of total production area and 1.84 m3/tonnes of total chemical products manufactured. Similar to last reporting period, emission from on–site natural gas combustion (scope 1) remains the highest among other GHG sources, followed by emission from purchased natural gas (scope 2) and purchased electricity (scope 2).

Scope of Greenhouse Gas Emissions	Emission Sources		Emission (in tonnes of carbon dioxide equivalent "tCO_2e")	Total Emission (in %)
Scope 1	Combustion of fuels	LPG	11.51	72%
Direct emissions	in stationary sources	Natural Gas	944,314.61	
	Combustion of fuels	Diesel	73.53	
	in mobiles sources	Petrol	78.82	
	Release of refrigerants from the operation of equipment and systems		161.09	
Scope 2	Purchased electricity		104,728.55	28%
Energy indirect emission	Purchased natural gas		255,729.87	
Scope 3	Paper waste disposed at landfills		3.92	>1%
Other indirect emissions	Electricity used for processing fresh water by third parties		2,804.11	
	Business air travel by employees		3.91	
Total			**1,307,909.92**	**100**

Environmental, Social, Governance Report

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

Note 2: Combined margin emission factor of 0.65075 tCO_2/MWh was used for purchased electricity in Sichuan, China.

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

A1.3 Hazardous Waste

A total of 2,015.99 tonnes of hazardous waste was generated from the Group's production during the reporting period, including resin by-products, waste chemical catalyst, waste oil from repair and maintenance of equipment and waste solutions generated from online monitoring instrument.

A1.4 Non–hazardous Waste

A total of 4,408 tonnes of non–hazardous waste was generated from the Group during the reporting period. Non–hazardous waste generated from the Group's production mainly involved waste plastic containers, domestic waste, paper waste, and industrial waste such as waste packaging materials and other types of waste that cannot be recycled during the maintenance process.

A1.5 Measures to Mitigate Emissions

The Group strictly follows work procedures and equipment management to monitor its production's emissions. During the reporting period, it has purchased new energy–efficient equipment such as low nitrogen converting burner and plans to install it in the next reporting period. The Group also has projects on technological transformation with the focus on reducing exhaust gas and GHG emissions in the coming years. Furthermore, the Group will aim to reduce use of air conditioning and prevent refrigerant leakage by the provision of routine repair and maintenance of equipment.

A1.6 Wastes Handling and Reduction Initiatives

During the reporting period, approximately 80% of non–hazardous waste was waste plastic containers, which were sold to third party for recycling, with the rest of the non–hazardous waste were collected and incinerated by qualified waste companies. For the use of paper, the Group gradually adopts a paperless office culture, to further reduce environmental impact from the office operation. For hazardous waste, waste oil from repair and maintenance of equipment and waste solutions generated from online monitoring instrument were collected and repurposed by qualified parties. Overall, the Group has improved its waste tracking system, and will continue its effort on strict monitoring and better recycling rate.

A2. Use of Resources

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

A2.1 Energy Consumption

Energy Consumption Sources	Consumption (in different units)	Consumption (in kilowatt hours "kWh")
Diesel	26,760 litres	267,556
Electricity	160,935,146 kWh	160,935,146
LPG	3,814 kg	53,162
Natural Gas	431,972,322 m^3	4,268,786,825
Petrol	29,197 litres	258,734
	Total	4,430,301,423

The Group's business operations resulted in a total energy consumption of 4.43 billion kWh from the use of diesel, electricity, LPG, natural gas and petrol, with an overall energy intensity of 150,272.37 kWh/m^2.

A2.2 Water Consumption

The Group sourced water for industrial use from nearby water supply plants. There was no issue in sourcing water during the reporting period. The total water consumption for the Group was 6,966,734 m3, with an overall intensity of 236.31 m3/m2 of total production area and 9.81 m3/tonnes of total chemical products manufactured.

On–site Wastewater Treatment

A total amount of 203,704m3 of wastewater was discharged from the Group, a slight increase of 5% comparing to last reporting period. The Group is equipped with on–site wastewater treatment facilities at all operation sites with treatment processes such as impurity removal, sedimentation and aeration. Qualified wastewater is then discharged into public sewage system, while the unqualified part is treated on–site again until it meets the pre–defined criteria. During the reporting period, the Group has introduced an automatic sampler for water monitoring to further safeguard the water quality of the wastewater discharge.

Various wastewater indicators are measured including biochemical oxygen demand, chemical oxygen demand, total suspended solids, pH, volatile phenol, nitrogen, ammonia nitrogen, Cyanide, Sulfide, etc. and the monitoring reports demonstrated that all effluents are within the permissible level set by Discharge Standard of Water Pollutants for Ammonia Industry (GB 13458–2013) No exceedances were observed during the reporting period.

A2.3 Energy Use Efficiency Initiatives

Natural gas was consumed for manufacturing process and canteen at Guangan and Dazhou, a 14% increase comparing to last reporting period. The increase was mostly due to better data tracking of natural gas consumption during manufacturing process at Dazhou. Due to a shortage of local supply of natural gas, significantly less consumption was observed at Guangan.

Environmental, Social, Governance Report

In terms of electricity, the Group has improved the efficiency of production equipment at Dazhou and adjusted the production schedule at Guangan, plus less production time at New Material, the Group achieved a significant 30% reduction of electricity comparing with last reporting period.

A2.4 Water Use Efficiency Initiatives

During the reporting period, the Group recycled wastewater to reduce the discharge amount of wastewater and replenishment of fresh water for manufacturing process and contributed to a slight 0.4% drop comparing to last year's consumption.

A2.5 Packaging Material

1,174 tonnes of packaging materials (mainly paper and plastic syntactic bags) were used for production and product packaging from New Material and Dazhou. An 8% less packaging materials used in the reporting period was because of changes in urea products that required packaging and less production time at New Material. Production at Guangan did not involve any packaging materials. All packaging materials had no hazardous contents.

A3. The Environment and Natural Resources

A3.1. Significant Impacts of Activities on the Environment

As a resource–intensive business, the Group has moderate impacts on the environment and ecosystem by consuming a significant amount of natural gas and electricity. Thus, the Group's survival highly relies on the availability of natural resources. With the backing of rich natural resources, the Group extends the production chain from raw material, product, further processing to the stage of product distribution, named as "one–step service system". This optimizes the allocation of environmental, social, and economic resources, leading to a full integration of three–pillar sustainability.

In addition to the resource conservation during production, the Group continued to encourage pro–environmental behaviour among staff including asking them to switch–off electronic devices when not in use. For waste furniture and electronics, the Group also maximized their reusing rate whenever possible. The Group is also implementing new plans to improve the efficiency of energy use, e.g., setting the air conditioning temperature higher in the summer and lower in the winter. The recovery box is provided with a public space in the office, with clear recycling instructions. Canteen tableware, such as bowls and chopsticks purchased are all made of recyclable materials.

The Group will continue to strengthen the management of environmental protection and energy conservation. Specifically, the Group will implement projects such as replacing the boiler/burner of the first–stage furnace with efficient low–nitrogen burner to decrease emissions, increasing heat exchange efficiency to the refrigeration system, recycling more waste heat and upgrading the water cooler of air compressors. Moreover, the Group will study the feasibility on transforming some of the system and facilities to be operated with electricity and reducing the overall dependence on natural gas.

B. SOCIAL

1. Employment and Labour Practices

The Group continues to invest in capacity building among local human resource, striving to be an employer of choice by stringently following local and national laws, adopting best practices, and treating people with full respect. The Group did not note any cases of material non–compliance in relation to employment during the reporting period.

B1. Employment

The Group had a total number of 607 employees from all three sites as of 31 December 2018. Total workforce experienced a slight 5% drop from last reporting period because of less production time at New Material, in which employees were either being transferred to other Group's operations or resigned. 100% of them were full time employee from the PRC.

No updates on the personnel management system and the general human resources (HR) policies about compensation and benefits packages, promotion, disciplines, appraisal and evaluation in the reporting period. Employees are entitled to basic social insurance in Mainland China. Employees are allowed to combine working hours and not exceeding a total of 40 working hours each week.

Compensation and Benefits Package

The Group continues to follow the principle of "to adapt current market, to reflect talent, to give incentive" to guide the compensation system. The remuneration structure is "merit–based" and set objectively based on the personnel's position and performance. Employees are awarded with a year–end bonus based on their annual review results.

Appraisal System

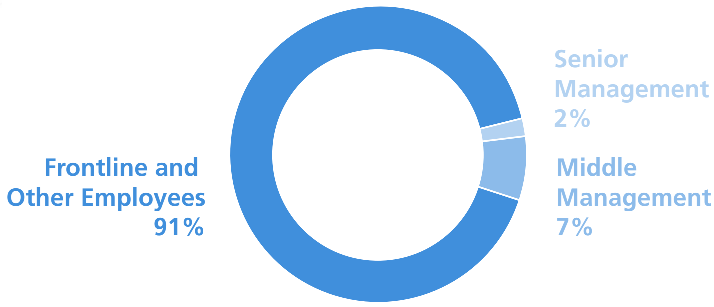
Two individual appraisal systems were put forward to evaluate the management team and frontline staff separately with a different focus. Both the upwards appraisal and top–down appraisal were used for the management team evaluation. In which way, the managers' performance was better evaluated by both their subordinates and supervisors.

Equal Opportunity

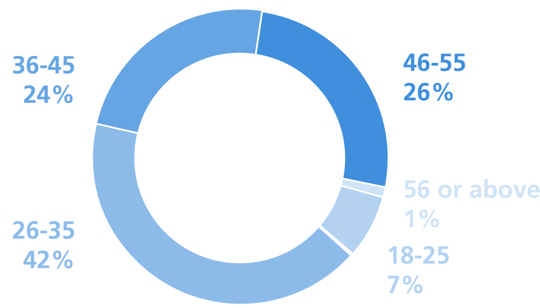
Our employees are not discriminated against or deprived of such opportunities on the basis of gender, ethnic background, religion, colour, sexual orientation, age, marital status, family status, retirement, disability, pregnancy. Though without formal policies, the Group firmly adopts "equal opportunity" principles during recruitment, evaluation, and promotion processes.

