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 2020

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Corporate Information

DIRECTORS

Executive Directors

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

Independent non-executive Directors

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

COMPANY SECRETARY

Mr. Chung Tin Ming, HKICPA, FCCA

QUALIFIED ACCOUNTANT

Mr. Chung Tin Ming, HKICPA, FCCA

AUDIT COMMITTEE

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

AUTHORIZED REPRESENTATIVES

Mr. Tang Guoqiang
Mr. Shi Jianmin

COMPLIANCE OFFICER

Mr. Zhang Weihua

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

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 2020, the net cash inflow from operating activities before working capital changes and tax and interest payment was approximately RMB159.9 million, which represent an increase of approximately RMB76.4 million as compared to that of approximately RMB83.5 million in year 2019.

— For the year ended 31st December 2020, the loss attributable to shareholders was approximately RMB242 million, which represent a decrease in loss of approximately RMB490 million as compared to a loss of approximately RMB732 million in year 2019. If neglect the change due to the impairment of assets, fair value change of derivative financial assets and provision on valuation loss of convertible bonds and employees' options, the adjusted loss attributable to shareholders in year 2020 was approximately RMB229 million, which represent a decrease in loss of approximately RMB84 million as compare to the adjusted loss of approximately RMB313 million in year 2019.

— Basic loss per share was approximately RMB0.0441 for the year ended 31st December 2020.

— For the year ended 31st December 2020, sale turnover was approximately RMB2,111 million, which represents an increase of approximately 7.5% as compared to year 2019.

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

			% change compare with year 2019	
Type	**Sales amount** (million RMB)	**Sales quantities** (tonnes)	**Sales amount**	**Sales quantities**
BB & compound fertilizers	22	14,964	(15)	(13)
Urea	620	407,162	12	25
Ammonia	699	331,555	20	28
Methanol	757	524,495	(4)	20
Others — trading	13	N/A	8	N/A

— The Directors do not recommend the payment of any final dividend for the year ended 31st December 2020.

Chairman's Statement

TO SHAREHOLDERS

In 2020, the Group and its subsidiaries, which adhered to the development strategy and working plan of focusing on benefits and changing management model, overhauled their performance appraisal program, added a leaders' assessment scheme, and introduced and carried out a series of incentive policies, which enhanced their innovative development and greatly lifted their management level. No major safety and environmental incidents took place throughout the year. Total output, average daily output, consumption and operation days all hit a record high. Guang'an Ko Yo Chemical Industry's synthetic ammonia facility had even been operating for 329 straight days, achieving a historical record. In 2020, the sales work withstood the impact of the COVID-19 epidemic, and there was a balance between production and sales. The Group introduced a competition mechanism, with which sales prices remarkably increased and its sales team learned a lot.

Although it made certain achievements last year, product prices dramatically went down and production failed to continue for a long period. Thus the actual operations fell short of expectations. In view of the Group's financial results in the year under review, the Board does not recommend any final dividend for the year ended 31 December, 2020. During the year ended 31 December, 2020, the Group did not declare any dividends (2020: nil).

OUTLOOK

Industry Review and Outlook

I. Urea production capacity increased, industrial demand weakened, and prices remained weak in 2020

The urea market in China was divided into two stages in 2020. Urea prices during the first nine months of 2020 were lower than those over the same period of the previous year. However, the domestic average ex-factory price of urea in the following three months topped the value over the same period of the previous year and stayed higher than the price range over the same period. Domestic urea prices saw three rounds of significant rise last year. The first round of significant growth occurred in late February, mainly driven by an increase in the demand for nitrogen fertilisers for spring wheat production and replenishment of compound fertiliser plants. However, due to the pandemic, the government released policies to encourage urea producers to produce the compound. So supply began to grow significantly, and prices moved in a descending channel after a short-term surge. The second round of rise appeared in early August. Largely because of India's continuous and urgent procurement via tenders, China's urea exports improved greatly, boosting a constant price markup. Urea prices kept going up until late August. With weakened import demand in India, the domestic urea prices began to move downwards. The end of October saw the third round of growth, driven again by Indian tenders, the steady demands in China's industrial market and purchases by some traders responsible for the state's reserves. In addition, production restrictions for environmental clean-up in major urea-producing regions also added fuels to the price increase. The total urea output stood at around 54.32 million tons in 2020, a year-on-year rise of around 3.78%, compared with the output in 2019. The main reason for the year-on-year increase in urea production is that the government attached importance to grain safety and increased the supply of chemical fertilisers and other agricultural raw materials, ensuring the production of chemical fertiliser producers. Especially in the first half of 2020, production restrictions for environmental clean-up and limits on natural gas supply had a weaker impact on urea producers than in 2019. According to statistics from Anyunsi, the ex-factory prices of urea averaged RMB1,678/ton in 2020, while the average price in major urea-producing regions dropped by RMB164/ton year on year from RMB1,842/ton in 2019.

The urea output in 2021 is expected to increase from 2020, with an additional production capacity of 5.84 million tons to be available. In terms of agricultural demands, a surge in domestic grain prices in 2020 will raise farmers' enthusiasm to grow grain. Farms are expected to spend more buying chemical fertilisers in 2021. As far as industrial demands concerned, as the pandemic has been effectively controlled in China, the domestic industrial urea demands may grow in 2021, coupled with a potential turnaround of tripolycyanamide, plywood and other downstream industries. Due to the COVID-19 pandemic, countries, including the United States, India, Russia and Canada, have listed chemical fertilisers as basic and necessary supplies, and global urea demands will increase more than expected. Growth in global urea demands in 2021 will help boost China's urea exports, which are expected to rise year on year.

In the first quarter of 2021, the domestic urea demands will mainly come from the use of fertilisers in spring and the procurement of compound fertilisers. Furthermore, the national commercial reserves of chemical fertilisers will continue. Urea prices are expected to stay at a high level in the first quarter. The peak production season for high-nitrogen compound fertilisers will give a support to the urea demands in the early second quarter of 2021, but urea from the national commercial reserves will be put on the market in the later stage, which will have an impact on the market price. In addition, the domestic urea output is expected to go up significantly in the second quarter, the release of winter fertiliser reserves and new production capacity will further increase the supply pressure in the domestic market. The urea prices are expected to be on a downward movement. The domestic urea prices in the third quarter of 2021 will mainly depend on the international markets and Indian tenders. Due to expectations of growth in global chemical fertiliser demands amid the pandemic, China's urea exports will be strong during the period, which will give a boost to the domestic urea market where the demands are weak. Attention needs to be paid on the demands in the international markets and the national commercial reserves of chemical fertilisers in the fourth quarter of this year. The urea prices are expected to gain support, and the overall price range may stay at medium and high levels.

II. Methanol prices showed a downward trend in 2020 amid the pandemic

Affected by the COVID-19 pandemic, methanol prices moved downwards amid fluctuations in the first three quarters of 2020. The ex-factory prices in southwestern methanol-producing regions, northwestern regions and eastern regions fell to RMB1,450/ton, RMB750-1,200/ton and RMB1,500/ton, respectively, all touching a new low. Statistics from Oilchem.net showed that the ex-factory prices of methanol in Sichuan and Chongqing averaged RMB1,769/ton in 2020, a year-on-year decrease of RMB348/ton or 16.47%. The full-year production capacity in China totalled 93.47 million tons, up 7.03% from the previous year, while overseas capacity rose 4.88% to 69.03 million tons. Methanol industry's profits were redistributed due to downward price movements. Except that producers of olefins, as a new downstream product, made a high profit, the traditional downstream products, including formaldehyde, acetic acid and dimethyl ether, faced meager profits or even incurred losses. Prices of methanol, an upstream product, were mainly below the cost line. Due to the increasing severity of the epidemic overseas, overseas methanol demands shrank dramatically, and more methanol flowed into the domestic market, leading to continuous new highs of methanol imports in 2020. The total imports in the year may exceed 12 million tons. However, with a surge in imports, there was an obvious difference between methanol imported from Iran and non-Iranian methanol. That is to say, there was much Iranian methanol and the price was low, while non-Iranian methanol was small in quantity but was priced high. The buying prices and selling prices were basically flat. In the meantime, the increase in imports pushed up methanol inventories in eastern and southern ports. High inventory and low storage capacity became normal. Since the beginning of the fourth quarter of 2020, methanol prices in

Chairman's Statement

Mainland have rebounded thanks to the commencement of high-standard production in olefin facilities, centralised outsourcing of the raw material for coal-to-olefins (CTO) process in northwestern China, gas price increases/gas usage limits, as well as restrictions on production in methanol-producing regions, and hit the year high in December.

With the gradual weakening of the bearish factor, COVID-19 outbreak, the global spending is expected to rise gradually in 2021, which may support methanol prices in moving upwards. From the perspective of methanol fundamentals, both the supply and demand of methanol will increase in 2021. The supply side will be mostly concentrated in inland China, such as northwestern and southern parts, in which the newly-added production capacity may reach around 9.2 million tons. Demands will mainly come from ports, with new demands likely to reach 7.99 million tons. Therefore, disparities between inland regions and ports may exist in 2021. Sales in northwestern regions will grow greatly, but the contradiction between supply and demand in inland market will further intensify. A tight balance between supply and demand is likely to occur with a decrease in supply and an increase in demand due to the indefinite shutdowns of some facilities in foreign countries. The overall methanol FOB prices are estimated to remain strong, and more methanol will flow from inland regions to ports.

To sum up, the global economy tends to recover in the first half of next year, the linkage of crude oil may be enhanced, and the macro-level support for the methanol industry may be relatively obvious. However, Methanol supply will be relatively loose and the support for demand will be relatively insufficient. So although the overall methanol market in China in 2021 should be better than that in 2020, its height is temporarily limited. Methanol prices tend to be weak in the first half of next year, but may go up amid fluctuations in the second half because of the implementation of incentives like the 14th Five-Year Plan and an increase in new downstream demands for methanol fuels.

III. The downstream demands for synthetic ammonia were not impressive and its prices fluctuated and moved lower in 2020

Synthetic ammonia production in China edged up 1.98% year on year to 49.45 million tons in 2020, according to statistics from Oilchem.net. Affected by the pandemic, the output in the first two months was slightly lower than that over the same period of the previous year. The figure began to gradually rise after March due to resumption of production. After the second quarter, synthetic ammonia output increased faster than that over the same period of the previous year, and the growth rate was more remarkable from September to December. The market prices of synthetic ammonia averaged RMB2,628/ton in 2020, a year-on-year decline of RMB319/ton or 10.8% from the previous year's RMB2,947/ton.

Synthetic ammonia prices slumped in the first quarter of 2020 due to the pandemic. The ex-factory prices began to go down in January, when the Spring Festival was approaching. Due to the COVID-19 outbreak during the Spring Festival holiday in February, factories postponed production and transportation was strictly controlled, causing a sharp drop in synthetic ammonia prices. Companies in the upstream and downstream industries began to resume production in late March. Benefitting from free passage on highways and expressways and logistics recovery, synthetic ammonia prices bounced back. However, its prices fell to the bottom in the second quarter of 2020. Companies in the downstream industries saw a decline in facility operation rate in Q2, the slack season for fertiliser application, and the market prices of synthetic ammonia continuously went down in April. In May, synthetic ammonia prices dropped to the lowest level for 2020. Driven by production limits in major synthetic ammonia-producing regions, the prices rebounded and remained stable until the end of June. Synthetic ammonia prices basically kept stable at a low level in the third quarter. Its price range showed small fluctuations from July to September because of the overhaul of some companies. The prices surged in the fourth quarter. Synthetic ammonia prices began to move up after the National Day holiday thanks to winter chemical fertilizer reserves, production limits for environmental clean-up, Indian urea tenders, increased facility operation rate in downstream industries, rise in natural gas prices, etc. The market prices of synthetic ammonia had been rising from October to December and climbed to the highest level for the year in December.

Factors that will affect the synthetic ammonia market in 2021 including: 1 As the government has paid more attention to grain safety amid the pandemic, the demands for agricultural materials will grow and the needs for industrial raw materials will gradually increase with successive operation of newly-built facilities, such as caprolactam and acrylonitrile projects, in the downstream industries, which will achieve a balance between supply and demand. 2 As environmental inspections will normalise, air pollution prevention and control policies will continue affecting some production capacities, the range-bound movement in some markets will intensify. 3 Prices of downstream products have gradually rebounded, which will boost the synthetic ammonia market. 4 Imported synthetic ammonia remains the stabiliser and regulating valve in the synthetic ammonia market under many uncertain factors, and will play an important role in complementing and regulating the market in local and phased moves to ensure supply. In conclusion, with steady raw material prices, a slight increase in supply and a rise in downstream demands, the synthetic ammonia market in 2021 is expected to perform better than that in 2020 and will remain choppy.

OBJECTIVES AND STRATEGIES

The outbreak in early 2020 led to a decline in product prices, increased the difficulties in sales and caused volatility in the fertiliser and chemical industries. Besides, methanol prices even fell to the lowest level in recent years. Facing many dilemmas, the Group mainly focused on internal reforms and innovations, in order to strive to catch up with the pace of economic development. In 2021, we will seize the real-time dynamics of changes in the fertiliser and chemical industries and adopt the following strategies and measures to emerge completely from difficulties and keep itself on a right track.

I. The Group will continue stabilising and optimising existing businesses and focus on benefits to promote fine management to achieve a safe, eco-friendly and long-term stable operation

1. It will keep on arranging and coordinating the work with regard to production materials, such as water, electricity and gas, in a bid to provide long-term and high-load operation protection for the plants in Dazhou and Guang'an. It should perform cost-benefit analysis for the production of facilities while ensuring a safe and long-term operation. With monitoring, calculation and early warning every day, efforts will be made to adjust and optimise production arrangement and operation load in time to ensure the best operation benefits.

2. The Group will proactively carry out the accident prevention mechanism and systematically upgrade the maintenance and analysis of equipment to ensure production safety and continuous, stable long-term operation.

Chairman's Statement

3. Centring on the goal of "fine management", it will step up efforts to facilitate the implementation of measures of "increasing revenue but reducing expenditure, lowering costs but improving benefits", with a view to cutting operating costs and cash outflows.

4. The sales team will retain high-quality core end-users, deeply tap the market potential, attract new end-users, expand dialect-based sales in the product market and expand its high-priced products to more regions. In the meantime, differentiated urea products will be put on the market to meet its sales target. Also, the fullest use of financial instruments will be made to ensure hedging with futures.

5. It will proactively seek cooperation funds and seek approval for and promote the operation commencement and construction of new projects.

II. Ko Yo Chemical (Group) will map out plans to energetically develop the fine chemical industry and move on a right track of sound development

1. The 300,000 tons/year dimethyl carbonate project of Dazhou Ko Yo Chemical Industry

Dazhou Ko Yo Chemical Industry plans to make full use of its existing equipment to build the project, which will save investment costs and shorten the construction period. A two-step process using urea will be used to produce propylene carbonate, ethylene carbonate and dimethyl carbonate. Alcoholysis of urea for synthesis is easy to operate under mild conditions and it is immune to the difference in prices just like that in prices of epoxypropane and 1,2-propylene glycol in the traditional transesterification process. The raw materials used in the alcoholysis route are all products or emissions of Dazhou Ko Yo Chemical Industry's already-built facilities, which can bring greater competitive advantages. Moreover, utilities, including water, electricity, gas and steam, and other ancillary facilities required by this project will fully rely on Dazhou Ko Yo Chemical Industry's projects already completed and put into production in the Dazhou Hi-tech Industrial Park, which can save a lot of investment costs. Meanwhile, the project's raw materials, including urea, methanol, liquid ammonia and carbon dioxide, come from the existing facilities. The cost of the raw materials is low and it almost involves no transportation cost, which will create a big cost advantage. Upon completion and operation, the project will bring a new profit growth point to the company.

2. Guang'an Ko Yo Chemical Industry's hexamethylenediamine project with a production capacity of 400,000 tons/year and 800,000 tons/year nylon 66

This project is situated in the Xinqiao Chemical Industry Park, Guang'an Economic and Technological Development Zone, Sichuan. It uses propylene and hydrogen as raw materials to produce new chemical materials, including hard-foam polyether, polymer polyol (POP), polyether polyol (PPG) and hydrogen peroxide (27.5%), through advanced processes using hydrogen peroxide, epoxypropane, polyether and so forth. According to PCI's annual report, hexamethylenediamine demands will grow 2.3% on average in 2015-2025. Hexamethylenediamine is mainly used to produce nylon 66. Under the trend of light weight, environmental protection and energy conservation, the demand for nylon 66 in the automotive industry is rising continuously. Due to the expansion of the market for downstream nylon 66 and other engineering plastics, the domestic demands for adiponitrile and hexamethylenediamine have increased by an average of more than 15% annually. As it is urgent to make a breakthrough in the industrial production of adiponitrile to gain the pricing and decision-making rights in adiponitrile and nylon 66, the government has released relevant policies to strongly encourage and support the development of the adiponitrile industry.

3. **Guang'an Hongyuan Technology's 300,000 tons/year PBAT and 200,000 tons/year PBS project**

The project is designed to have a production capacity of 2×50,000 tons of polybutyrate adipate terephthalate (PBAT) per year in the first phase and a production capacity of 200,000 tons of PBAT and 200,000 tons of polybutylene succinate (PBS) per year in the second phase. With the full use of the former Guang'an Ko Yo New Materials' equipment, improvements will be made to the facility in the first phase, which will save investment costs, shorten the construction period and achieve results quickly. The project is expected to scale up production and generate investment returns within half a year and revitalise the former company's non-performing assets. Terephthalic acid (PTA), adipic acid, butanedioic acid and 1,4-butanediol (BDO) will be used as raw materials to produce degradable polymers, including PBAT and PBS, through new energy-saving, eco-friendly processes. The products are widely used in packages, tableware, cosmetic and medicine containers, disposable medical supplies, agricultural film, pesticide and chemical fertiliser slow-release materials, biomedical polymer materials, etc. In line with the national industrial policies, the project will create good economic benefits, which is of important strategic significance to promoting the development of local economy, enhancing the profitability of the company and realizing the leap-forward development. The investment for the project totals around RMB800 million, with RMB300 million and around RMB500 million for the first and second phases respectively. The construction work for first phase had been started. The project is expected to create an output value of RMB8 billion.

The companies are mapping out plans to build the above three new projects, which will utilise their existing resources, expand their product range, extend the industrial chain and optimise the industrial layout. Upon operation, the projects will help Ko Yo Chemical (Group) get out of crisis, move on a right track of sound development and transform from a traditional chemical enterprise to a large modern chemical conglomerate.

ACKNOWLEDGEMENT

Looking back over the past year, the epidemic spread across the country at the beginning of the year and post-epidemic era came in the second half, so the chemical fertiliser and chemical industries fluctuated. Under the leadership of the management, all employees pooled wisdom and strength to arrange production and sales work by centring on benefits. Their working method and style have improved greatly. The new year is a crucial year for the Group to "promote fine management, achieve stable growth and excellent operation". It is also a year for us to turn losses into gains and press ahead with reforms in an all-round way. Under the organization and leadership of the Board, we will seize new opportunities, meet new challenges and strive to achieve the goal of profitability. Furthermore, with the completion and operation, the Group's new projects will become its new profit growth engines, which will also greatly enhance its core competitiveness and lay a firm foundation for its sustainable and stable development. We have every reason to believe that with the continuous turnaround of the macroeconomic situation together with its own efforts, the Group shall get out of predicaments gradually and have a better development prospect in future.

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

Tang Guoqiang
Chairman

30 March 2021

Business Review

FINANCIAL PERFORMANCE

Results

For the year ended 31st December 2020, the Group remained focused on manufacture and distribution of chemical fertilizers and chemical products, including BB Fertilizers and complex fertilizers, methanol, urea and ammonia.

During the year under review, the Group recorded turnover of approximately RMB2,111 million, an increase of 7.5% as compared to last year. The increase in turnover was mainly due to the increase sales of urea and ammonia. The loss attributable to shareholders of the Company amounted to approximately RMB242 million, representing a decrease in loss of approximately RMB490 million as compared to last year. Basic loss per share amounted to approximately RMB0.0441.

Cost and profit margin

Cost of sales of the Group amounted to approximately RMB2,077 million, representing an increase of 6.1% as compared to the figure in 2019. The major reasons of increase in cost of sales were due to the increase in sales quantities.

Gross profit margin of the Group increased approximately from 0.3% in 2019 to 1.6% in 2020. The increase in the gross profit margin was due to the increase in production volume.

During the year under review, distribution costs decreased approximately by 2.2% as compared with last year. The decrease in distribution cost was due to effective cost control. The ratio of the distribution costs over sales was 1.23% in 2020 which was 0.12% lower than those in 2019.

In comparison with last year, there was a decrease in administrative expenses of the Group by approximately 34.2% from approximately RMB124.9 million in 2019 to approximately RMB82.2 million in 2020. The decrease in administrative expenses is mainly due to effective cost control.

Other income increased from approximately RMB5.5 million in 2019 to approximately RMB23.8 million in 2020. It was mainly due to the reversal of impairment loss on mining right and the increase in subsidy income in 2020. Details are set out in Note 8 to consolidated financial statement. Other expenses amounted to approximately RMB21.0 million in 2020 (2019: approximately RMB418.4 million). The decrease in other expenses in 2020 was mainly due to relatively large amount of impairment losses on the production equipments of the phase II of Dazhou plant and the loss on issuance of convertible bonds were in 2019. Details are set out in Note 9 to consolidated financial statement.

The Group's income tax expenses in 2020 amounted to approximately RMB19.4 million. Details of tax schemes are set out in Note 11 to consolidated financial statements.

Dividends

Considering the Group's result during the year under review, the Directors do not recommend the payment of any final dividend for the year ended 31st December 2020. The Group has not declared any dividend for the year ended 31st December 2020 (2019: Nil).

PRODUCTS

Sales of the Group's products for the year 2019 and 2020 are as follows:

	Turnover in year 2020		Turnover in year 2019		**Percentage Change in turnover**
	RMB'000	**Composite %**	RMB'000	Composite %	%
BB & compound fertilizers	**22,000**	**1.0**	26,000	1.3	(15)
Urea	**620,000**	**29.4**	554,000	28.2	12
Ammonia	**699,000**	**33.1**	583,000	29.7	20
Methenol	**757,000**	**35.9**	789,000	40.1	(4)
Others — Trading	**13,000**	**0.6**	12,000	0.7	8

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

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31st December 2020, the Group had net current liabilities of approximately RMB2,184,193,000 Current assets as at 31st December 2020 comprised cash and bank deposits of approximately RMB14,539,000 pledged bank deposits of approximately RMB29,593,000 inventories of approximately RMB72,467,000, trade receivables of approximately RMB74,000, and prepayments and other current assets of approximately RMB160,733,000. Current liabilities as at 31st December 2020 comprised short-term borrowings of approximately RMB1,886,250,000, trade and notes payables of approximately RMB21,811,000, contract liabilities of approximately RMB159,903,000 and accrued charges and other payables of approximately RMB393,635,000. 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 2020, the Group had outstanding capital commitments of approximately RMB77,588,000. Details of the Group's capital commitments are set out in Note 35 to the consolidated financial statements.

FINANCIAL RESOURCES

As at 31st December 2020, the Group had cash and bank deposits of approximately RMB14,539,000 and pledged bank deposits of approximately RMB29,593,000. 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 2020, the total borrowings, convertible bonds and notes payable balances of the Group amounted to approximately RMB2,174,182,000.

GEARING RATIO

The Group's gearing ratios were approximately 99% and 90% as at 31st December 2020 and 31st December 2019 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 26 to the consolidated financial statements.

Business Review

CONTINGENT LIABILITIES

The Group had no significant contingent liabilities as at 31st December 2020.

MATERIAL ACQUISITION/DISPOSAL

There was no material acquisition or disposal in the year 2020 which would have been required to be disclosed under the Rules Governing the Listing of Securities ("Listing Rules") on Stock Exchange.

SEGMENTAL INFORMATION

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

DETAILS OF FUTURE PLANS FOR MATERIAL INVESTMENT OR CAPITAL ASSETS

Save as disclosed of the plans stated in the chairman's statement of this annual report and in the circular dated 4 December 2020, 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 2020, land use rights with a total net book value of approximately RMB106,411,000 (2019: approximately RMB109,094,000), property, plant and machinery with a total net book value of approximately RMB1,360,938,000 (2019: approximately RMB1,538,018,000), investment properties with a total net book value of approximately RMB55,850,000 (2019: approximately RMB57,694,000), mining right with a total net book value of approximately RMB318,000,000 (2019: approximately RMB309,456,000), and bank deposits approximately RMB29,593,000 (2019: approximately RMB30,116,000) were pledged as collateral for the Group's borrowings and notes payable.