Environmental, Social, Governance Report

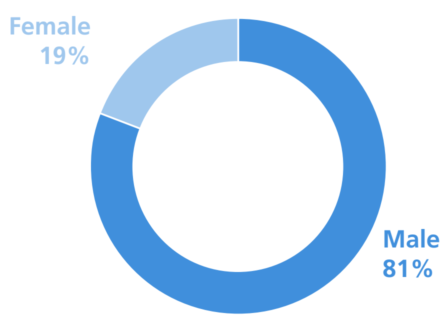
WORKFORCE BY EMPLOYEE CATEGORY



WORKFORCE BY AGE GROUP

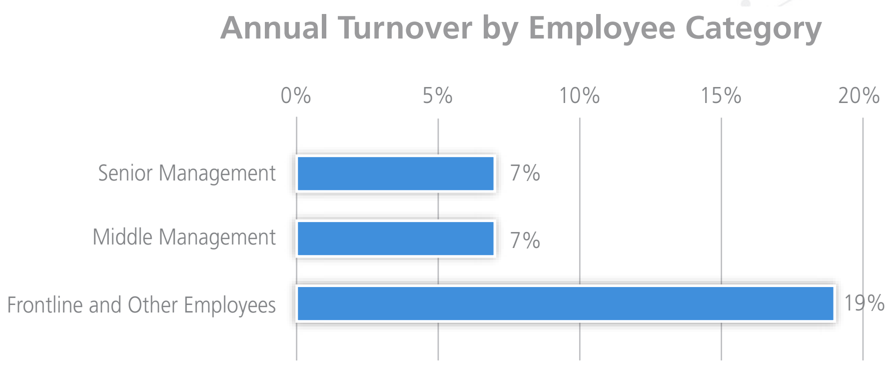


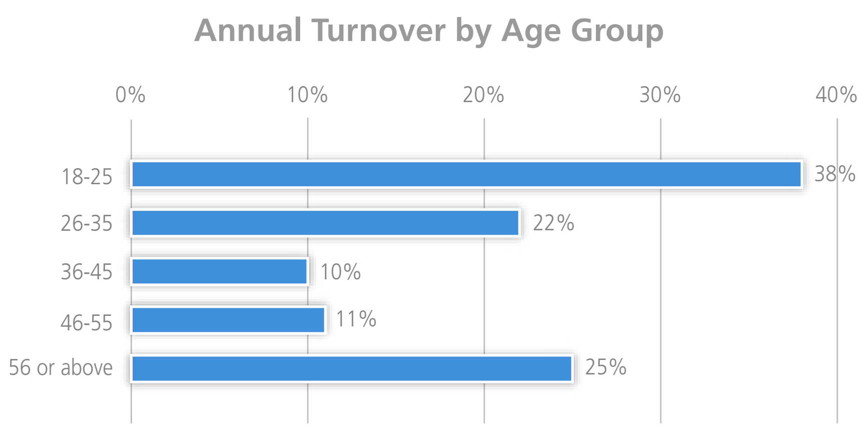
WORKFORCE BY AGE GENDER

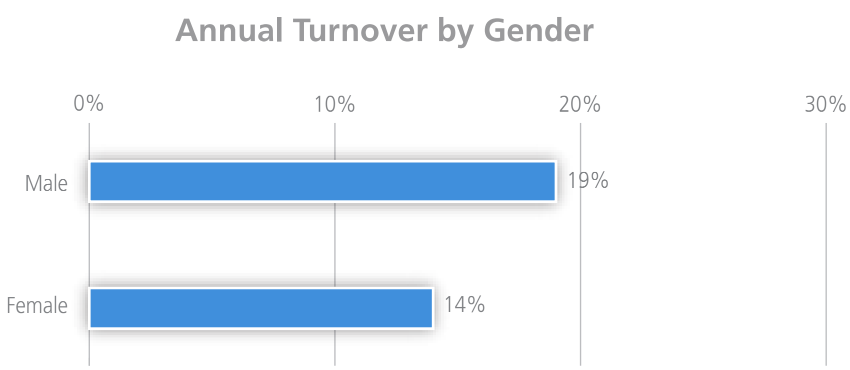


Turnover

A total number of 108 full–time employees from the PRC left the Group during the reporting period, contributing to the annual turnover rate of 18%. Over 60% of employees left the Group was due to less production time at New Material. For employee retention, the Group regularly organizes sports activities and team outing, to improve the communication and bonding between employees.







B2. Employee Health and Safety

During the reporting period, the Group did not note any cases of material non–compliance in relation to health and safety laws and regulations, and strictly complies with national and local laws, regulations and practice, including but not limited to the followings:

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

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

Environmental, Social, Governance Report

The Group endeavours to ensure employees are protected from potential hazards, risks, and accidents. Workplace health and safety is of paramount importance to the Group. The Group treats workplace health and safety as a continuously improving process, and frequently reviews and improves safety management system processes to achieve injury–free workplace. Relevant occupational health and safety training was provided to all employees.

Following management practices were implemented for securing employees' health and safety:

- The Group applies high power exhaust fan and air conditioning in the workplace, and makes sure that all ventilation system has been properly maintained and operated to ensure a healthy indoor environment;
- The Group systematically identifies and closely monitors any occupational hazards in the workplace;
- The Group has provided annual Occupational health examination to the employees, and the Group will examine further about any treatment schemes if any cases found;
- All employees are informed by the potential occupational health hazards and are provided with personal health protection equipment and supplies;
- To minimize any human disasters, a special chemical storage area is designated whenever in need, and all chemicals are marked with clear names, instructions, and hazardous signs.

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

As a result of effective health and safety management, the Group achieved a significant reduction in the lost days comparing with last reporting cycle.

Occupational Health and Safety Data

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

B3. Development and Training

The Group did not have new, updated, or modified policies related to the knowledge and skills improvement of the employees to perform their duties. At the end of each year, the Group will require all departments to collect and report training needs for next year. The Group then designs a reasonable training plan per the needs identified. The following year, the employees are trained in strict accordance with the training plan, and the employees will be evaluated after training. All employees participated in training on occupational health and safety at least once every year, and at least 2 emergency rescue exercises.

The Group arranged various series of training activities for people of different position and department. Training topics included management level training such as improvement of personnel and financial management skills; operators' training on job skills promotion; and occupational health and safety training for all employees.

		2018
Number of Employee receiving training		607
Total Training Hours		29,973
By employee category		
Senior Management	% of employees trained	107%
	Average training hours completed per employee	31
Middle management	% of employees trained	102%
	Average training hours completed per employee	34
Frontline and other employees	% of employees trained	100%
	Average training hours completed per employee	51
By gender		
Male	% of employees trained	100%
	Average training hours completed per employee	57
Female	% of employees trained	109%
	Average training hours completed per employee	16

B4. Labour Standards

The Group did not update relevant policies on prevention of illegal employment. There were no children nor forced labour in the Group's operations in the reporting period. Background check was conducted for every new employee during the recruitment process to ensure compliance with any applicable labour laws in Mainland China, such as the Labour Law of the PRC and the Trade Union Law of the PRC regarding the collective contracts on wage, occupational disease prevention and protection of female employees.

Environmental, Social, Governance Report

2. Operating Practices

B5. Supply Chain Management

The Group conducts survey and evaluation of qualified suppliers every year to evaluate suppliers' qualifications and product quality, to ensure they continue to meet our suppliers' standards.

In addition to the standard investigation and evaluation, the Group compares the qualification and the quality of the suppliers' processes and products. Qualified suppliers would be updated and kept on the list for selection. Any supplier would be eliminated from the qualified supplier list providing that their performance and evaluation were not meeting the standards for two times. In addition, in the daily work, information on potential new suppliers would be collected, and will be further evaluated if needs arise.

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

During the reporting period, the Group engaged a total of 441 no. of suppliers from Mainland China for distribution and sales services, the supply of raw materials, tools and equipment, chemical supplements, and personal protective gears.

B6. Product Responsibility

During the reporting period, the Group did not note any cases of material non–compliance regarding health and safety, advertising, labelling and privacy matters relating to products and services provided as required by related laws and regulations. The quality control and quality assurance procedures remain in force and the Group continues to follow the Quality Assurance Policy. 2 complaints were received related to product quality, and they were resolved by thorough communication with the clients and price reduction was given. Thus, no products were recalled.

The production equipment of Dazhou updated an emergency plan for treating unexpected accident. In case the service is interrupted, the agricultural sales companies will be notified immediately to respond to any external sales request in time.

Intellectual Property Right

The Group has set up intellectual property right clause in the employee contract, provided intellectual property training to selected employees, and has established relevant policies during the process of employee's termination.

Consumer Data Protection

Consumers' data and privacy are protected by the purchasing, sales and finance department of the Group. Other departments and personnel do not have access to such data. All data transmission is carried out by internal encryption system. In order to ensure network stability and data security, group's information center is responsible for the development and maintenance of the office system.

B7. Anti–corruption

The Group strictly regulates the discipline and professional conduct of employees, to prevent any potential bribery, extortion, fraud, money laundering and gambling. The Group management system clearly stated that any personnel who abuse powers for corruption, bribes, and/or bribery, will be transferred to judicial office for further investigation. The Group's Internal Audit Department continues to supervise and to conduct a regular check on Procurement Department in terms of contracts, suppliers' quotation, and payment status. There was no concluded legal case regarding corrupt practices brought against the Group or its employees and the Group did not note any cases of non–compliance with laws and regulations on money laundering or corruption during the reporting period.