NUMBER OF EMPLOYEES

As at 31st December 2020, the Group had 648 (2019: 696) employees, comprising 5 (2019: 5) in management, 101 (2019: 112) in finance and administration, 529 (2019: 569) in production and 13 (2019: 10) in sales and marketing, 643 (2019: 691) of these employees were located in the PRC and 5 (2019: 5) were located in Hong Kong.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

For the year ended 31 December 2020, 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 25 to 38 of the annual report.

Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Tang Guoqiang, aged 63, is an Executive Director and chairman of the Board. Mr. Tang has over 30 years of management experience. He obtained a high school diploma from Jiangsu Province Liyang Middle School in 1977. Mr. Tang was previously the general manager of Liyang Economic Development Corporation from May 1990 to August 1996. From November 2003 to April 2007, he was an executive director of Zhenjiang Runfeng Real Estate Development Company Limited. He was the chairman of Shunfeng International Clean Energy Ltd. (stock code: 1165), a listed company on the Main Board of the Stock Exchange, from July 2011 to July 2013. Since March 2015, he has been the chairman of Liyang Huakan Jianda Health Company Limited.

Mr. Shi Jianmin, aged 53, 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 58, is an Executive Director and the compliance officer of the Group. Mr. Zhang has over 33 years of management experience. He has been the deputy chairman and general manager of Changzhou Kangmei Chemical Industry Co., Ltd. since 1995, the chairman of Jiangsu Kangtai Biomedical Science Technology Co., Ltd. since 2009, and the chairman of Jiangsu Kangtai Holdings Group Co., Ltd. since 2011. Mr. Zhang was a member of the National People's Congress representing Jintan city from 2003 to 2017.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Hu Xiaoping, aged 70, 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 63, is an Independent Non-Executive Director of the Group. He obtained his doctorate degree from the Institute of Economics at Shanghai Academy of Social Sciences in 1993. Mr. Shi joined Fudan University as a post-doctorate researcher in 1993 and maintained a teaching role at Fudan University on a full-time basis thereafter. Mr. Shi is currently serving as a tutor and professor in economics at Fudan University and is also the director of the Center for Public Economy Research at Fudan University. Mr. Shi's main fields of research and teaching include industrial structure and policy, modern enterprise theory and practice and modern economics in China. Mr. Shi has won numerous provincial level research and teaching awards. Mr. Shi was appointed as a special advisor to the Shanghai City Government and is also currently a commentator at the China Central Television. He was appointed as an Independent Non-Executive Director of the Group on 15 January 2017.

Directors and Senior Management

Mr. Xu Congcai, aged 69, is an Independent Non-Executive Director of the Group. He received a bachelor degree in political economics from Anhui University of Finance and Economics (formerly known as Anhui Institute of Finance and Trade) in 1982, and in 1998, received a doctorate in economics from the School of Economics, Fudan University. Mr. Xu was admitted to the Special Allowance Program for Outstanding Experts sponsored by the State Council. In 1996, he was recognized as a Young and Middle-aged Expert with Outstanding Contribution. In 2002, he began to serve as an instructor for doctoral candidates to be admitted to the industrial economics programs in Renmin University of China. Currently, he is a professor at Nanjing University of Finance and Economics, a vice president at the Commerce Economy Association of China, a member of the Seventh Session of the Higher Education Institution Approval Committee under the Ministry of Education (from 2017 to 2021), and an executive dean of Taihu University of Wuxi. In addition, Mr. Xu is an independent director of Daqian Ecology and Landscape Co. Ltd. He was previously an independent director of Wuxi Rural Commercial Bank. He was appointed as an Independent Non-Executive Director of the Group on 1 August 2017.

SENIOR MANAGEMENT

Mr. Chung Tin Ming, aged 50 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. Li Ciping, aged 54, 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.

Mr. Wen Jinfu, aged 58, 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.

Mr. Rui Yongsheng, aged 52, is the vice president of the Group, who is mainly responsible for the financial, legal and supply chain management of the Group. He was graduated from the Nanjing Audit University in 1989 with major in finance. Mr. Rui joined Koyo Group in December 2019.

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 2020.

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 2020 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 2020 (2019: Nil).

SHARE CAPITAL

Details of movements in share capital of the Company are set out in Note 26 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 28 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31st December 2020 amounted to approximately RMB(457,896,000) (2019: approximately RMB(243,056,000)).

RIGHTS OF DIRECTORS AND EMPLOYEES TO ACQUIRE SHARES OR DEBENTURES

A summary of the principle terms and conditions of the share option schemes are set out in the circulars of the Company dated 18th September 2020 and 29th August 2008.

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 15 to the consolidated financial statements.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The Directors who held office during the year ended 31st December 2020 and up to the date of this report are:

Executive Directors

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

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. Shi Jianmin and Mr. Zhang Weihua 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. Mr. Shi Jianmin and Mr. Zhang Weihua have no basic salary. Mr. Shi Jianmin is entilited to a discretionary bonus which approximately 3% and may not execeed 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 schemes (the "Share Option Schemes") adopted on 18 September 2008 and 9 October 2020. The details of the Share Option Schemes can be found in the circular of the Company dated 29 August 2008 and 18 September 2020, and Note 27 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 Schemes

The Board may, subject to and in accordance with the provisions of the Share Option Schemes, 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 Schemes, 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 adopted on 18 September 2008 had been expired on 17 September 2018.

During the year ended 31st December 2020, 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 2020 ('000)	Grant during period ('000)	Exercised during period ('000)	Forfeited/ Lapsed during period ('000)	Held at 31 December 2020 ('000)	*Share Options A ('000)	*Share Options B ('000)	*Share Options C ('000)
Directors (31.12.2020)								
Tang Guoqiang	–	–	–	–	**–**	–	–	–
Shi Jianmin	–	300,000	–	–	**300,000**	–	–	300,000
Zhang Weihua	–	–	–	–	**–**	–	–	–
Hu Xiaoping	1,200	–	–	(800)	**400**	400	–	–
Shi Lei	–	–	–	–	**–**	–	–	–
Xu Congcai	–	–	–	–	**–**	–	–	–
Employees	8,700	–	–	(3,400)	**5,300**	3,800	1,500	–
Total	9,900	300,000	–	(4,200)	**305,700**	4,200	1,500	300,000

* Share Options A: Grant at 28 March 2013, exercisable from grant date until 27 March 2023 with exercise price HK$0.595.
Share Options B: Grant at 22 June 2016, exercisable from grant date until 21 June 2026 with exercise price HK$0.151.
Share Options C: Grant at 23 October 2020, exercisable from grant date until 22 October 2030 with exercise price HK$0.141.

DIRECTORS' INTERESTS IN SHARES

As at 31st December 2020, the interests and short positions of the Directors and Chief Executives in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) to be recorded in the register required to be kept under section 352 of the SFO; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in Listing Rules were as follows:

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

Directors (as at 31.12.2020)	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	9,080,000,000	9,180,000,000	167.27%
Shi Jianmin	200,300,000	300,000,000	500,300,000	9.17%
Zhang Weihua	500,000,000	1,020,000,000	1,520,000,000	27.70%
Hu Xiaoping	–	400,000	400,000	0.01%

Note: As at 31 December 2020, among 8,500,000,000 out of the 9,180,000,000 in the aggregate long position in shares and underlying shares of Mr. Tang Guoqiang belongs to the convertible bonds that had not been issued. The details of the subscription of convertible bonds stated in the announcement of the Company dated 28 September 2020. As at 31 December 2020, China Mass Enterprises Limited is indirectly owned by Mr. Zhang Weihua through Jiangsu Kang Tai Holdings Group Limited which held a total amount of 500,000,000 shares of the Company and an amount of HK$110,160,000 convertible bonds of the Company which can be converted into 1,020,000,000 shares of the Company.

Report of the Directors

SUBSTANTIAL SHAREHOLDERS

As at 31st December 2020, so far as is known to any Director or Chief Executive of the Company, the following person (not being a director or a Chief Executive of the Company) had an interest or short positions in the shares or underlying shares of the Company which are required to be notified to the Company and the Stock Exchange under Divisions 2 and 3 of Part XV of the SFO and recorded in the register required to be kept under section 336 of the SFO, and who were directly or indirectly deemed to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company.

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

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

Note: As at 31 December 2020, 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 2020, so far as is known to any Director or Chief Executive of the Company and save as disclosed above, no person had an interest or short positions in the shares or underlying shares of the Company which are required to be notified to the Company and the Stock Exchange under Divisions 2 and 3 of Part XV of the SFO and recorded in the register required to be kept under section 336 of the SFO, and who were directly or indirectly deemed to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company.

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

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

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

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

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

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

Outstanding Convertible Securities

As at 31 December 2020, the outstanding convertible securities (the "Convertible Securities 1") that issued on 13 November 2014 can convert into 1,002,675,000 shares (the "Shares") of the Company, the outstanding convertible securities (the "Convertible Securities 2") that issued on 31 January 2019 can convert into 360,000,000 Shares, the outstanding convertible securities (the "Convertible Securities 3") that issued on 15 March 2019 can convert into 950,000,000 Shares and the outstanding convertible securities (the "Convertible Securities 4") that issued on 28 September 2020 can convert into 500,000,000 Shares. Assuming all outstanding convertibles securities converted into shares as at 31 December 2020, set out below is the shareholding structure of the Company before and after such conversion:

As at 31/12/2020	No. of shares before conversion of outstanding convertible securities	% of holdings	No. of shares from conversion of outstanding convertible securities	No. of shares after conversion of outstanding convertible securities	% of holdings
Directors					
Mr. Tang Guoqiang	100,000,000	1.82	580,000,000	680,000,000	8.19
Mr. Shi Jianmin	200,300,000	3.65	–	200,300,000	2.42
Mr. Zhang Weihua	500,000,000	9.11	1,020,000,000	1,520,000,000	18.31
Others					
Mr. Cheng Kin Ming	800,000,000	14.58	1,001,375,000	1,801,375,000	21.70
Public	3,887,742,599	70.84	211,300,000	4,099,042,599	49.38
Total	5,488,042,599	100.00	2,812,675,000	8,300,717,599	100.00

Report of the Directors

The diluted loss per shares for the year ended 31 December 2020 assuming all outstanding convertible securities being converted was RMB0.0291 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 2020 and the cash flow from the operation of the Company, the Company did not has its ability to meet its redemption obligations under Convertible Securities 1 and Convertible Securities 2, Convertible Securities 3 and Convertible Securities 4. The maturity dates of Convertible Securities 1, Convertible Securities 2, Convertible Securities 3 and Convertible Securities 4 are 12 November 2024, 30 January 2024, 14 March 2024 and 27 September 2025 respectively.

Based on the implied internal rate of returns and other relevant parameters of Convertible Securities 1, Convertible Securities 2, Convertible Securities 3 and Convertible Securities 4, the share prices at which it would be equally financially advantageous for the securities holders to convert or redeem for the end of year 2021 to 2023 were as follows:

Convertible Securities

Date	**31-12-2021**	**31-12-2022**	**31-12-2023**
Convertible Securities 1			
Share price (HK$)	0.271	0.278	0.286
Convertible Securities 2			
Share price (HK$)	0.123	0.127	0.132
Convertible Securities 3			
Share price (HK$)	0.122	0.126	0.131
Convertible Securities 4			
Share price (HK$)	0.146	0.151	0.157

ISSUE OF HK$988.5 MILLION OF CONVERTIBLE BONDS

As disclosed in the announcements dated 28 September 2020, the Company issued convertible bonds in an amount of HK$70,500,000 with conversion price of HK$0.141 per share of the company, 5% annual interest rate and maturity on the 5th anniversary of the issue date of convertible bonds to Mr. Tang Guoqiang in the first tranche and entered into the second supplemental deed with Mr. Tang Guoqiang to increase the remaining principal amount of convertible bonds to HK$918,000,000 with conversion price of HK$0.108 per share of the Company, 5% annual interest rate and maturity on the 5th anniversary of the issue date of convertible bonds. Net proceeds from the issue of Convertible Bonds was approximately HK$986,000,000. The net proceeds will be used as follows: 1) approximately HK$230 million will be used for establishment of a new production line of dimethyl carbonate in Dazhou plant; 2) approximately HK$350 million will be used for establishment of a new production line of polybutylene adipate terephthalate in Guangan New Material plant; 3) approximately HK$250 million will be used for a new production line of nylon 66 in Guangan Chemical Plant and 4) the remaining balance of approximately HK$156 million will be used as general working capital of the Group. A principal amount of HK$918,000,000 of the convertible bonds had not yet completed as at the dated of this annual report. The first tranche principal amount of HK$70,500,000 with approximately HK$3,602,000 had been used for the Dazhou new production line, approximately HK$65,691,000 had been used for the PBAT production line and approximately HK$1,207,000 had been used for the nylon 66 production line.