B8. Community Investment

The Group does not have policies on community engagement, nevertheless, it attaches great importance to the responsibility to work in partnership with the local communities. During the reporting period, Dazhou has provided on–going support to the nation–wide poverty alleviation plan and has donated clothes, bedding sets, food (cooking oils and rice) and fertilizers to the engaged rural villages throughout the reporting period, as well as RMB 30,000 to the rural villages' infrastructure development fund.

Corporate Governance Practices

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

THE BOARD OF DIRECTORS

Board composition

The Board of directors currently comprises eight directors of which four are Executive Directors, one is Non-Executive Director and three are Independent Non-Executive Directors as at 31 December 2018. The detail is as follow:

Executive Directors
Mr. Tang Guoqiang *(Chairman)* (Appointed on 20.07.2018)
Mr. Li Weiruo
Mr. Shi Jianmin (Appointed on 20.07.2018)
Mr. Zhang Weihua (Appointed on 20.07.2018)
Mr. Wu Tianran (Resigned on 20.07.2018)
Mr. Yuan Bai (Resigned on 20.07.2018)
Mr. Wan Congxin (Resigned on 20.07.2018)

Non-Executive Director
Mr. Zhang Fubo

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

The Independent Non-Executive Directors represented over one-third of the Board during the year 2018. Among the three Independent Non-Executive Directors, at least one has appropriate professional qualifications or accounting or related financial management expertise which satisfies the requirement under the rule 3.10(1) and (2) of the Listing Rules. An annual confirmation of the independence of each Independent Non-Executive Director had been received in accordance with each and every guideline set out in rule 3.13 of the Listing Rules. All Independent Non-Executive Directors are identified as such in all corporate communications that disclose the names of the directors. There is no family or other material relationship among members of the Board.

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

Board meeting

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

In the financial year ended 31st December 2018, 9 board meetings and 2 shareholders' meeting were held and the attendance record for the meetings by each director is as follow:

Attendants	**Number of board meetings attended/total**	**Board meetings attendance percentage**	**Number of shareholders' meetings attended/total**	**Shareholders' meetings Attended percentage**
Executive Directors				
Mr. Tang Guoqiang (Appointed on 20.07.2018)	5/5	100%	1/1	100%
Mr. Li Weiruo	5/9	56%	1/1	100%
Mr. Shi Jianmin (Appointed on 20.07.2018)	5/5	100%	1/1	100%
Mr. Zhang Weihua (Appointed on 20.07.2018)	5/5	100%	1/1	100%
Mr. Wu Tianran (Resigned on 20.07.2018)	4/4	100%	1/1	100%
Mr. Yuan Bai (Resigned on 20.07.2018)	4/4	100%	1/1	100%
Mr. Wan Congxin (Resigned on 20.07.2018)	4/4	100%	1/1	100%
Non-Executive Director				
Mr. Zhang Fubo	9/9	100%	2/2	100%
Independent Non-Executive Directors				
Mr. Hu Xiaoping	9/9	100%	2/2	100%
Mr. Shi Lei	9/9	100%	2/2	100%
Mr. Xu Congcai	9/9	100%	2/2	100%

Chairman and Chief executive officer

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

DIRECTORS' TRAINING

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

COMPANY SECRETARY'S TRAINING

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

SHAREHOLDERS' RIGHTS

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

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

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

Procedures for propose a person for election as a Director

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

Procedures for directing shareholders' enquires to the Board

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

DIRECTORS' SECURITIES TRANSACTION

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

REMUNERATION OF DIRECTORS

Remuneration Committee was established in January 2005 and 2 meetings was held during the financial year under review. The members of the committee and the attendance record are as follow:

Attendants	**Number of meetings attended/Total**	**Attendance percentage**
Independent Non-Executive Directors		
Mr. Hu Xiaoping *(Chairman)*	2/2	100%
Mr. Shi Lei	2/2	100%
Mr. Xu Congcai	2/2	100%
Non-Executive Director		
Mr. Zhang Fubo	2/2	100%

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

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

NOMINATION OF DIRECTORS

Nomination Committee was established in January 2005 and 2 meetings was held during the financial year under review. The members of the committee and the attendance record are as follow:

Attendants	**Number of meetings attended/total**	**Attendance percentage**
Independent Non-Executive Directors		
Mr. Hu Xiaoping	2/2	100%
Mr. Shi Lei	2/2	100%
Mr. Xu Congcai	2/2	100%
Non-Executive Director		
Mr. Zhang Fubo *(Chairman)*	2/2	100%

Corporate Governance Practices

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

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

TERM OF APPOINTMENT AND RE-ELECTION

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

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

AUDIT COMMITTEE

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

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

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

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

The Audit Committee is responsible for reviewing the accounting principles and practices adopted by the Group, recommending the Board on the Group's internal control and risk management system, and ensuring the Group's financial statements present a true and fair view of the Group's financial position. The Audit Committee had reviewed with management the accounting principles and practices and discussed internal controls and financial reporting matters including a review of the audited financial statements of the Company and Group for the year ended 31st December 2018.

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

INDEPENDENT EXTERNAL AUDITORS

In 2018, the total remuneration charged by to the independent external auditors amounted to approximately RMB1.6 million, which was all for the audit services provided by the independent external auditors. The audit fees have been approved by the Audit Committee and the Board.

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

The audit committee has resolved the re-appointment of ZHONGHUI ANDA CPA Limited for the financial year 2018. This resolution has been approved by the Board and is subject to final approval by the shareholders at the forthcoming annual general meeting.

INTERNAL CONTROL

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

Independent Auditor's Report

中汇
ZHONGHUI

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

OPINION

We have audited the consolidated financial statements of Ko Yo Chemical (Group) Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 50 to 107, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw attention to Note 2 to the consolidated financial statements which states that the Group incurred a loss of approximately RMB348,286,000 for the year ended 31 December 2018 and as at 31 December 2018, the Group's current liabilities exceeded its current assets by approximately RMB1,940,660,000, despite the Group had a net operating cash inflow of approximately RMB53,709,000 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 17 to the consolidated financial statements

The Group tested the amount of property, plant and equipment for impairment. This impairment test is significant to our audit because the balance of property, plant and equipment of approximately RMB2,476,614,000 as at 31 December 2018 is material to the consolidated financial statements. In addition, the Group's impairment test involves application of judgement and is based on assumptions and estimates.

Our audit procedures included, among others:

— Assessing the identification of the related cash generating units;

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

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

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

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

— Checking input data to supporting evidence.

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

MINING RIGHT

Refer to Notes 19 and 21 to the consolidated financial statements

The Group tested the amount of mining right for impairment. This impairment test is significant to our audit because the balance of mining right of approximately RMB309,755,000 as at 31 December 2018 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.

Independent Auditor's Report

Our audit procedures included, among others:

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

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

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

— Checking arithmetical accuracy of the valuation model; and

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

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

OTHER INFORMATION IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITIES OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

A further description of our responsibilities for the audit of the consolidated financial statements is located at the HKICPA's website at:

http://www.hkicpa.org.hk/en/standards-and-regulations/standards/auditing-assurance/auditre/

This description forms part of our auditor's report.

ZHONGHUI ANDA CPA Limited
Certified Public Accountants
Ng Ka Lok
Audit Engagement Director
Practising Certificate Number P06084

Hong Kong, 29 March 2019

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
Revenue	8	3,101,031	3,678,169
Cost of sales		(2,877,039)	(3,643,775)
Gross profit		223,992	34,394
Distribution costs		(33,529)	(42,265)
Administrative expenses		(133,426)	(126,908)
Other (loss)/income — net	9	(24,418)	(173,304)
Other expenses	10	(218,371)	(286)
Operating loss		(185,752)	(308,369)
Finance income	11	309	1,234
Finance expenses	11	(162,242)	(164,035)
Loss before tax		(347,685)	(471,170)
Income tax (expense)/credit	12	(601)	16,737
Loss and total comprehensive loss for the year	13	(348,286)	(454,433)
Attributable to:			
Equity holders of the Company		(348,209)	(454,339)
Non-controlling interests		(77)	(94)
		(348,286)	(454,433)
Loss per share attributable to the equity holders of the Company during the year (expressed in RMB per share)			
— Basic	15	(0.0810)	(0.1057)
— Diluted	15	(0.0810)	(0.1057)

Consolidated Statement of Financial Position

As at 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
ASSETS			
Non-current assets			
Land use rights	*16*	**111,777**	114,460
Property, plant and equipment	*17*	**2,476,614**	3,066,352
Investment properties	*18*	**59,538**	11,618
Mining right	*19*	**309,755**	297,300
Other intangible assets	*20*	**8,349**	8,619
Deferred income tax assets	*34*	**101,964**	99,451
		3,067,997	3,597,800
Current assets			
Inventories	*23*	**63,783**	70,824
Trade and other receivables	*24*	**122,207**	216,669
Derivative financial assets	*25*	**–**	41,670
Pledged bank deposits	*26*	**24,339**	11,596
Cash and cash equivalents	*27*	**4,545**	16,312
		214,874	357,071
Total assets		**3,282,871**	3,954,871
EQUITY			
Equity attributable to owners of the Company			
Share capital	*28*	**368,394**	368,394
Reserves	*30*	**215,012**	563,221
		583,406	931,615
Non-controlling interests		**1,805**	1,882
Total equity		**585,211**	933,497

Consolidated Statement of Financial Position

As at 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
LIABILITIES			
Non-current liabilities			
Long-term borrowings	*31*	**343,500**	437,961
Convertible bonds	*32*	**123,274**	124,191
Deferred subsidy income	*33*	**622**	1,276
Deferred income tax liabilities	*34*	**74,730**	71,616
		542,126	635,044
Current liabilities			
Trade and other payables	*35*	**325,869**	434,847
Contract liabilities	*36*	**141,670**	301,517
Provision for tax		**1,152**	1,152
Short-term borrowings	*31*	**1,239,668**	1,302,854
Current portion of long-term borrowings	*31*	**433,921**	345,960
Convertible bonds	*32*	**13,254**	–
		2,155,534	2,386,330
Total liabilities		**2,697,660**	3,021,374
Total equity and liabilities		**3,282,871**	3,954,871
Net current liabilities		**(1,940,660)**	(2,029,259)
Total assets less current liabilities		**1,127,337**	1,568,541

The consolidated financial statements on pages 50 to 107 were approved and authorised for issue by Board of Directors on 29 March 2019 and are signed on behalf of the Board by:

Director *Director*

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	Attributable to equity holders of the Company											
	Share capital	Share premium	Merger reserve	Share-based compensation reserve — share options	Share-based compensation reserve — convertible bonds	Reserve fund	Enterprise expansion fund	Accumulated loss	Transaction with non-controlling interests	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2017	367,531	1,406,774	(22,041)	28,269	227,018	45,273	1,131	(665,531)	(3,509)	1,384,915	1,976	1,386,891
Total comprehensive loss for the year	–	–	–	–	–	–	–	(454,339)	–	(454,339)	(94)	(454,433)
Issue of shares:												
— Conversion of bonds	863	2,291	–	–	(2,115)	–	–	–	–	1,039	–	1,039
Balance at 31 December 2017	368,394	1,409,065	(22,041)	28,269	224,903	45,273	1,131	(1,119,870)	(3,509)	931,615	1,882	933,497
Balance at 1 January 2018	**368,394**	**1,409,065**	**(22,041)**	**28,269**	**224,903**	**45,273**	**1,131**	**(1,119,870)**	**(3,509)**	**931,615**	**1,882**	**933,497**
Total comprehensive loss for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(348,209)**	**–**	**(348,209)**	**(77)**	**(348,286)**
At 31 December 2018	**368,394**	**1,409,065**	**(22,041)**	**28,269**	**224,903**	**45,273**	**1,131**	**(1,468,079)**	**(3,509)**	**583,406**	**1,805**	**585,211**

Consolidated Statement of Cash Flows

For The Year Ended 31 December 2018

	2018 RMB'000	2017 RMB'000
Cash flows from operating activities		
Loss before tax	(347,685)	(471,170)
Adjustments for:		
Depreciation of property, plant and equipment	217,223	220,284
Depreciation of investment properties	1,844	509
Amortisation of land use rights	2,683	2,683
Amortisation of intangible assets	270	270
Loss on disposal of property, plant and equipment	1,532	4,673
Loss allowance for trade receivables	–	286
Interest revenue	(223)	(920)
Interest expense	162,242	164,035
Exchange gain	(86)	(314)
Reversal of impairment loss on mining right	(12,455)	(8,002)
Write off prepayment	32,220	–
Write off trade receivables	4,618	–
Impairment loss on property, plant and equipment	181,533	–
Fair value change of derivative financial assets	41,670	185,708
Operating cash flows before working capital changes	285,386	98,042
Decrease in inventories	7,041	21,640
Decrease in trade and other receivables	69,323	91,105
Increase/(decrease) in trade and other payables	14,290	(28,639)
(Decrease)/increase in contract liabilities	(159,847)	142,080
Decrease in deferred subsidy income	(654)	(654)
Cash generated from operations	215,539	323,574
Interest paid	(161,830)	(178,661)
Net cash generated from operating activities	53,709	144,913

Consolidated Statement of Cash Flows

For The Year Ended 31 December 2018

	2018 RMB'000	2017 RMB'000
Cash flows from investing activities		
Purchases of property, plant and equipment and payments for construction-in-progress	(297)	(138,410)
Proceeds from disposal of property, plant and equipment	16,941	932
(Increase)/decrease in pledged bank deposits	(12,743)	1,326
Interest received	223	920
Net cash generated from/(used in) investing activities	4,124	(135,232)
Cash flows from financing activities		
Proceeds from borrowings	643,231	1,037,854
Repayments of borrowings	(712,917)	(1,056,014)
Net cash used in financing activities	(69,686)	(18,160)
Net decrease in cash and cash equivalents	(11,853)	(8,479)
Cash and cash equivalents at beginning of year	16,312	24,477
Exchange gain	86	314
Cash and cash equivalents at end of year	4,545	16,312

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

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 RMB348,286,000 and as at 31 December 2018, the Group's current liabilities exceeded its current assets by approximately RMB1,940,660,000, despite the Group had a net operating cash inflow of approximately RMB53,709,000 during the year. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group' s ability to continue as a going concern.

In addition, the Group has contracted capital commitments of approximately RMB120 million as at 31 December 2018.

The Group had a net operating cash flow of approximately RMB54 million during the year. The directors of the Company have reviewed the Group's cash flow projections, which cover a period of twelve months from 31 December 2018. 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 2018 in light of the Group' s plans and measures described below to improve its cash flows:

(a) As at 31 December 2018 the Group's total borrowings amounted to approximately RMB2,017 million, of which approximately RMB1,674 million will be due within twelve months from 31 December 2018. As at that date, the Group's bank deposits pledged for short-term borrowings amounted to approximately RMB24 million. The Group has not experienced any significant difficulties in renewing its short-term borrowings upon their maturities and there is no indication that the banks will not renew the existing short-term borrowings if the Group applies for the renewal.

(b) As at 31 December 2018, the contracted capital expenditure committed by the Group amounted to approximately RMB120 million, of which approximately RMB120 million is required to be settled in the coming twelve months. These commitments are mainly related to the construction of production facilities in GuangAn, Sichuan Province. The directors of the Company will undertake close monitoring process to control the magnitude and timing of the expected cash outlays associated with the projects.

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

2. GOING CONCERN BASIS *(Continued)*

In the opinion of the directors, in light of the above, the Group will have sufficient financial resources to finance its operations and fulfill its financial obligations as and when required in the coming twelve months from 31 December 2018. Accordingly, the directors are satisfied that it is appropriate to prepare these consolidated financial statements on a going concern basis.

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

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

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are relevant to its operations and effective for its accounting year beginning on 1 January 2018. 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 financial statements and amounts reported for the current year and prior years except as stated below.

HKFRS 15 "Revenue from Contracts with Customers"

HKFRS 15 has been applied retrospectively and resulted in changes in the consolidated amounts reported in the financial statements as follows:

	RMB'000
At 31 December 2017:	
Increase in contract liabilities	301,517
Decrease in trade and other payables	(301,517)

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES

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

These consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of derivatives which are carried at their fair values.

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

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

Consolidation

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Consolidation *(Continued)*

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currency translation

(i) Functional and presentation currency

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

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

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

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

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

Property, plant and equipment

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

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

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

Operating leases

The Group as lessee

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

The Group as lessor

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

Construction permits

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

Inventories

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Recognition and derecognition of financial instruments

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

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

Derivative financial instruments

Derivatives are initially recognised and subsequently measured at fair value with any gains or loss arising from changes in fair values recognized in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Loss allowances for expected credit losses

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

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

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

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

Cash and cash equivalents

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

Financial liabilities and equity instruments

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

Convertible bonds

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Borrowings

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

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

Trade and other payables

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

Equity instruments

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

Share-based payment transactions

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

(a) Share options

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payment transactions *(Continued)*

(a) Share options *(Continued)*

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

(a) Employee leave entitlements

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

(b) Pension obligations

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

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

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

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

Borrowing costs

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Government grants

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

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

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

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

Taxation

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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

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

Related parties

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

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

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

  (ii) has significant influence over the Group; or

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

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

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

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

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

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of assets

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

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

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

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

Provisions and contingent liabilities

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

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

Events after the reporting period

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

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Critical judgements in applying accounting policies

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

(a) Going concern basis

These 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 financial statements.

Key sources of estimation uncertainty

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

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

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

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

(b) Impairment of mining right

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

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

Key sources of estimation uncertainty *(Continued)*

(c) Income taxes

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

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

6. FINANCIAL RISK MANAGEMENT

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

(a) Foreign exchange risk

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

(b) Cash flow and fair value interest rate risk

The Group’s interest rate risk mainly arises from pledged bank deposits and borrowings. Long-term borrowing issued at variable rates expose the Group to cash flow risk which is partially offset by cash held at variable rates. The Group’ s pledged bank deposits, short-term borrowings and convertible bonds were issued at fixed rates and exposed the Group to fair value interest rate risk. During 2018 and 2017, the Group’s long-term borrowings at variable rate were denominated in RMB.

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

As at 31 December 2018, if interest rates on long-term borrowings had been increased/decreased by 20 basis points with all other variables held constant, post-tax loss for the year would have been increased/decreased by approximately RMB1,555,000 (2017: post-tax loss increased/decreased by approximately RMB1,568,000), mainly as a result of higher/lower interest expense on floating rate borrowings.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

6. FINANCIAL RISK MANAGEMENT *(Continued)*

(c) Credit risk

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

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

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

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

— internal credit rating;

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

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

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

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

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

6. FINANCIAL RISK MANAGEMENT *(Continued)*

(c) Credit risk *(Continued)*

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

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

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

(d) Liquidity risk

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

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

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000
At 31 December 2018				
Trade and other payables	**298,259**	**–**	**–**	**–**
Short-term borrowings	**1,239,668**	**–**	**–**	**–**
Long-term borrowings	**433,921**	**101,500**	**242,000**	**–**
Convertible bonds	**13,360**	**–**	**–**	**256,685**
Interest payment on borrowings and convertible bonds	**131,131**	**39,468**	**42,899**	**25,533**
At 31 December 2017				
Trade and other payables	429,508	–	–	–
Short-term borrowings	1,302,854	–	–	–
Long-term borrowings	345,960	162,961	275,000	–
Convertible bonds	–	13,360	–	256,685
Interest payment on borrowings and convertible bonds	131,862	41,606	82,806	35,934

6. FINANCIAL RISK MANAGEMENT *(Continued)*

(d) Liquidity risk *(Continued)*

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

The Group has been investing in the construction of new production lines and a significant amount of the financing was obtained from short–term borrowings. As a result, the Group had net current liabilities of approximately RMB1,941 million as at 31 December 2018 (2017: approximately RMB2,029 million). Nevertheless, the Group has not experienced any significant difficulties in renewing its short–term borrowings upon their maturities.