SUFFICIENCY OF PUBLIC FLOAT

Based on the public information available to and within the knowledge of the Directors, it is confirmed that there is sufficient public float of more than 25% of the Company's issued shares at 30 March 2021.

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 three members comprising the three Independent Non-Executive Directors, namely, Mr. Hu Xiaoping, Mr. Shi Lei and Mr. Xu Congcai.

The audit committee has reviewed with management the accounting principles and practices adopted by the Company and the Group and discussed internal controls and financial reporting matters including a review of the audited financial statements of the Company and the Group for the year ended 31 December 2020.

Report of the Directors

As described in Note 2 to the consolidation financial statements and the section headed "Going Concern and Mitigation Measures" in the Corporate Governance Report, conditions existed such to indicate the existence of material uncertainties which may cast significant doubt regarding the Group's ability to continue on a going concern. The audit committee had reviewed the auditor's disclaimer of opinion solely on the going concern (the "Disclaimer Opinion") in the Independent Auditor's Report and the going concern and mitigation measures of the management (the "Management") of the Group. The audit committee is in agreement with the Management with respect to the Disclaimer Opinion and the Group's ability to continue as a going concern, and in particular the actions and measures to be implemented by the management of the Group.

The audit committee's views are based on a strict review of the management of the Group's actions and measures, current operating situation and future development of the Group's plants, and the cash flow position of the Group in 2020, and also the discussions with the Management and the Auditor regarding the Disclaimer Opinion. The audit committee is of the view that the Management should continue its efforts in implementing the actions and measures set out in the section Going Concern and Mitigation Measures with the intention of mitigating the Group's liquidity pressure and removing the Disclaimer Opinion.

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 2020, the five largest customers accounted for approximately 32.9% of the Group's total turnover and the five largest suppliers of the Group accounted for approximately 86.4% of the Group's total purchases. The largest customer of the Group accounted for approximately 9.1% of the Group's total turnover and the largest supplier accounted for approximately 43.4% 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 39 to 44 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 29 May 2020.

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

On behalf of the Board,

Tang Guoqiang
Chairman

30 March 2021

Environmental, Social, Governance Report

SCOPE AND REPORTING PERIOD

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

The Group is principally engaged in the research and development, manufacture, marketing and distribution of chemical fertilizers and chemical products. This ESG report covers the Group's overall performance in two subject areas, namely, Environmental and Social of the Dazhou Ko Yo Chemical Industrial Co., Limited ("Dazhou") and Guangan Ko Yo Chemical Industry Co., Limited & Guangan Lotusan Natural Gas Chemicals Co., Limited ("Guangan") in Sichuan Province, Mainland China from 1 January 2020 to 31 December 2020 (the "Reporting Period"), unless otherwise stated. The operation in New Material was suspended during the Reporting Period, and thus it has been excluded from the reporting scope.

The board of directors of the Company (the "Board") acknowledges that it has overall responsibility for the Group's ESG strategy and reporting and for evaluating and determining the Group's ESG-related risks. The Group has complied with all the "comply or explain" provisions set out in the ESG Reporting Guide during the Reporting Period.

THE GROUP'S MISSION AND VISION ON SUSTAINABILITY COMMITMENT

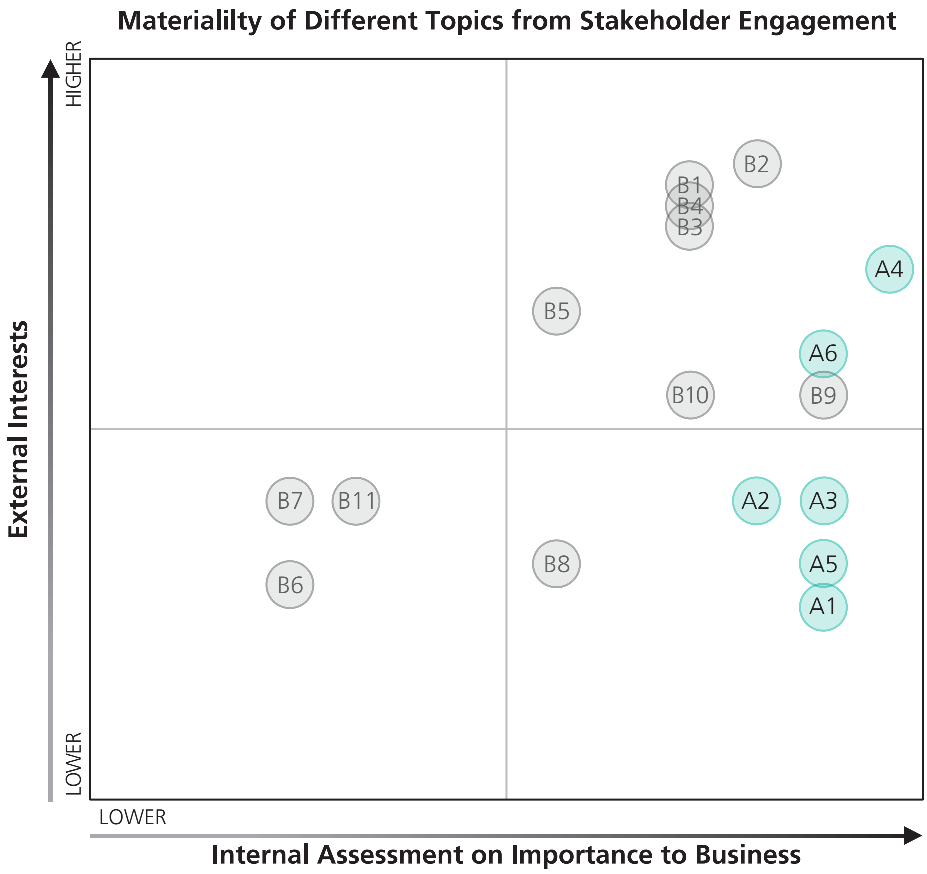
With the increasing government's support on non-state-owned economy with various policies, the Group expects to continue expanding its business operations and production capacity. The Group is committed to maintaining the stability of its business and providing employment opportunities to the communities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

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

The Group keeps implementing three management systems — ISO 9001 Quality management System, ISO 14001 Environmental Management System, and ISO 50001 Energy Management System — in an integrative manner. In addition, the Group takes notice of the legal and standard updates and ensures that it is fully prepared to comply with more stringent regulations.

STAKEHOLDER ENGAGEMENT AND MATERIALITY

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



Environmental

A1	Energy
A2	Water
A3	Air Emission
A4	Waste and Effluent
A5	Other Raw Materials Consumption
A6	Environmental Protection Measures

Social

B1	Employment
B2	Occupational Health and Safety
B3	Development and Training
B4	Labor Standards
B5	Supplier Management
B6	Intellectual Property
B7	Data Protection
B8	Customer Service
B9	Product/Service Quality
B10	Anti-corruption
B11	Community Investment

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

- Waste and Effluent
- Occupational Health and Safety
- Employment
- Labour Standards
- Environmental Protection Measures

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.

A. ENVIRONMENTAL

A1. Emissions

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

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

— Air Pollution Prevention and Control Law of the PRC

— Atmospheric Pollution Prevention and Control Law of the PRC

— Environmental Protection Law of the PRC

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

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

— Law of the PRC on Environmental Impact Assessment

— Soil Pollution Prevention and Control Law of the PRC

— Water Pollution Prevention and Control Law of the PRC

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

Environmental, Social, Governance Report

A1.1 Air Emissions

During the Reporting Period, natural gas was extensively used for the manufacturing process. Relatively small amount of natural gas was also used in the canteens. Moreover, various types of vehicles (passenger cars, vans, and other mobile machinery) using petrol and diesel were used for daily commuting and business travel. As a result, the Group contributed to the emissions of 54,064 kg of nitrogen oxides ("NOx"), 135 kg of sulphur oxides ("SOx") and 9 kg of respiratory suspended particles ("PM").

A1.2 Greenhouse Gas Emissions

The Group's operation contributed to 953,820.46 tonnes of carbon dioxide equivalent ("tCO_2e") (carbon dioxide, methane, nitrous oxide and hydrofluorocarbons) emission, with an intensity of intensity of 31.38 tonnes/m^2 of total production area and 0.7 tonnes/ton of total chemical products produced. Similar to the last Reporting Period, emission from on-site natural gas combustion (scope 1) remains the highest among other GHG sources, followed by emission from purchased natural gas and purchased electricity (scope 2).

Scope of Greenhouse Gas Emissions	Emission Sources		Emission (in tonnes of carbon dioxide equivalent "tCO_2e")	Total Emission (in %)
Scope 1 Direct emissions	Combustion of fuels in stationary sources	Natural Gas	712,793.20	74.7%
	Combustion of fuels in mobiles sources	Diesel	63.36	
		Petrol	52.71	
Scope 2 Energy indirect emission	Purchased electricity		238,003.12	25.0%
Scope 3 Other indirect emissions	Paper waste disposed at landfills		2.59	0.3%
	Electricity used for processing fresh water by third parties		2,853.41	
	Electricity used for processing sewage by third parties		42.68	
	Business air travel by employees		9.39	
Total			**953,820.46**	**100%**

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

Note 2: Combined margin emission factor of 0.9014 tCO_2/MWh was used for purchased electricity in Sichuan, China.

Note 3: Emission factors were referred 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 145.87 tonnes of hazardous waste was generated from the Group's production, representing an intensity of 0.0048 tonnes/m^2 of total production area and 0.00011 tonnes/ton of total chemical products manufactured, during the Reporting Period. The hazardous wastes generated by the Group's business activities mainly consist of waste chemical catalyst, waste chemical solutions and waste oil. Hazardous waste is collected by a third party for recycling.

A1.4 Non-hazardous Waste

A total of 57.04 tonnes of non-hazardous waste was generated, with an intensity of 0.0018 tonnes/m^2 of total production area and 0.042 kg/ton of total chemical products manufactured, during the Reporting Period. The non-hazardous waste generated from the Group's production mainly consist of package waste, domestic waste, paper waste, and industrial waste such as waste packaging materials and other types of waste that cannot be recycled during the maintenance process. Non-hazardous waste is collected by a recycling company.

A1.5 Measures to Mitigate Emissions

The Group manages its carbon footprint by minimizing energy consumption. High-pressure boiler and low nitrogen converting burner has been installed to enhance energy efficiency and reduce pollution. Furthermore, the Group aims to reduce energy loss by the provision of routine repair and maintenance of equipment.

A1.6 Wastes Handling and Reduction Initiatives

The Group properly manages and disposes of all waste produced in its operation. During the Reporting Period, all hazardous waste, mainly waste solutions and waste oil from production, was collected and repurposed by qualified parties. Non-hazardous waste was collected and incinerated by qualified waste companies. The Group gradually adopts a paperless office culture to further reduce the environmental impact caused from office operation. The Group will continue to its effort to reduce waste in its operation.

A2. Use of Resources

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

A2.1 Energy Consumption

Energy Consumption Sources	Consumption (in various unit)	Consumption (in kilowatt hours "kWh")
Electricity	264,037,189 kWh	264,037,189
Natural Gas	349,890,028 m^3	3,457,642,691
Petrol	19,815 litres	175,594
Diesel	23,437 litres	234,331
Total		3,722,089,805

The Group's business operations resulted in a total energy consumption of 3.72 billion kWh from the use of diesel, electricity, LPG, natural gas and petrol, with an overall energy intensity of 122,468 kWh/m^2 and 2,723 kWh/ton of total product manufactured.

A2.2 Water Consumption

The Group sourced water for industrial use from nearby water supply plants. There was no issue in sourcing water during the Reporting Period. The total water consumption for the Group was 6,729,747 m^3, with an overall intensity of 211.43 m^3/m^2 of total production area and 4.92 m^3/ton of total chemical products manufactured.

Wastewater

A total amount of 213,423 m^3 of wastewater was discharged from the Group, representing an intensity of 7.02 m^3/m^2 of total production area and 0.16 m^3/ton of total chemical products manufactured, during the Reporting Period. The Group is equipped with on-site wastewater treatment facilities at all operation sites with treatment processes such as grit removal, chemical sedimentation and aeration. Wastewater is treated to meet the Discharge Standard of Water Pollutants for Ammonia Industry before it is discharged into the public sewage system. Automatic sampler for water monitoring has been introduced to further safeguard the water quality of the wastewater discharge.