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

(e) Categories of financial instruments

	2018 RMB'000	2017 RMB'000
Financial assets:		
Financial assets at amortised cost (including cash and cash equivalents)	63,632	127,196
Derivative financial assets	–	41,670
Financial liabilities:		
Financial liabilities at amortised cost	2,451,876	2,640,474

(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. FAIR VALUE ESTIMATION

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following disclosures of fair value measurements use a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value:

Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2 inputs: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs: unobservable inputs for the asset or liability.

The Group's policy is to recognise transfers into and transfers out of any of the three levels as of the date of the event or change in circumstances that caused the transfer.

(a) Disclosures of level in fair value hierarchy at 31 December:

	2017			
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Financial assets at fair value through profit or loss				
— derivative financial assets	–	–	41,670	41,670

(b) Reconciliation of assets measured at fair value based on level 3:

	2018 Derivative financial assets — Put options of convertible bonds RMB'000	2017 Derivative financial assets — Put options of convertible bonds RMB'000
Opening balance	**41,670**	227,378
Fair value change recognised in profit or loss	**(41,670)**	(185,708)
Closing balance	**–**	41,670
Total loss for the period included in profit or loss for assets and liabilities held at the end of the reporting period	**–**	(185,708)

7. FAIR VALUE ESTIMATION *(Continued)*

(b) Reconciliation of assets measured at fair value based on level 3: (Continued)

The total gains or losses recognised in profit or loss including those for assets held at end of reporting period are presented in other loss in the statement of profit or loss.

(c) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements at 31 December 2018:

The Group's financial controller is responsible for the fair value measurements of assets and liabilities required for financial reporting purposes, including level 3 fair value measurements. The financial controller reports directly to the Board of Directors for these fair value measurements. Discussions of valuation processes and results are held between the financial controller and the Board of Directors at least twice a year.

For level 3 fair value measurements, the Group will normally engage external valuation expert with the recognised professional qualifications and recent experience to perform the valuations.

Key unobservable inputs used in level 3 fair value measurements are mainly historical volatility.

Level 3 fair value measurements

Description	Valuation technique	Unobservable inputs	Effect on fair value for increase of inputs	**Fair value 2018 RMB'000**	Fair value 2017 RMB'000
Derivative financial assets	Binomial tree method	Historical volatility	Increase	**–**	41,670

During the two years, there were no changes in the valuation techniques used.

8. 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 2018 and 2017, all revenue is derived from the PRC.

Major products	**2018**	2017
	RMB'000	RMB'000
BB & compound fertilizers	**38,609**	30,868
Urea	**472,140**	561,833
Ammonia	**395,286**	460,212
Methanol	**776,726**	730,507
Polyphenylene sulfide	**53,144**	81,577
Others-trading	**1,365,126**	1,813,172
	3,101,031	3,678,169

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

Timing of revenue recognition

For the years ended 31 December 2018 and 2017, all revenue is recognised at a point of time.

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

The Group has a number of customers and revenue generated from top two customers are accounted for 10.1% (2017: 8.8%) and 8.2% (2017: 8.1%) respectively of the Group's revenue during the year.

Sale of chemical products and chemical fertilizers

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

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

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

9. OTHER (LOSS)/INCOME — NET

	2018 RMB'000	2017 RMB'000
Deferred subsidy income recognised	654	654
Subsidy income	1,717	1,401
Rental income, net	2,411	1,567
Reversal of impairment loss on mining right	12,455	8,002
Fair value changes on derivative financial assets	(41,670)	(185,708)
Others, net	15	780
	(24,418)	(173,304)

10. OTHER EXPENSES

	2018 RMB'000	2017 RMB'000
Loss allowance for trade receivables	–	286
Write off trade receivables	4,618	–
Write off prepayment	32,220	–
Impairment losses on property, plant and equipment	181,533	–
	218,371	286

11. FINANCE EXPENSES — NET

	2018 RMB'000	2017 RMB'000
Finance income:		
Exchange gain	(86)	(314)
Interest revenue	(223)	(920)
	(309)	(1,234)
Finance expenses:		
Interest expense:		
— bank borrowings	132,397	136,859
— convertible bonds	30,305	27,901
Less: capitalisation in construction-in-progress	(462)	(730)
	162,240	164,030
Others	2	5
	162,242	164,035
Finance expenses — net	161,933	162,801

12. INCOME TAX EXPENSE/(CREDIT)

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 2018 and 2017.

The applicable income tax rate of other subsidiaries located in Mainland China in 2018 and 2017 is 25%.

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

	2018 RMB'000	2017 RMB'000
CIT for Mainland China		
— under-provision in prior years	–	–
Deferred income tax	601	(16,737)
	601	(16,737)

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12. INCOME TAX EXPENSE/(CREDIT) *(Continued)*

The taxation on the Group's loss before income tax differs from the theoretical amount that would arise using the taxation rate of 25% (2017:25%). The difference is analysed as follows:

	2018 RMB'000	2017 RMB'000
Loss before tax	**(347,685)**	(471,170)
Tax calculated at a taxation rate of 25% (2017: 25%)	**(86,853)**	(117,793)
Tax rate difference	**6,915**	19,896
Expenses not deductible for tax purposes	**13,608**	38,587
Utilization of tax losses previously not recognised	**(16,026)**	–
Tax losses for which no deferred income tax was recognised	**24,002**	42,512
Temporary differences for which no deferred income tax was recognised	**59,141**	71
Income not subject to tax	**(186)**	(10)
Income tax expense/(credit)	**601**	(16,737)

13. LOSS FOR THE YEAR

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

	2018 RMB'000	2017 RMB'000
Raw materials and consumables used	**998,498**	1,092,114
Depreciation of property, plant and equipment	**217,223**	220,284
Depreciation of investment properties	**1,844**	509
Amortisation of land use rights	**2,683**	2,683
Amortisation of other intangible assets	**270**	270
Auditors' remuneration — Audit services	**1,519**	1,513
Operating lease payments	**896**	917
Loss on disposal of property, plant and equipment	**1,532**	4,673
Staff costs including directors' emoluments		
Salaries, bonus and allowances	**77,007**	74,293
Retirement benefits scheme contributions	**2,882**	2,282
	79,889	76,575

Cost of inventories sold includes staff costs, depreciation and operating lease charges of approximately RMB77,492,000 (2017: approximately RMB77,986,000) 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 2018 and 2017 is set out below:

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

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

(a) Directors' emoluments *(Continued)*

	Fees RMB'000	Salaries, allowances and benefits in-kind RMB'000	Contributions to pension schemes RMB'000	Total RMB'000
Executive directors				
Mr. Li Weiruo	1,345	780	–	2,125
Mr. Yuan Bai *(Note i)*	252	942	28	1,222
Mr. Wu Tianran *(Note ii)*	1,293	780	–	2,073
Mr. Wan Congxin *(Note iii)*	242	1,138	–	1,380
Name of non-executive director				
Mr. Zhang Fubo	420	–	–	420
Name of independent non-executive directors				
Mr. Hu Xiaoping	168	–	–	168
Mr. Shi Lei *(Note iv)*	168	–	–	168
Mr. Ge Jun *(Note v)*	52	–	–	52
Mr. Xu Congcai *(Note vi)*	70	–	–	70
Total for 2017	4,010	3,640	28	7,678

Note:

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

(ii) Mr. Wu Tianran was appointed and resigned as an executive director on 15 January 2017 and 20 July 2018 respectively.

(iii) Mr. Wan Congxin was appointed and resigned as an executive director on 15 January 2017 and 20 July 2018 respectively.

(iv) Mr. Shi Lei was appointed as an independent non-executive director on 15 January 2017.

(v) Mr. Ge Jun was appointed and resigned as an independent non-executive director on 15 January 2017 and 5 May 2017 respectively.

(vi) Mr. Xu Congcai was appointed as an independent non-executive director on 1 August 2017.

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

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

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

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

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include five (2017: five) directors whose emoluments are reflected in the analysis presented above.

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. LOSS PER SHARE

Basic

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

Diluted

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

Potential ordinary shares arising from the assumed conversion of convertible bonds and the assumed exercise of share options have not been included in the calculation of diluted loss per share because they are anti-dilutive for the years ended 31 December 2017 and 2018.

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

	2018 RMB'000	2017 RMB'000
Loss		
Loss for the purpose of calculating basic and diluted earnings per share	(348,209)	(454,339)

	2018 '000	2017 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic and diluted earnings per share	4,298,043	4,297,751

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16. LAND USE RIGHTS

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

	2018 RMB'000	2017 RMB'000
Cost		
At 1 January and 31 December	127,969	127,969
Accumulated amortisation		
At 1 January	13,509	10,826
Amortisation charge for the year	2,683	2,683
At 31 December	16,192	13,509
Net book amount		
At 31 December	111,777	114,460

All the Group's land use rights are located in Mainland China. The remaining lease periods of the land use rights are between 40 to 46 years (2017: 41 to 47 years).

As at 31 December 2018, land use rights with a total net book value of approximately RMB58,781,000 (2017: approximately RMB60,223,000) were pledged as collateral for the Group's bank borrowings.

Amortisation charge had been charged in administrative expenses.