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

Parameters	Discharge Limits	Average Detected Valued
Chemical Oxygen Demand	200mg/L	18.77mg/L
Total Suspended Solid	100mg/L	24.89mg/L
Ammonia Nitrogen	50mg/L	4.57mg/L
Total Nitrogen	60mg/L	8.88mg/L
pH	6~9	7.51

A2.3 Energy Use Efficiency Initiatives

Natural gas was consumed for manufacturing process and canteen of the Group. Energy efficient production lines and equipment were used to reduce energy consumption while maintaining the quantity and quality of production.

A2.4 Water Use Efficiency Initiatives

The Group reuses wastewater as much as possible to minimize the amount of wastewater discharged and replenishment of fresh water for manufacturing process.

A2.5 Packaging Material

The major packaging material used by the Group are packaging bags for containing fertilizer. During the Reporting Period, 1,265 tonnes of packaging materials were used for the production and product packaging, representing an intensity of 0.042 m^3/m^2 of total production area and 0.93 kg/ton of total chemical products manufactured. All packaging materials had no hazardous contents.

A3. The Environment and Natural Resources

A3.1. Significant Impacts of Activities on the Environment

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

B. SOCIAL

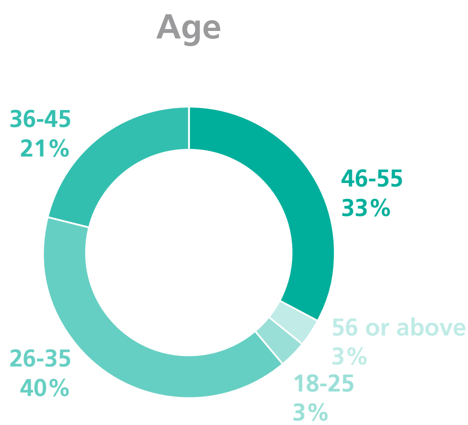
1. Employment and Labour Practices

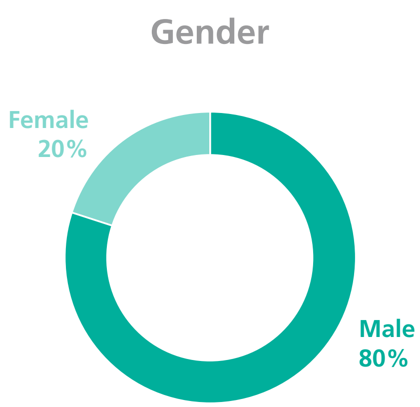
The Group complies with the Labour Law of the PRD, the Labour Contract Law of the PRC, and the Social Insurance Law of the PRC. The Group has established policies to regulate compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination,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

B1. Employment

The Group had a total number of 558 employees as of 31 December 2020. All of them were full time employees from the PRC.

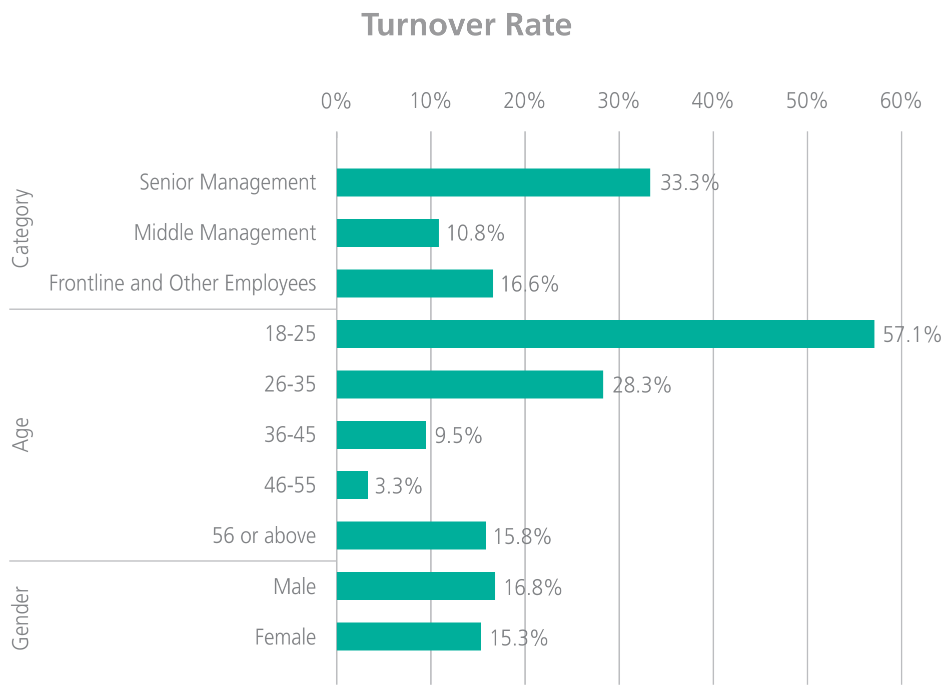
During the end of Reporting Period, the total workforce by employment category, age group and gender are as follows.





Turnover

A total number of 92 full-time employees from the PRC left the Group during the Reporting Period, representing an annual turnover rate of 16.5%. The employee turnover rate by gender, age group in the Reporting Period are as follows:



Compensation and Benefits Package

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

Appraisal System

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

Equal Opportunity

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

Staff Communication

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

B2. Employee Health and Safety

The Group recognises the importance of occupational health and safety, and strives to provide a safe working environment to its employees. The Group strictly complies with national and local laws, regulations and practice, including but not limited to the Law of the PRC on the Prevention and Control of Occupational Diseases and Measures for the Supervision and Administration of Employers' Occupational Health Surveillance. During the Reporting Period, there was no material non-compliance in relation to health and safety laws and regulations.

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

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

- The Group applies high power exhaust fan and air conditioning in the workplace, and makes sure that all ventilation systems has been properly operated and maintained to ensure a healthy indoor environment;
- The Group systematically identifies and closely monitors any occupational hazards in the workplace;
- The Group has provided annual Occupational health test to its employees, and the Group will examine further about the possible treatment schemes if any cases are found;

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

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

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

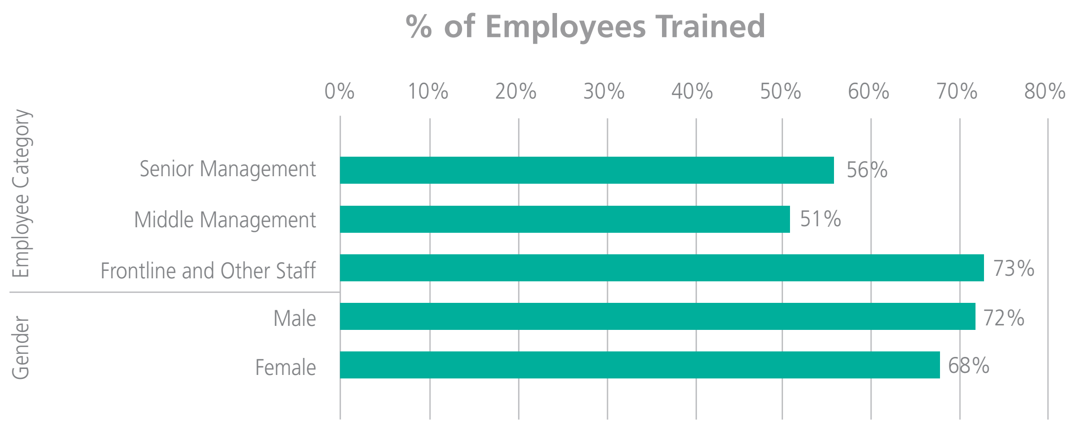
	Occupational Health and Safety Data				
	2020	**2019**	**2018**	**2017**	**2016**
Work related fatality	0	0	0	0	0
Work injury cases ≥3 days	0	1	0	1	1
Work injury cases <3 days	0	0	0	0	0
Lost days due to work injury	0	97	0	60	118

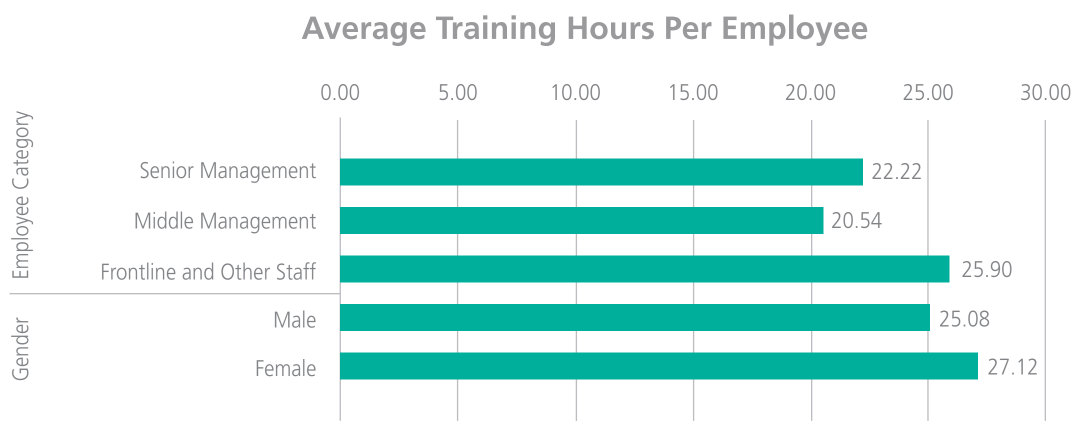
B3. Development and Training

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

Environmental, Social, Governance Report

During the Reporting Period, the Group provided a total of 14,220 hours of training to 400 employees. The details of staff training for 2020 are as follows:





B4. Labour Standards

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

2. Operating Practices

B5. Supply Chain Management

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

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

During the Reporting Period, the Group engaged a total no. of 320 suppliers from Mainland China for the distribution and sales services, and the supply of raw materials, tools and equipment, chemical supplements, and personal protective gears.

B6. Product Responsibility

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

During the Reporting Period, the Group did not receive any complaints relating to product quality and customer experience, which were resolved through communication with the clients. No product recalls were needed. The Group is committed to making improvements to enhance not only product qualities, but also customer experiences.

Environmental, Social, Governance Report

Intellectual Property Right

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

Consumer Data Protection

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

B7. Anti-corruption

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

B8. Community Investment

The Group does not have policies on community engagement. Nevertheless, it attaches great importance to the responsibility to work in partnership with the local communities. During the Reporting Period, the Group organised two visits to underprivileged families, giving them gifts including food and fertilizers.

Corporate Governance Practices

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

THE BOARD OF DIRECTORS

Board composition

The Board of directors currently comprises six directors of which three are Executive Directors and three are Independent Non-Executive Directors as at 31 December 2020. The detail is as follow:

Executive Directors
Mr. Tang Guoqiang *(Chairman)*
Mr. Shi Jianmin
Mr. Zhang Weihua

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 2020. 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.

Corporate Governance Practices

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 2020, 10 board meetings and 3 shareholders' meetings 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	10/10	100%	2/3	67%
Mr. Shi Jianmin	10/10	100%	3/3	100%
Mr. Zhang Weihua	10/10	100%	3/3	100%
Independent Non-Executive Directors				
Mr. Hu Xiaoping	10/10	100%	3/3	100%
Mr. Shi Lei	10/10	100%	3/3	100%
Mr. Xu Congcai	10/10	100%	3/3	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.

Corporate Governance Practices

DIRECTORS' SECURITIES TRANSACTION

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

REMUNERATION OF DIRECTORS

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

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

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

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

NOMINATION OF DIRECTORS

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

Attendants	Number of meetings attended/total	Attendance percentage
Independent Non-Executive Directors		
Mr. Hu Xiaoping	1/1	100%
Mr. Shi Lei	1/1	100%
Mr. Xu Congcai	1/1	100%

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. Shi Jianmin and Mr. Zhang Weihua 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 records are as follow:

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

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

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

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

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

Corporate Governance Practices

GOING CONCERN AND MITIGATION MEASURES

During the year 2020, the Group had certain litigations with banks as described in Note 40 to the consolidation financial statements that the Group is still in negotiations with banks on the repayment schedule, together with others as described in Note 2 to the consolidation financial statements, indicated the existence of material uncertainties which may cast significant doubt on the Group's ability to continue as a going concern. The Group's ability to continue as a going concern is largely dependent on the ongoing availability of finance supports from the bankers to the Group and the profitability of the Group's plants.

A number of measures have been undertaken to improve the Group's liquidity and financial position.

1) The Group has been actively negotiating with a number of banks for renewal or restructuring of the loans;

2) As at 28 September 2020, the Company had entered into the second supplemental deed with Mr. Tang Guoqiang to increase the remaining principal amount of convertible bonds to HK$918,000,000 for financing the Group's development;

3) With the completion of the Group's new production line for PBAT within this year and the development of other new projects as stated in the Chairman's Statement of this annual report, it is believed that the liquidity and profitability of the Group can be improved and the the Group can handle the litigations with banks; and

4) The Group will continue to take active measures to control the administrative costs.