17. 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 2017	1,106,032	2,362,655	14,494	22,881	408,271	3,914,333
Additions	–	6,326	8	380	21,962	28,676
Disposals	(65,785)	–	(1,431)	(81)	–	(67,297)
Transferred from/(to) construction-in-progress	5,933	–	–	–	(5,933)	–
At 31 December 2017	**1,046,180**	**2,368,981**	**13,071**	**23,180**	**424,300**	**3,875,712**
Additions	**4,076**	**3,254**	**–**	**58**	**12,489**	**19,877**
Disposals	**(17,534)**	**(2,553)**	**(505)**	**(43)**	**–**	**(20,635)**
Cost adjustment	**(68,149)**	**–**	**–**	**–**	**(74,473)**	**(142,622)**
Transferred to investment properties	**(59,190)**	**–**	**–**	**–**	**–**	**(59,190)**
At 31 December 2018	**905,383**	**2,369,682**	**12,566**	**23,195**	**362,316**	**3,673,142**

17. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

	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
Accumulated depreciation and impairment loss						
At 1 January 2017	(65,670)	(498,534)	(8,182)	(21,289)	–	(593,675)
Depreciation	(23,905)	(194,771)	(746)	(862)	–	(220,284)
Disposals	3,773	–	756	70	–	4,599
At 31 December 2017	**(85,802)**	**(693,305)**	**(8,172)**	**(22,081)**	**–**	**(809,360)**
Depreciation	**(28,017)**	**(187,718)**	**(723)**	**(765)**	**–**	**(217,223)**
Disposals	**–**	**1,478**	**253**	**431**	**–**	**2,162**
Impairment loss	**–**	**–**	**–**	**–**	**(181,533)**	**(181,533)**
Transferred to investment property	**9,426**	**–**	**–**	**–**	**–**	**9,426**
At 31 December 2018	**(104,393)**	**(879,545)**	**(8,642)**	**(22,415)**	**(181,533)**	**(1,196,528)**
Net book amount						
At 31 December 2018	**800,990**	**1,490,137**	**3,924**	**780**	**180,783**	**2,476,614**
At 31 December 2017	960,378	1,675,676	4,899	1,099	424,300	3,066,352

Impairment loss of approximately RMB181,533,000 (2017: nil) was recognised in profit or loss for obsolete property, plant and equipment.

All the Group's buildings are located in Mainland China. As at 31 December 2018, property, plant and equipment with a total net book value of approximately RMB1,130,436,000 (2017: approximately RMB1,168,227,000) were pledged as collateral for the Group's bank borrowings.

For the year ended 31 December 2018, borrowing costs of approximately RMB2,247,000 (2017: approximately RMB730,000) have been capitalised in the construction-in-progress.

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18. INVESTMENT PROPERTIES

	2018 RMB'000	2017 RMB'000
Cost		
As at 1 January and 31 December	13,862	13,862
Transferred from property, plant and equipments	59,190	–
As at 1 January and 31 December	73,052	13,862
Accumulated depreciation and impairment loss		
As at 1 January	(2,244)	(1,735)
Charge for the year	(1,844)	(509)
Transferred from property, plant and equipment	(9,426)	–
As at 31 December	(13,514)	(2,244)
Net book value		
As at 31 December	59,538	11,618
Fair value as at 31 December	75,000	23,892

All the Group's investment properties are located in Mainland China. As at 31 December 2018, investment properties with a total net book value of approximately RMB59,538,000 (2017: approximately RMB11,618,000) were pledged as collateral for the Group's bank borrowings.

The fair values of the investment properties as at 31 December 2018 were estimated on the open market basic value by reference to market evidence of recent transaction for similar properties by management. It falls under level 2 in the fair value hierarchy.

The rental income arising from investment properties for the year 2018 of approximately RMB4,255,000 (2017: approximately RMB1,965,000) and depreciation charges are included in other income.

As at 31 December 2018, the Group had no unprovided contractual obligations for future repairs and maintenance (2017: Nil).

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 21 years, expiring in 2039.

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

As at 31 December 2018, the mining right with a total net book value of approximately RMB309,755,000 (2017: approximately RMB297,300,000) were pledged as collateral for the Group's bank borrowings.

20. OTHER INTANGIBLE ASSETS

	Goodwill RMB'000	Construction permits RMB'000	Total RMB'000
Cost			
At 1 January 2017, 31 December 2017 and 31 December 2018	8,900	2,700	11,600
Accumulated amortisation and impairment loss			
At 1 January 2017	(1,199)	(1,512)	(2,711)
Amortisation charge	–	(270)	(270)
At 31 December 2017	**(1,199)**	**(1,782)**	**(2,981)**
Amortisation charge	**–**	**(270)**	**(270)**
At 31 December 2018	**(1,199)**	**(2,052)**	**(3,251)**
Net book amount			
At 31 December 2018	**7,701**	**648**	**8,349**
At 31 December 2017	7,701	918	8,619

Construction permits represent the permissions granted by the government for the construction of GuangAn Project. Amortisation charge of approximately RMB270,000 (2017: approximately RMB270,000) is included in administrative expenses.

21. IMPAIRMENT OF GOODWILL AND MINING RIGHT

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

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

	2018	2017
Growth rate	**3%**	3%
Discount rate (post-tax discount rate applied to the cash flow projections)	**16.00%**	16.00%
Years of cash flows projection (expected mining period of the phosphate mine)	**30 years**	30 years

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

Management determined gross margin based on past market prices of the phosphoric acid which are produced from phosphate ore and management's estimation of exploitation and production costs. The discount rate used is post-tax and reflects specific risks relating to the relevant CGU. Expected mining period of the phosphate mine is determined based on extractable reserve of the phosphate mine and the Group's production capacity. The legal life of mining right can be extended upon maturity to enable the Group to conduct mining activities in the expected mining period. Reversal of impairment losses of approximately RMB12,455,000 was provided on mining right for the year ended 31 December 2018 (Reversal of impairment losses of approximately RMB8,002,000 was provided on mining right for the year ended 31 December 2017).

22. SUBSIDIARIES

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

Name *(Note i)*	Place of incorporation/ establishment	Principal activities and place of operation	Particulars of issued share capital	Interest held
Held directly:				
Ko Yo Ecological Agrotech (BVI) Limited ("Ko Yo BVI")	the British Virgin Islands (the "BVI")	Investment holding, the BVI	100 ordinary shares of USD1 each	100%
Bright Bridge Investments Limited	BVI	Investment holding, the BVI	1 ordinary share of USD1 each	100%
Ko Yo Hong Kong New Material Company Limited ("Hong Kong New Material")	Hong Kong	Investment holding, Hong Kong	HK$10,000 ordinary shares	100%
Held indirectly:				
Ko Yo Development Company Limited ("Ko Yo Hong Kong")	Hong Kong	Investment holding, Hong Kong	3,000,000 non-voting deferred shares and HK$100 ordinary shares	100%
Chengdu Ko Yo Compound Fertilisers Co., Ltd. ("Chengdu Ko Yo Compound")	Mainland China	Manufacture, research, development and sale of bulk blended fertilisers, Mainland China	RMB15,000,000	100%
Dazhou Ko Yo Chemical Industry Co., Ltd ("Dazhou Ko Yo Chemical") *(Note ii)*	Mainland China	Manufacture and sale of chemical products, Mainland China	RMB350,000,000	100%
Qingdao Ko Yo Chemical Industry Co., Ltd. ("Qingdao Ko Yo Chemical")	Mainland China	Manufacture, research, development and sale of bulk blended fertilisers, Mainland China	USD2,100,000	100%
Hong Kong Cuyo Investment Limited ("Hong Kong Cuyo")	Hong Kong	Investment holding, Hong Kong	HK$4,720,000 ordinary shares	100%

22. SUBSIDIARIES *(Continued)*

Name *(Note i)*	Place of incorporation/ establishment	Principal activities and place of operation	Particulars of issued share capital	Interest held
Sichuan Chengyuan Chemical Industry Co., Ltd ("Sichuan Cuyo") *(Note ii)*	Mainland China	Exploration and exploitation of a phosphorous mine, Mainland China	RMB5,000,000	100%
Sichuan Ko Yo Agrochem Co., Ltd ("Ko Yo Agrochem")	Mainland China	Sale of chemical products and chemical fertilisers, Mainland China	RMB24,000,000	100%
Guangan Ko Yo Chemical Industry Co., Ltd ("Ko Yo GuangAn") *(Note ii)*	Mainland China	Manufacture and sale of chemical products, Mainland China	RMB160,000,000	100%
Chengdu Dayuan Chemical Industry Co., Ltd ("Ko Yo Dayuan")	Mainland China	Investment holding, Mainland China	RMB100,000	100%
Chengdu Meiyuan Chemical Industry Co., Ltd ("Ko Yo Meiyuan")	Mainland China	Investment holding, Mainland China	RMB100,000	100%
Guangan Lotusan Natural Gas Chemicals Co., Ltd ("Ko Yo Lotusan") *(Note ii)*	Mainland China	Manufacture and sale of chemical products, Mainland China	RMB43,000,000	100%
Sichuan Ko Chang Technology Co., Ltd ("Ko Yo Ko Chang")	Mainland China	Development of phosphoric acid production technology	RMB10,000,000	55%
Guangan Ko Yo New Material Co., Ltd ("Guangan New Material") *(Note ii)*	Mainland China	Manufacture and sale of engineering plastics, Mainland China	RMB64,000,000	100%
Sichuan KoYo Chemical Sci-tech Development Co., Ltd	Mainland China	Development of chemical production technology, Mainland China	–	100%
Guangan Ko Yo Phos-chemical Technology Co., Ltd ("Guangan Phos")	Mainland China	Manufacture and sale of chemical products, Mainland China	RMB100,000,000	100%

Notes:

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

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

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

23. INVENTORIES

	2018 RMB'000	2017 RMB'000
Raw materials	51,628	57,629
Finished goods	12,155	13,195
	63,783	70,824

There is no inventory written down as at 31 December 2018 (2017: Nil).

24. TRADE AND OTHER RECEIVABLES

	2018 RMB'000	2017 RMB'000
Trade receivables	54	16,424
Less: loss allowance for trade receivables	–	(7,153)
Trade receivables — net	54	9,271
Note receivables	1,000	5,095
Prepayments for raw materials	87,459	117,381
Other tax receivables	23,120	59,766
Due from employees	1,977	12,305
Others	8,597	12,851
	122,207	216,669

As at 31 December 2018 and 2017, the fair value of trade and other receivables of the Group approximated to their carrying amounts.

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

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

	2018 RMB'000	2017 RMB'000
0-90 days	54	9,271

24. TRADE AND OTHER RECEIVABLES *(Continued)*

Reconciliation of loss allowance for trade receivables:

	2018 RMB'000	2017 RMB'000
At the beginning of the year, as previously stated	7,153	6,867
Increase in loss allowance for the year	–	286
Write off during the year	(7,153)	–
At the end of the year	–	7,153

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

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

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

	Current	Over 365 days past due	Total
At 31 December 2018			
Weighted average expected loss rate	0%	0%	
Receivable amount (RMB'000)	54	–	54
Loss allowance (RMB'000)	–	–	–
At 31 December 2017			
Weighted average expected loss rate	0%	100%	
Receivable amount (RMB'000)	9,271	7,153	16,424
Loss allowance (RMB'000)	–	7,153	7,153

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25. DERIVATIVE FINANCIAL ASSETS

On 18 January 2015, the Company and Asia Pacific Resources Development Investment Limited ("Subscriber") entered into the put option agreement pursuant to which the Subscriber has unconditionally and irrevocably granted the put option to the Company entitling the Company, at any time during the period between 18 January 2015 and 17 January 2018, on one or more than one occasion, to require the Subscriber to subscribe from the Company the convertible bonds in the aggregate principal amount of no more than HK$1,440,000,000. The Convertible Bonds, when issued, will bear an interest of 7% per annum with a conversion price of HK$1.80 for each share of the Company and will mature on the tenth anniversary of the date of issue. The movement of which is set out below:

	2018	2017
	RMB'000	RMB'000
Opening balance at 1 January	**41,670**	227,378
Fair value debited to profit or loss	**(41,670)**	(185,708)
At 31 December	**–**	41,670

26. PLEDGED BANK DEPOSITS

The deposits are denominated in RMB and pledged for certain bank borrowings. The effective interest rates on pledged bank deposits are ranging from 0.15% to 2.80% (2017: 0.15% to 2.80%).

27. CASH AND CASH EQUIVALENTS

The weighting average effective interest rate on cash at bank at 31 December 2018 is 0.35% (2017: 0.35%).

28. SHARE CAPITAL

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

	Number of shares		**Share capital**	
	2018	2017	**2018**	2017
	'000	'000	**HKD'000**	HKD'000
Authorised				
(Ordinary share of HK$0.10 each):				
At the beginning and the end of the year	**8,000,000**	8,000,000	**800,000**	800,000

Ordinary shares, issued and fully paid:

	Number of shares		**Share capital**	
	2018	2017	**2018**	2017
	'000	'000	**RMB'000**	RMB'000
At the beginning of the year	**4,298,043**	4,288,355	**368,394**	367,531
Issue of shares:				
— Conversion of bonds *(Note a)*	**–**	9,688	**–**	863
At the end of the year	**4,298,043**	4,298,043	**368,394**	368,394

28. SHARE CAPITAL *(Continued)*

(a) Conversion of bonds

No convertible bonds were exercised during the year ended 31 December 2018. During the year ended 31 December 2017, the convertible bonds holders exercised certain convertible bonds to subscribe 9,687,500 ordinary shares at an exercise price at HKD0.32 per share.

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:

	2018 RMB'000	2017 RMB'000
Short-term borrowings	1,239,668	1,302,854
Long-term borrowings	777,421	783,921
Convertible bonds	136,528	124,191
Total borrowings	2,153,617	2,210,966
Less:		
Cash and cash equivalents	(4,545)	(16,312)
Pledged bank deposits	(24,339)	(11,596)
Net debt	2,124,733	2,183,058
Total equity	585,211	933,497
Total capital	2,709,944	3,116,555
Gearing ratio	78%	70%

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

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29. SHARE-BASED PAYMENT

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

New Share Option Scheme

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

Date of grant	**14 January 2010**	**23 November 2010**	**28 March 2013**	**22 June 2016**	**Total**
Exercise price (HKD per option)	1.15	1.1	0.595	0.151	
Remaining life	1.04 year	1.90 year	4.24 year	7.47 years	
Granted to	5 executive directors and 8 employees	3 independent directors	4 executive directors and 2 independent directors and 21 employees	1 executive director and 3 employees	
1 January 2017 and 31 December 2017	4,700,000	1,600,000	10,000,000	1,900,000	18,200,000
1 January 2018	4,700,000	1,600,000	10,000,000	1,900,000	18,200,000
Lapsed	(800,000)	(800,000)	(3,800,000)	(400,000)	(5,800,000)
31 December 2018	3,900,000	800,000	6,200,000	1,500,000	12,400,000

30. 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.

30. RESERVES *(Continued)*

(b) Company

	Share premium RMB'000	Contributed surplus RMB'000	Share-based compensation reserve — share options RMB'000	Share-based compensation reserve — convertible bonds RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2017	1,406,774	37,162	28,269	227,018	(681,839)	1,017,384
Total comprehensive loss for the year	–	–	–	–	(454,339)	(454,339)
Issue of shares:						
— Conversion of bonds	2,291	–	–	(2,115)	–	176
At 31 December 2017	1,409,065	37,162	28,269	224,903	(1,136,178)	563,221
At 1 January 2018	**1,409,065**	**37,162**	**28,269**	**224,903**	**(1,136,178)**	**563,221**
Total comprehensive loss for the year	**–**	**–**	**–**	**–**	**20,185**	**20,185**
At 31 December 2018	**1,409,065**	**37,162**	**28,269**	**224,903**	**(1,115,993)**	**583,406**

(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.

30. RESERVES *(Continued)*

(b) Company *(Continued)*

(iii) Contributed surplus

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

(iv) Transfer of equity interest to NCI

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

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

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

31. BORROWINGS

	2018 RMB'000	2017 RMB'000
Non-current portion of long-term bank borrowings *(Note a)*	343,500	437,961
Current portion of long-term bank borrowings *(Note a)*	433,921	345,960
Short-term borrowings *(Note b)*	1,239,668	1,302,854
	2,017,089	2,086,775

The borrowings are secured by bank deposits of approximately RMB24,339,000 (2017: approximately RMB11,596,000), property, plant and equipment with a total net book value of approximately RMB1,130,436,000 (2017: approximately RMB1,168,227,000), investment properties with a total net book value of approximately RMB59,538,000 (2017: approximately RMB11,618,000), mining right with a total net book value of approximately RMB309,755,000 (2017: approximately RMB297,300,000), land use rights with total net book value of approximately RMB58,781,000 (2017: approximately RMB60,223,000), 100% equity interest in Guangan New Material (2017: 100% equity interest in Guangan New Material) and guaranteed by Mr. Li Weiruo and the Company.

31. BORROWINGS *(Continued)*

(a) Long-term bank borrowings

The average effective interest rate of bank borrowings as at 31 December 2018 is 6.03% (2017: 6.03%).

As at 31 December 2018 and 2017, the Group's long-term bank borrowings were repayable as follows:

	2018	2017
	RMB'000	RMB'000
Within 1 year	**433,921**	345,960
Between 1 and 2 years	**101,500**	162,961
Between 2 and 3 years	**95,000**	105,000
Between 3 and 5 years	**147,000**	170,000
Over 5 years	**–**	–
	777,421	783,921
Within 1 year included in current liabilities	**(433,921)**	(345,960)
	343,500	437,961

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

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

(b) Short-term borrowings

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

	2018	2017
	RMB'000	RMB'000
At fixed rates in HKD	**–**	6,664
At fixed rates in RMB	**1,239,668**	1,296,190
	1,239,668	1,302,854

The short-term borrowings were issued at interest rates which range from 4.35% to 11.50% (2017: 4.35% to 15.00%) per annum. The fair value of short-term borrowings approximate to their carrying amounts.

32. CONVERTIBLE BONDS

	2018 RMB'000	2017 RMB'000
Liability component		
Convertible bonds 1	**123,274**	113,403
Convertible bonds 2	**13,254**	10,788
	136,528	124,191

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 RMB'000	Equity component RMB'000	Total RMB'000
At 1 January 2017	106,516	221,062	327,578
Interest expense accrued	25,893	–	25,893
Interest expense charged to accrued expense	(17,967)	–	(17,967)
Converted during the year	(1,039)	(2,115)	(3,154)
At 31 December 2017	113,403	218,947	332,350
At 1 January 2018	**113,403**	**218,947**	**332,350**
Interest expense accrued	**27,839**	**–**	**27,839**
Interest expense charged to accrued expense	**(17,968)**	**–**	**(17,968)**
At 31 December 2018	**123,274**	**218,947**	**342,221**

The principal amount of the convertible bonds as at 31 December 2018 is approximately RMB256,685,000 (2017: approximately RMB256,685,000).

32. CONVERTIBLE BONDS *(Continued)*

Convertible bonds 2

On 15 January 2016, the convertible bonds in the aggregate principal amount of HK$23,200,000 have been successfully placed by the Placing Agent to two Subscribers pursuant to the terms and conditions of the Placing Agreement. The convertible bonds are non-interest bearing. The convertible bonds can be converted into ordinary shares at a conversion price of HKD0.40 from the day immediately following the date of the issue of convertible bonds to the maturity date which is 14 January 2019. If the convertible bonds have not been converted, they will be redeemed at par on 14 January 2019 in RMB using a pre-determined fixed rate of exchange of RMB1.00 to HKD1.1976. Interest will be paid annually in RMB using a pre-determined fixed rate of exchange of RMB1.00 to HKD1.1976 until the maturity date.

	Liability component RMB'000	Equity component RMB'000	Total RMB'000
At 1 January 2017	8,780	5,956	14,736
Interest expense accrued	2,008	–	2,008
At 31 December 2017	10,788	5,956	16,744
At 1 January 2018	**10,788**	**5,956**	**16,744**
Interest expense accrued	**2,466**	**–**	**2,466**
At 31 December 2018	**13,254**	**5,956**	**19,210**

The principal amount of the convertible bonds as at 31 December 2018 is approximately RMB13,360,000 (2017: approximately RMB13,360,000).