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

INDEPENDENT EXTERNAL AUDITORS

In 2020, 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 45 and 46 of this annual report.

The audit committee has resolved the re-appointment of ZHONGHUI ANDA CPA Limited for the financial year 2021. 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)

DISCLAIMER OF OPINION

We were engaged to audit 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 47 to 107, which comprise the consolidated statement of financial position as at 31 December 2020, 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.

We do not express an opinion on the consolidated financial statements of the Group. Because of the significance of the material uncertainty relating to the going concern basis described in the Basis for Disclaimer of Opinion section of our report, it is not possible for us to form an opinion on these consolidated financial statements. In all other respects, in our opinion, the consolidated financial statements have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR DISCLAIMER OF OPINION

Going Concern

We draw attention to note 2 to the consolidated financial statements which mentions that during the year 2020, the Group had certain litigations with banks as disclosed in note 40 to the consolidated financial statements that the Group is still in negotiations with banks on the repayment schedule, and the Group incurred a loss of approximately RMB241,802,000 for the year ended 31 December 2020 and as at 31 December 2020 the Group had net current liabilities of approximately RMB2,184,193,000. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern.

The consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the successful outcome that certain measures to improve its financial position, to provide liquidity and cash flows. The consolidated financial statements do not include any adjustments that would result from the failure to improve its financial position, to provide liquidity and cash flows. We consider that the material uncertainty has been adequately disclosed in the consolidated financial statements. However, in view of the extent of the uncertainty relating to the successful outcome that certain measures to improve its financial position, to provide liquidity and cash flows, we disclaim our opinion in respect of the material uncertainty relating to the going concern basis.

Independent Auditor's Report

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 Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (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 responsibility is to conduct an audit of the Group's consolidated financial statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA and to issue an auditor's report. However, because of the significance of the material uncertainty relating to the going concern basis described in the Basis for Disclaimer of Opinion section of our report, it is not possible for us to form an opinion on these consolidated financial statements.

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.

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

Hong Kong, 30 March 2021

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
Revenue	7	**2,111,133**	1,964,476
Cost of sales		**(2,076,920)**	(1,958,077)
Gross profit		**34,213**	6,399
Distribution costs		**(26,041)**	(26,617)
Administrative expenses		**(82,150)**	(124,894)
Other income — net	8	**23,753**	5,504
Other expenses	9	**(20,988)**	(418,368)
Operating loss		**(71,213)**	(557,976)
Finance income	10	**865**	348
Finance expenses	10	**(152,091)**	(154,614)
Loss before tax		**(222,439)**	(712,242)
Income tax expense	11	**(19,363)**	(19,570)
Loss and total comprehensive loss for the year	12	**(241,802)**	(731,812)
Attributable to:			
Equity holders of the Company		**(241,779)**	(731,564)
Non-controlling interests		**(23)**	(248)
		(241,802)	(731,812)
Loss per share attributable to the equity holders of the Company during the year (expressed in RMB per share)			
— Basic	14	**(0.0441)**	(0.1598)
— Diluted	14	**(0.0441)**	(0.1598)

Consolidated Statement of Financial Position

As at 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	*15*	**2,019,822**	2,202,156
Investment properties	*16*	**55,850**	57,694
Right-of-use assets	*17*	**110,777**	109,384
Mining right	*18*	**318,000**	309,456
Other intangible assets	*19*	**108**	378
Deferred income tax assets	*31*	**65,284**	82,319
		2,569,841	2,761,387
Current assets			
Inventories	*22*	**72,467**	77,055
Trade and other receivables	*23*	**160,807**	104,094
Pledged bank deposits	*24*	**29,593**	30,116
Cash and cash equivalents	*25*	**14,539**	10,110
		277,406	221,375
Total assets		**2,847,247**	2,982,762
EQUITY			
Equity attributable to owners of the Company			
Share capital	*26*	**474,879**	474,879
Reserves	*28*	**(457,896)**	(243,056)
		16,983	231,823
Non-controlling interests		**1,534**	1,557
Total equity		**18,517**	233,380

Consolidated Statement of Financial Position

As at 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
LIABILITIES			
Non-current liabilities			
Long-term borrowings	*29*	–	428,300
Convertible bonds	*30*	**287,932**	223,599
Deferred income tax liabilities	*31*	**76,790**	74,655
Lease liabilities	*34*	**2,409**	–
		367,131	726,554
Current liabilities			
Trade and other payables	*32*	**412,299**	355,579
Contract liabilities	*33*	**159,903**	204,667
Provision for tax		**1,152**	1,152
Short-term borrowings	*29*	**1,886,250**	1,302,714
Current portion of long-term borrowings	*29*	–	158,419
Lease liabilities	*34*	**1,995**	297
		2,461,599	2,022,828
Total liabilities		**2,828,730**	2,749,382
Total equity and liabilities		**2,847,247**	2,982,762
Net current liabilities		**(2,184,193)**	(1,801,453)
Total assets less current liabilities		**385,648**	959,934

The consolidated financial statements on pages 47 to 107 were approved and authorised for issue by Board of Directors on 30 March 2021 and are signed on behalf of the Board by:

Director	*Director*

Consolidated Statement of Changes in Equity

For the year ended 31 December 2020

	Attributable to equity holders of the Company											
	Share capital RMB'000	Share premium RMB'000	Merger reserve RMB'000	Share options reserve RMB'000	Convertible bonds reserve RMB'000	Reserve fund RMB'000	Enterprise expansion fund RMB'000	Accumulated loss RMB'000	Transaction with non-controlling interests RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2019	368,394	1,409,065	(22,041)	28,269	224,903	45,273	1,131	(1,468,079)	(3,509)	583,406	1,805	585,211
Total comprehensive loss for the year	–	–	–	–	–	–	–	(731,564)	–	(731,564)	(248)	(731,812)
Issuance of convertible bonds	–	–	–	–	302,283	–	–	–	–	302,283	–	302,283
Issue of shares:												
— Matured during the year	–	–	–	–	(5,956)	–	–	5,956	–	–	–	–
— Conversion of bonds	106,485	110,107	–	–	(138,894)	–	–	–	–	77,698	–	77,698
At 31 December 2019	474,879	1,519,172	(22,041)	28,269	382,336	45,273	1,131	(2,193,687)	(3,509)	231,823	1,557	233,380
Balance at 1 January 2020	**474,879**	**1,519,172**	**(22,041)**	**28,269**	**382,336**	**45,273**	**1,131**	**(2,193,687)**	**(3,509)**	**231,823**	**1,557**	**233,380**
Total comprehensive loss for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(241,779)**	**–**	**(241,779)**	**(23)**	**(241,802)**
Issuance of convertible bonds	**–**	**–**	**–**	**–**	**19,418**	**–**	**–**	**–**	**–**	**19,418**	**–**	**19,418**
Share-based payments	**–**	**–**	**–**	**7,521**	**–**	**–**	**–**	**–**	**–**	**7,521**	**–**	**7,521**
At 31 December 2020	**474,879**	**1,519,172**	**(22,041)**	**35,790**	**401,754**	**45,273**	**1,131**	**(2,435,466)**	**(3,509)**	**16,983**	**1,534**	**18,517**

Consolidated Statement of Cash Flows

For the year ended 31 December 2020

	2020 RMB'000	2019 RMB'000
Cash flows from operating activities		
Loss before tax	(222,439)	(712,242)
Adjustments for:		
Lease interest expenses	127	37
Depreciation of property, plant and equipment	211,958	216,946
Depreciation of investment properties	1,844	1,844
Depreciation of right-of-use assets	3,839	3,555
Amortisation of other intangible assets	270	270
Loss on disposal of property, plant and equipment	750	529
Share-based payment	7,521	223,058
Interest revenue	(832)	(348)
Interest expense	151,964	154,509
Exchange (gain)/loss	(33)	68
Impairment loss on goodwill	–	7,701
(Reversal of impairment loss)/impairment loss on mining right	(8,544)	299
Impairment loss on property, plant and equipment	13,467	187,310
Operating cash flows before working capital changes	159,892	83,536
Decrease/(increase) in inventories	4,588	(13,272)
(Increase)/decrease in trade and other receivables	(56,713)	18,113
(Decrease)/increase in trade and other payables	(5,323)	4,853
(Decrease)/increase in contract liabilities	(44,764)	62,997
Decrease in deferred subsidy income	–	(622)
Cash generated from operations	57,680	155,605
Lease interests expenses paid	(127)	(37)
Tax paid	(193)	–
Interest paid	(50,785)	(120,896)
Net cash generated from operating activities	6,575	34,672

Consolidated Statement of Cash Flows

For the year ended 31 December 2020

	2020 RMB'000	2019 RMB'000
Cash flows from investing activities		
Purchases of property, plant and equipment and payments for construction-in-progress	(59,396)	(111,467)
Proceeds from disposal of property, plant and equipment	246	236
Increase in pledged bank deposits	523	(5,777)
Interest received	832	348
Net cash used in investing activities	(57,795)	(116,660)
Cash flows from financing activities		
Issuance of convertible bonds	59,924	229,501
Repayments of convertible bonds	–	(13,359)
Proceeds from borrowings	584,982	660,300
Repayments of borrowings	(588,165)	(787,956)
Repayment of lease liabilities	(1,125)	(865)
Net cash generated from financing activities	55,616	87,621
Net increase in cash and cash equivalents	4,396	5,633
Cash and cash equivalents at beginning of year	10,110	4,545
Exchange gain/(loss)	33	(68)
Cash and cash equivalents at end of year	14,539	10,110

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

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

During the year 2020, the Group had certain litigations with banks as disclosed in note 40 to the consolidated financial statements that the Group is still in negotiations with banks on the repayment schedule, and the Group incurred a loss of approximately RMB241,802,000 for the year ended 31 December 2020 and as at 31 December 2020 the Group had net current liabilities of approximately RMB2,184,193,000. 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 the view of the directors of the Company, the Group had a net operating cash inflow of approximately RMB6,575,000 during the year and the Group's business is under normal operations. In order to improve the Group's financial position, to provide liquidity and cash flows and sustain the Group as a going concern, the Group has been implementing a number of measures, including but not limited to:

(i) The Group is actively negotiating with Group's bankers to renew and/or restructure the borrowings;

(ii) As at 28 September 2020, the Company had entered into the second supplemental deed with Mr. Tang Guoqiang to increase the remaining principal amount of convertible bonds to HK$918,000,000 for financing the Group's development;

(iii) With the completion of the Group's new production line for PBAT within this year and the development of other new projects as stated in the section of the Chairman's Statement of this annual report, it is believed that the liquidity and profitability of the Group can be improved and the Group can handle the litigations with banks; and

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

In addition, the management of the Group is expect that sufficient sales orders will be secured in the coming year.

On the basis that the Group can successfully completed the certain measures as mentioned above to improve its operating results and cash flows, the directors of the Company believe that the Group will have sufficient funds to finance its current working capital requirements in the next twelve months from the end of the reporting date. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

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 2020. HKFRSs comprise Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards; and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's consolidated financial statements and amounts reported for the current year and prior years.

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

4. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

Consolidation

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Consolidation *(Continued)*

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

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

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

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

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

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

Business combination and goodwill

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combination and goodwill *(Continued)*

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

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

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

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

Foreign currency translation

(i) Functional and presentation currency

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment

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

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

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

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

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

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

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

Investment properties

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

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

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

Mining rights

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases

The Group as lessee

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

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

The Group as lessor

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

Construction permits

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

Inventories

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

Recognition and derecognition of financial instruments

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial assets

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

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

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

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

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

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

Loss allowances for expected credit losses

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Cash and cash equivalents

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

Financial liabilities and equity instruments

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

Convertible bonds

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

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

Financial guarantee contract liabilities

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

— the loss allowance; and

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

Borrowings

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Trade and other payables

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

Equity instruments

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

Share-based payment transactions

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

(a) Share options

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

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

- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and

- including the impact of any non-vesting conditions (for example, the requirement for employees to save).

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payment transactions *(Continued)*

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

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

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

The equity component is not remeasured subsequent to initial recognition.

Revenue from contracts with customers

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

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

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

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

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

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

Interest revenue

Interest revenue is recognised using the effective interest method.

Other income

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Employee benefits

(a) Employee leave entitlements

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

(b) Pension obligations

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

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

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

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

Borrowing costs

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Government grants

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

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

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

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

Taxation

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

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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

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

Related parties

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

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

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

   (ii) has significant influence over the Group; or

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

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

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

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of assets

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

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

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

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

Provisions and contingent liabilities

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

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

Events after the reporting period

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

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Critical judgements in applying accounting policies

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

(a) Going concern basis

These consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the successful outcome that certain measures to improve its financial position, to provide liquidity and cash flow. Details are explained in note 2 to consolidated financial statements.

Key sources of estimation uncertainty

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

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

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

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

(b) Impairment of mining right

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

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

Key sources of estimation uncertainty *(Continued)*

(c) Income taxes

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

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

6. FINANCIAL RISK MANAGEMENT

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

(a) Foreign exchange risk

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

(b) Cash flow and fair value interest rate risk

The Group's interest rate risk mainly arises from pledged bank deposits and borrowings. Long-term borrowing issued at variable rates expose the Group to cash flow risk which is partially offset by cash held at variable rates. The Group's pledged bank deposits, short-term borrowings and convertible bonds were issued at fixed rates and exposed the Group to fair value interest rate risk. During 2020 and 2019, 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 2020, 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 nil (2019: post-tax loss increased/decreased by approximately RMB1,173,000), mainly as a result of higher/lower interest expense on floating rate borrowings.

6. FINANCIAL RISK MANAGEMENT *(Continued)*

(c) Credit risk

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

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

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

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

— internal credit rating;

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

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

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

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

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

6. FINANCIAL RISK MANAGEMENT *(Continued)*

(c) Credit risk *(Continued)*

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

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

(d) Liquidity risk

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

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

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000
At 31 December 2020			
Trade and other payables	**374,509**	**–**	**–**
Short-term borrowings	**1,886,250**	**–**	**–**
Convertible bonds	**–**	**–**	**436,864**
Interest payment on borrowings and convertible bonds	**132,168**	**25,775**	**54,550**
At 31 December 2019			
Trade and other payables	329,440	–	–
Short-term borrowings	1,302,714	–	–
Long-term borrowings	158,419	164,500	263,800
Convertible bonds	–	–	376,940
Interest payment on borrowings and convertible bonds	140,817	49,535	84,815

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 RMB2,184 million as at 31 December 2020 (2019: approximately RMB1,801 million). The Group is actively negotiating with Group's bankers to renew and/or restructure the borrowings.

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

	2020 RMB'000	2019 RMB'000
Financial assets:		
Financial assets at amortised cost (including cash and cash equivalents)	**128,011**	51,716
Financial liabilities:		
Financial liabilities at amortised cost	**2,548,691**	2,442,472

(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.

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For the year ended 31 December 2020

7. REVENUE

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

Disaggregation of revenue from contracts with customers

Geographical information

For the years ended 31 December 2020 and 2019, all revenue is derived from the PRC.

Major products	2020 RMB'000	2019 RMB'000
BB & compound fertilizers	21,778	25,823
Urea	620,441	553,786
Ammonia	699,022	583,047
Methanol	757,369	788,864
Others-trading	12,523	12,956
	2,111,133	1,964,476

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

Timing of revenue recognition

For the years ended 31 December 2020 and 2019, 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 16% for the years ended 31 December 2020 and 2019.

The Group has a number of customers and revenue generated from top two customers accounted for 8.10% (2019: 10.42%) and 4.94% (2019: 10.12%) respectively of the Group's revenue during the year.

Sale of chemical products and chemical fertilizers

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

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

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

8. OTHER INCOME — NET

	2020 RMB'000	2019 RMB'000
Deferred subsidy income recognised	–	622
Subsidy income	8,929	3,733
Rental income, net	3,551	3,205
Reversal of impairment loss on mining right	8,544	–
Others, net	2,729	(2,056)
	23,753	5,504

9. OTHER EXPENSES

	2020 RMB'000	2019 RMB'000
Share-based payment	7,521	223,058
Impairment losses on goodwill	–	7,701
Impairment losses on mining right	–	299
Impairment losses on property, plant and equipment	13,467	187,310
	20,988	418,368

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

10. FINANCE EXPENSES — NET

	2020 RMB'000	2019 RMB'000
Finance income:		
Exchange gain	(33)	–
Interest revenue	(832)	(348)
	(865)	(348)
Finance expenses:		
— leases interests expenses	127	37
Interest expense:		
— bank borrowings	106,928	109,404
— convertible bonds	46,607	45,820
Less: capitalisation in construction-in-progress	(1,635)	(716)
	152,027	154,545
Exchange loss	–	68
Others	64	1
	152,091	154,614
Finance expenses — net	151,226	154,266

11. INCOME TAX EXPENSE

No provision for profits tax in the Cayman Islands, British Virgin Islands or Hong Kong has been made, as the Group had no assessable profit arising in or derived from those jurisdictions during the years ended 31 December 2020 and 2019.

The applicable income tax rate of other subsidiaries located in Mainland China in 2020 and 2019 is 25%.

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

	2020 RMB'000	2019 RMB'000
PRC Corporate Income Tax for Mainland China	193	–
Deferred income tax	19,170	19,570
	19,363	19,570

11. INCOME TAX EXPENSE *(Continued)*

The taxation on the Group's loss before income tax differs from the theoretical amount that would arise using the taxation rate of 25% (2019: 25%). The difference is analysed as follows:

	2020	2019
	RMB'000	RMB'000
Loss before tax	**(222,439)**	(712,242)
Tax calculated at a taxation rate of 25% (2019: 25%)	**(55,610)**	(178,060)
Tax rate difference	**4,740**	23,567
Expenses not deductible for tax purposes	**22,099**	47,622
Tax losses previously recognised and reversed	**9,508**	21,696
Tax losses for which no deferred income tax was recognised	**37,605**	58,004
Temporary differences for which no deferred income tax was recognised	**1,230**	46,828
Income not subject to tax	**(209)**	(87)
Income tax expense	**19,363**	19,570

12. LOSS FOR THE YEAR

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

	2020	2019
	RMB'000	RMB'000
Cost of inventories sold	**2,060,505**	1,944,164
Depreciation of property, plant and equipment	**211,958**	216,946
Depreciation of investment properties	**1,844**	1,844
Depreciation of right-of-use assets	**3,839**	3,555
Amortisation of other intangible assets	**270**	270
Auditors' remuneration — Audit services	**1,620**	1,584
Loss on disposal of property, plant and equipment	**750**	529
Staff costs including directors' emoluments		
Salaries, bonus and allowances	**63,524**	74,620
Retirement benefits scheme contributions	**1,583**	2,068
Share options	**7,521**	–
	72,628	76,688

Cost of inventories sold includes staff costs, depreciation of property, plant and equipment and expenses related to short-term lease of approximately RMB2,060,505,000 (2019: approximately RMB1,944,164,000) which are included in the amounts disclosed separately above.

13. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The remuneration of every director for the years ended 31 December 2020 and 2019 is set out below:

	Fees RMB'000	Share options RMB'000	Total RMB'000
Executive directors			
Mr. Shi Jianmin	–	7,521	7,521
Mr. Tang Guoqiang	540	–	540
Mr. Zhang Weihua	–	–	–
Name of independent non-executive directors			
Mr. Hu Xiaoping	180	–	180
Mr. Shi Lei	180	–	180
Mr. Xu Congcai	180	–	180
Total for 2020	1,080	7,521	8,601

	Fees RMB'000	Share options RMB'000	Total RMB'000
Executive directors			
Mr. Shi Jianmin	–	–	–
Mr. Tang Guoqiang	528	–	528
Mr. Zhang Weihua	–	–	–
Mr. Li Weiruo *(Note ii)*	–	–	–
Name of non-executive directors			
Mr. Zhang Fubo *(Note i)*	183	–	183
Name of independent non-executive directors			
Mr. Hu Xiaoping	176	–	176
Mr. Shi Lei	176	–	176
Mr. Xu Congcai	176	–	176
Total for 2019	1,239	–	1,239

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

(a) Directors' emoluments *(Continued)*

Note:

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

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

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include one (2019: one) director whose emoluments is reflected in the analysis presented above. The emoluments of the remaining four (2019: four) individuals are set out below:

	2020 RMB'000	2019 RMB'000
Salaries and other benefits	3,060	1,911
Retirement benefit scheme contributions	40	116
	3,100	2,027

The emoluments fell within the following bands:

	Number of individuals	
	2020	2019
Nil to HK$1,000,000	4	4

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

14. LOSS PER SHARE

Basic

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

Diluted

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

Potential ordinary shares arising from the assumed conversion of convertible bonds and the assumed exercise of share options have not been included in the calculation of diluted loss per share because they are anti-dilutive for the years ended 31 December 2019 and 2020.

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

	2020 RMB'000	2019 RMB'000
Loss		
Loss for the purpose of calculating basic and diluted earnings per share	**(241,779)**	(731,564)

	2020 '000	2019 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic and diluted earnings per share	**5,488,043**	4,579,275

15. 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 2019	905,383	2,369,682	12,566	23,195	362,316	3,673,142
Additions	6,787	105,434	–	28	18,314	130,563
Disposals	–	(792)	(2,454)	(248)	–	(3,494)
At 31 December 2019	**912,170**	**2,474,324**	**10,112**	**22,975**	**380,630**	**3,800,211**
Additions	**–**	**2,858**	**36**	**1,382**	**39,811**	**44,087**
Disposals	**(126)**	**(1,795)**	**(2,469)**	**(253)**	**–**	**(4,643)**
Transferred from/(to) construction-in progress	**–**	**8,747**	**–**	**–**	**(8,747)**	**–**
At 31 December 2020	**912,044**	**2,484,134**	**7,679**	**24,104**	**411,694**	**3,839,655**
Accumulated depreciation and impairment loss						
At 1 January 2019	(104,393)	(879,545)	(8,642)	(22,415)	(181,533)	(1,196,528)
Depreciation	(12,988)	(202,718)	(547)	(693)	–	(216,946)
Disposals	–	574	1,964	191	–	2,729
Impairment loss	–	(4,637)	–	–	(182,673)	(187,310)
At 31 December 2019	**(117,381)**	**(1,086,326)**	**(7,225)**	**(22,917)**	**(364,206)**	**(1,598,055)**
Depreciation	**(12,989)**	**(197,191)**	**(390)**	**(1,388)**	**–**	**(211,958)**
Disposals	**2**	**1,263**	**2,181**	**201**	**–**	**3,647**
Impairment loss	**–**	**–**	**–**	**–**	**(13,467)**	**(13,467)**
At 31 December 2020	**(130,368)**	**(1,282,254)**	**(5,434)**	**(24,104)**	**(377,673)**	**(1,819,833)**
Net book amount						
At 31 December 2020	**781,676**	**1,201,880**	**2,245**	**–**	**34,021**	**2,019,822**
At 31 December 2019	794,789	1,387,998	2,887	58	16,424	2,202,156

All the Group's buildings are located in Mainland China. As at 31 December 2020, property, plant and equipment with a total net book value of approximately RMB1,360,938,000 (2019: approximately RMB1,538,018,000) were pledged as collateral for the Group's bank borrowings.

The Group carried out reviews of the recoverable amount of its construction-in-progress in 2019 and 2020 as a result of the deterioration of the markets of the Group's products. The reviews led to the recognition of an impairment loss of approximately RMB13,467,000 (2019: approximately RMB187,310,000), that has been recognised in profit or loss. The recoverable amount of the relevant assets of approximately RMB34,021,000 (2019: approximately RMB16,424,000) has been determined on the basis of their value in use using discounted cash flow method (level 3 fair value measurements). The discount rate used was 10% (2019: 10%).

For the year ended 31 December 2020, borrowing costs of approximately RMB1,635,000 (2019: approximately RMB716,000) have been capitalised in the construction-in-progress.

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16. INVESTMENT PROPERTIES

	2020 RMB'000	2019 RMB'000
Cost		
As at 1 January and 31 December	**73,052**	73,052
Accumulated depreciation and impairment loss		
As at 1 January	**(15,358)**	(13,514)
Charge for the year	**(1,844)**	(1,844)
As at 31 December	**(17,202)**	(15,358)
Net book value		
As at 31 December	**55,850**	57,694
Fair value as at 31 December	**82,200**	78,000

All the Group's investment properties are located in Mainland China. As at 31 December 2020, investment properties with a total net book value of approximately RMB55,850,000 (2019: approximately RMB57,694,000) were pledged as collateral for the Group's bank borrowings.

The fair values of the investment properties as at 31 December 2020 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 2020 of approximately RMB5,395,000 (2019: approximately RMB5,049,000) and depreciation charges are included in other income.

As at 31 December 2020, the Group had no unprovided contractual obligations for future repairs and maintenance (2019: Nil).