33. DEFERRED SUBSIDY INCOME

Government grant for production facilities

	2018 RMB'000	2017 RMB'000
At 1 January	**1,276**	1,930
Subsidy income recognised	**(654)**	(654)
At 31 December	**622**	1,276

34. DEFERRED INCOME TAX

There were no offsetting of deferred income tax assets and liabilities in 2018 and 2017.

	2018 RMB'000	2017 RMB'000
Deferred tax assets:		
— To be recovered after more than 12 months	101,912	99,399
— To be recovered within 12 months	52	52
	101,964	99,451
Deferred tax liabilities:		
— To be settled after more than 12 months	(74,730)	(71,616)
— To be settled within 12 months	–	–
	(74,730)	(71,616)

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

Deferred income tax assets:

	Tax losses RMB'000	Deferred subsidy income RMB'000	Total RMB'000
At 1 January 2017	80,501	212	80,713
Credited to profit or loss	18,790	(52)	18,738
At 31 December 2017	99,291	160	99,451
At 1 January 2018	**99,291**	**160**	**99,451**
Credited to profit or loss	**2,565**	**(52)**	**2,513**
At 31 December 2018	**101,856**	**108**	**101,964**

34. DEFERRED INCOME TAX *(Continued)*

Deferred income tax liabilities:

	Mining right
	RMB'000
At 1 January 2017	(69,615)
Charged to profit or loss	(2,001)
At 31 December 2017	(71,616)
At 1 January 2018	**(71,616)**
Charged to profit or loss	**(3,114)**
At 31 December 2018	**(74,730)**

As at 31 December 2018, the Group had total unused tax losses of approximately RMB998,715,000 (2017: approximately RMB939,108,000). No deferred tax asset has been recognised in respect of tax losses of certain subsidiaries of approximately RMB590,859,000 (2017: approximately RMB541,944,000) due to the unpredictability of future profit streams of these subsidiaries. Deferred tax asset of approximately RMB101,964,000 (2017: approximately RMB99,291,000) has been recognised in respect of the tax losses of certain subsidiaries of approximately RMB407,856,000 (2017: approximately RMB397,164,000) as management considered it is probable that these subsidiaries can generate sufficient taxable profit to utilise the above tax loss of approximately RMB407,856,000.

35. TRADE AND OTHER PAYABLES

	2018	2017
	RMB'000	RMB'000
Trade payables *(Note a)*	**18,980**	61,006
Construction payable	**137,899**	246,747
Accrued expenses	**127,871**	93,610
Interest payables	**6,896**	18,821
Other taxes payable	**27,610**	5,339
Others	**6,613**	9,324
	325,869	434,847

35. TRADE AND OTHER PAYABLES *(Continued)*

(a) Trade payables

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

	2018 RMB'000	2017 RMB'000
Less than 1 year	18,980	60,881
More than 1 year but not exceeding 2 years	–	3
More than 2 years but not exceeding 3 years	–	122
More than 3 years	–	–
	18,980	61,006

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

36. CONTRACT LIABILITIES

	At 31 December		At 1 January
Disclosures of revenue-related items:	2018 RMB'000	2017 RMB'000	2017 RMB'000
Contract liabilities	141,670	301,517	159,437

	At 31 December		At 1 January
	2018 RMB'000	2017 RMB'000	2017 RMB'000
Contract receivables (included in trade receivables)	54	9,271	36,392

	2018 RMB'000	2017 RMB'000
Revenue recognised in the year that was included in contract liabilities at beginning of year	301,517	159,437

36. CONTRACT LIABILITIES *(Continued)*

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

	2018 RMB'000	2017 RMB'000
— 2018	N/A	301,517
— 2019	141,670	–
	141,670	301,517

Significant changes in contract liabilities during the year

	2018 RMB'000	2017 RMB'000
Increase due to operations in the year	141,670	301,517
Transfer of contract liabilities to revenue	(301,517)	(159,437)

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.

37. COMMITMENTS

(a) Capital commitments

	2018 RMB'000	2017 RMB'000
Constructions-in-progress:		
Contracted but not provided for	120,132	127,285

(b) Commitments under operating leases

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

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

	2018 RMB'000	2017 RMB'000
Not later than 1 year	871	242
More than 1 year but not exceeding 2 years	239	–
Total operating commitments	1,110	242

37. COMMITMENTS *(Continued)*

(c) Operating leases rental receivables

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

	2018 RMB'000	2017 RMB'000
Not later than 1 year	3,127	2,410
More than one year but not exceeding five years	5,950	7,296
	9,077	9,706

38. RELATED-PARTY TRANSACTIONS

At 31 December 2018, long-term borrowings of approximately RMB263,460,000 (2017: approximately RMB179,960,000) and short-term borrowings of approximately RMB596,440,000 (2017: approximately RMB712,490,000) were guaranteed by Mr. Li Weiruo with no charge. In the opinion of the directors of the Company, the fair value of guarantee provided by Mr. Li Weiruo is insignificant to the Group. Such guarantee has not been accounted for by the Group.

39. KEY MANAGEMENT COMPENSATION (EXCLUDING DIRECTORS' EMOLUMENTS)

	2018 RMB'000	2017 RMB'000
Salaries and other short-term employee benefits	2,062	3,303

40. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in liabilities arising from financing activities

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

	Convertible bonds RMB'000	Long-term and short-term borrowings RMB'000	Total liabilities from financing activities RMB'000
At 1 January 2017	115,296	2,104,935	2,220,231
Changes in cash flows	–	(18,160)	(18,160)
Non-cash changes			
— interest charged	27,901	–	27,901
— reallocation to interest payables including in other payables	(17,967)	–	(17,967)
— converted during the year	(1,039)	–	(1,039)
At 31 December 2017 and 1 January 2018	**124,191**	**2,086,775**	**2,210,966**
Changes in cash flows	**–**	**(69,686)**	**(69,686)**
Non-cash changes			
— interest charged	**30,305**	**–**	**30,305**
— reallocation to interest payables including in other payables	**(17,968)**	**–**	**(17,968)**
At 31 December 2018	**136,528**	**2,017,089**	**2,153,617**

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

	2018 RMB'000	2017 RMB'000
ASSETS		
Non-current assets		
Interests in subsidiaries	184,189	218,279
Loan to subsidiaries	782,261	939,872
	966,450	1,158,151
Current assets		
Other receivables	368	489
Derivative financial assets	–	41,670
Cash and cash equivalents	19	19
	387	42,178
Total assets	966,837	1,200,329
EQUITY		
Capital and reserves attributable to equity holders of the Company		
Share capital	368,394	368,394
Reserves	215,012	563,221
Total equity	583,406	931,615
LIABILITIES		
Non-current liabilities		
Convertible bonds	136,528	124,191
Current liabilities		
Accruals and other payables	66,539	49,123
Short-term borrowings	–	6,663
Financial guarantee liabilities	180,364	88,737
	246,903	144,523
Total liabilities	383,431	268,714
Total equity and liabilities	966,837	1,200,329
Net current liabilities	(246,516)	(102,345)
Total assets less current liabilities	719,934	1,055,806

42. LITIGATIONS

On 18 October 2018, the Group received (a) Early Loan Repayment Notice dated 11 October 2018 (the "Early Repayment Notice") from the Bank of Dalian; and (b) Overdue Loan Repayment Notice dated 12 October 2018 from the Bank of Dalian (the "Overdue Loan Repayment Notice"). Pursuant to the Early Repayment Notice, Dazhou Koyo breached certain terms of the loan agreements, and as such, the Loans together with interests accrued became due and payable on 11 October 2018, and the Group should procure Dazhou Koyo to repay the Loans together with interests accrued. Pursuant to the Overdue Loan Repayment Notice, it stipulated as at 12 October 2018 Dazhou Koyo has yet to repay the Loans together with interests accrued, the Company should unconditionally perform its obligations under the guarantee to repay the outstanding Loans and interests.

The Bank of Dalian has instituted a legal action (the "Action") against the Group in the People's Republic of China (the "PRC"), and has also applied to the PRC courts for the following interim measures: (i) property preservation properties of Dazhou Ko Yo Chemical, Ko Yo Agrochem, Ko Yo GuangAn and Ko Yo Lotusan; and (ii) ten bank accounts belonging to the subsidiaries of the Company frozen with the maximum amount of RMB80,000,000. The Group and the Bank of Dalian has reached a preliminary settlement plan in January 2019. Hence, the Bank of Dalian applied to release the property preservation and frozen bank accounts. The court approved the application, released the property preservation and frozen bank accounts on 28 January 2019.

43. SUBSEQUENT EVENT

On 31 January 2019, the Convertible Bonds in the principal amount of HK$129,600,000 was subscribed by the Subscriber. The principal amount of the Convertible Bonds being HK$140,400,000 has been issued to the Subscriber on 15 March 2019.

44. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved and authorised for issue by the Board of Directors on 29 March 2019.

Five Year Financial Summary

FIVE YEAR FINANCIAL SUMMARY

The following table summarizes the audited results, assets and liabilities of the Group for the five years ended 31st December 2018.

	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000
Turnover	3,101,031	3,678,169	1,947,027	1,928,147	1,369,590
Loss before taxation	(347,685)	(471,170)	(417,039)	(149,367)	(524,739)
Taxation	(601)	16,737	9,054	43,094	34,050
Minority interest	(77)	(94)	(831)	(627)	(642)
Loss after taxation	(348,209)	(454,339)	(407,154)	(105,646)	(490,047)
Total assets	3,282,871	3,954,871	4,494,129	5,334,231	5,333,257
Total liabilities	(2,697,660)	(3,021,374)	(3,107,238)	(3,593,889)	(3,576,599)
Total equity	585,211	933,497	1,386,891	1,740,342	1,756,658