17. LEASES AND RIGHT-OF-USE ASSETS

Disclosures of lease-related items:

	2020 RMB'000	2019 RMB'000
At 31 December:		
Right-of-use assets		
— Land use rights	106,411	109,094
— Land and buildings	4,366	290
	110,777	109,384
The maturity analysis, based on undiscounted cash flows, of the Group's lease liabilities is as follows:		
— Less than 1 year	2,161	300
— In the second to fifth years, inclusive	2,505	–
	4,666	300
Year ended 31 December:		
Depreciation charge of right-of-use assets		
— Land use rights	2,683	2,683
— Land and buildings	1,156	872
	3,839	3,555
Lease interest expenses	127	37
Expenses related to short-term leases	131	252
Total cash outflow for leases	1,383	1,154
Additions to right-of-use assets	5,232	–

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

As at 31 December 2020, land use rights with a net book value of approximately RMB106,411,000 (2019: approximately RMB109,094,000) were pledged as collateral for the Group's borrowings.

18. 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 19 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 20.

As at 31 December 2020, the mining right with a total net book value of approximately RMB318,000,000 (2019: approximately RMB309,456,000) were pledged as collateral for the Group's bank borrowings.

19. OTHER INTANGIBLE ASSETS

	Goodwill	Construction permits	Total
	RMB'000	RMB'000	RMB'000
Cost			
At 1 January 2019, 31 December 2019 and 31 December 2020	8,900	2,700	11,600
Accumulated amortisation and impairment loss			
At 1 January 2019	(1,199)	(2,052)	(3,251)
Amortisation charge	–	(270)	(270)
Impairment loss	(7,701)	–	(7,701)
At 31 December 2019	**(8,900)**	**(2,322)**	**(11,222)**
Amortisation charge	**–**	**(270)**	**(270)**
At 31 December 2020	**(8,900)**	**(2,592)**	**(11,492)**
Net book amount			
At 31 December 2020	**–**	**108**	**108**
At 31 December 2019	–	378	378

Construction permits represent the permissions granted by the government for the construction of GuangAn Project. Amortisation charge of approximately RMB270,000 (2019: approximately RMB270,000) is included in administrative expenses.

20. IMPAIRMENT OF GOODWILL AND MINING RIGHT

The goodwill (Note 19) and mining right (Note 18) 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:

	2020	2019
Growth rate	**3%**	3%
Discount rate (post-tax discount rate applied to the cash flow projections)	**16.10%**	16.00%
Years of cash flows projection (expected mining period of the phosphate mine)	**33 years**	33 years

Management determined gross margin based on past market prices of the phosphoric acid which are produced from phosphate ore and management's estimation of exploitation and production costs. The discount rate used is post-tax and reflects specific risks relating to the relevant CGU. Expected mining period of the phosphate mine is determined based on extractable reserve of the phosphate mine and the Group's production capacity. The legal life of mining right can be extended upon maturity to enable the Group to conduct mining activities in the expected mining period. Reversal of impairment losses of approximately RMB8,544,000 was provided on mining right for the year ended 31 December 2020 (Impairment losses of approximately RMB299,000 and RMB7,701,000 were provided on mining right and goodwill respectively for the year ended 31 December 2019).

21. 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%

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21. SUBSIDIARIES *(Continued)*

Name *(Note i)*	Place of incorporation/ establishment	Principal activities and place of operation	Particulars of issued share capital	Interest held
Held indirectly:				
Ko Yo Development Company Limited ("Ko Yo Hong Kong")	Hong Kong	Investment holding, Hong Kong	3,000,000 non-voting deferred shares and HK$100 ordinary shares	100%
Chengdu Ko Yo Compound Fertilisers Co., Ltd. ("Chengdu Ko Yo Compound")	Mainland China	Manufacture, research, development and sale of bulk blended fertilisers, Mainland China	RMB15,000,000	100%
Dazhou Ko Yo Chemical Industry Co., Ltd ("Dazhou Ko Yo Chemical") *(Note ii)*	Mainland China	Manufacture and sale of chemical products, Mainland China	RMB350,000,000	100%
Qingdao Ko Yo Chemical Industry Co., Ltd. ("Qingdao Ko Yo Chemical")	Mainland China	Manufacture, research, development and sale of bulk blended fertilisers, Mainland China	USD2,100,000	100%
Hong Kong Cuyo Investment Limited ("Hong Kong Cuyo")	Hong Kong	Investment holding, Hong Kong	HK$4,720,000 ordinary shares	100%
Sichuan Chengyuan Chemical Industry Co., Ltd ("Sichuan Cuyo") *(Note ii)*	Mainland China	Exploration and exploitation of a phosphorous mine, Mainland China	RMB5,000,000	100%
Sichuan Ko Yo Agrochem Co., Ltd ("Ko Yo Agrochem") *(Note ii)*	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%

21. SUBSIDIARIES *(Continued)*

Name *(Note i)*	Place of incorporation/ establishment	Principal activities and place of operation	Particulars of issued share capital	Interest held
Sichuan Ko Chang Technology Co., Ltd ("Ko Yo Ko Chang")	Mainland China	Development of phosphoric acid production technology	RMB10,000,000	55%
Guangan Ko Yo New Material Co., Ltd ("Guangan New Material") *(Note ii)*	Mainland China	Manufacture and sale of engineering plastics, Mainland China	RMB64,000,000	100%
Sichuan KoYo Chemical Sci-tech Development Co., Ltd	Mainland China	Development of chemical production technology, Mainland China	–	100%
Guangan Ko Yo Phos-chemical Technology Co., Ltd ("Guangan Phos")	Mainland China	Manufacture and sale of chemical products, Mainland China	RMB100,000,000	100%
Guangan Ko Yo Commercial and Trading Co., Ltd.	Mainland China	Sale of chemical products and chemical fertilisers, Mainland China	RMB 50,000,000	100%
Guangan Hong Yuan Chemical Co., Ltd.	Mainland China	Sale of chemical products and chemical fertilisers, Mainland China	–	100%
Guangan Hong Yuan Technology Co., Ltd.	Mainland China	Investment holding, Mainland China	–	100%
Sichuan Koyo Advanced Material Co. Ltd.	Mainland China	Investment holding, Mainland China	–	100%
Guangan Qianfeng Koyo Chemical Co., Ltd.	Mainland China	Sale of chemical products and chemical fertilisers, Mainland China	–	100%
Dazhou Koyo New Material Co. Ltd	Mainland China	Sale of chemical products and chemical fertilisers, Mainland China	–	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, Ko Yo Agrochem, Ko Yo GuangAn, Ko Yo Lotusan and Guangan New Material were pledged as collateral for the Group's borrowings. There is no restriction on the subsidiary's ability to transfer funds to its parent in the form of cash dividends or to repay loans or advances.

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

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22. INVENTORIES

	2020 RMB'000	2019 RMB'000
Raw materials	**57,165**	70,068
Finished goods	**15,302**	6,987
	72,467	77,055

There is no inventory written down as at 31 December 2020 (2019: Nil).

23. TRADE AND OTHER RECEIVABLES

	2020 RMB'000	2019 RMB'000
Trade receivables	**74**	867
Note receivables	**10,143**	1,000
Prepayments for raw materials	**40,607**	81,487
Prepayment for property, plant and equipment	**59,600**	–
Other tax receivables	**36,321**	11,117
Due from employees	**7,712**	5,419
Others	**6,350**	4,204
	160,807	104,094

As at 31 December 2020 and 2019, 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 collateravl 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.

	2020 RMB'000	2019 RMB'000
0-90 days	**74**	867

23. TRADE AND OTHER RECEIVABLES *(Continued)*

There is no movement of loss allowance for trade receivables for the years ended 31 December 2020 and 2019.

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 2020			
Weighted average expected loss rate	**0%**	**0%**	
Receivable amount (RMB'000)	**74**	**–**	**74**
Loss allowance (RMB'000)	**–**	**–**	**–**
At 31 December 2019			
Weighted average expected loss rate	0%	0%	
Receivable amount (RMB'000)	867	–	867
Loss allowance (RMB'000)	–	–	–

24. 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% (2019: 0.15% to 2.80%).

25. CASH AND CASH EQUIVALENTS

The weighting average effective interest rate on cash at bank at 31 December 2020 is 0.35% (2019: 0.35%).

26. SHARE CAPITAL

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

	Number of shares		Share capital	
	2020	2019	**2020**	2019
	'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	
	2020	2019	**2020**	2019
	'000	'000	**RMB'000**	RMB'000
At the beginning of the year	**5,488,043**	4,298,043	**474,879**	368,394
Issue of shares:				
— Conversion of bonds *(Note a)*	**–**	1,190,000	**–**	106,485
At the end of the year	**5,488,043**	5,488,043	**474,879**	474,879

(a) Conversion of bonds

No convertible bonds were exercised during the year ended 31 December 2020. During the year ended 31 December 2019, the convertible bonds holders exercised certain convertible bonds to subscribe 1,190,000,000 ordinary shares at an exercise price of HKD0.108 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.

26. SHARE CAPITAL *(Continued)*

Capital management *(Continued)*

The gearing ratio as at 31 December were as follows:

	2020 RMB'000	2019 RMB'000
Short-term borrowings	**1,886,250**	1,302,714
Long-term borrowings	**–**	586,719
Convertible bonds	**287,932**	223,599
Total borrowings	**2,174,182**	2,113,032
Less:		
Cash and cash equivalents	**(14,539)**	(10,110)
Pledged bank deposits	**(29,593)**	(30,116)
Net debt	**2,130,050**	2,072,806
Total equity	**18,517**	233,380
Total capital	**2,148,567**	2,306,186
Gearing ratio	**99%**	90%

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

27. 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	23 October 2020	Total Number of Share Options	Weighted average exercise price (HKD)
Exercise price (HKD per option)	1.15	1.1	0.595	0.151	0.141		
Remaining life	N/A	N/A	2.24 years	5.47 years	9.81 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 executive director		
1 January 2019	3,900,000	800,000	6,200,000	1,500,000	–	12,400,000	0.7484
Forfeited	(500,000)	–	(2,000,000)	–	–	(2,500,000)	0.7060
31 December 2019	3,400,000	800,000	4,200,000	1,500,000	–	9,900,000	0.7591
1 January 2020	3,400,000	800,000	4,200,000	1,500,000	–	9,900,000	0.7591
Granted	–	–	–	–	300,000,000	300,000,000	0.1410
Lapsed	(3,400,000)	(800,000)	–	–	–	(4,200,000)	0.4202
31 December 2020	–	–	4,200,000	1,500,000	300,000,000	305,700,000	0.1473

27. SHARE-BASED PAYMENT *(Continued)*

New Share Option Scheme *(Continued)*

The fair value of options granted by the Company was assessed using the binomial option pricing model. The following inputs were used:

Date of grant	23 October 2020
Share price on date of grant	HK$0.070
Exercise price	HK$0.141
Expected volatility *(Note a)*	48.87%
Expected life	10 years
Risk-free rate *(Note b)*	0.5530%
Expected dividend yield	0%

Notes:

(a) Expected volatility was determined based on the historic daily volatility of the Company's share prices (calculated based on the expected life of the share options).

(b) Risk-free rate was determined based on the yields to maturity of respective Hong Kong Sovereign Curve.

The binomial option pricing model has been used to estimate the fair value of the share options. The variables and assumptions used in computing the fair value of the share options are based on the best assessment of the Directors on the valuer's estimation. Changes in variables and assumptions may result in changes in the fair value of the share options.

The estimated fair value of the options granted was approximately HK$8,735,000 (approximately RMB7,521,000). In the year ended 31 December 2020, the Group recognised share-based payments of approximately HK$8,735,000 (approximately RMB7,521,000) in profit or loss and the corresponding amount has been credited to share option reserve.

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28. RESERVES

(a) Group

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

(b) Company

	Share premium RMB'000	Contributed surplus RMB'000	Share options reserve RMB'000	Convertible bonds reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2019	1,409,065	37,162	28,269	224,903	(1,484,387)	215,012
Total comprehensive loss for the year	–	–	–	–	(731,564)	(731,564)
Issue of shares:						
— Matured during the year	–	–	–	(5,956)	5,956	–
— Conversion of bonds	110,107	–	–	(138,894)	–	(28,787)
Issuance of convertible bonds	–	–	–	302,283	–	302,283
At 31 December 2019	1,519,172	37,162	28,269	382,336	(2,209,995)	(243,056)
At 1 January 2020	**1,519,172**	**37,162**	**28,269**	**382,336**	**(2,209,995)**	**(243,056)**
Total comprehensive loss for the year	**–**	**–**	**–**	**–**	**(241,779)**	**(241,779)**
Issuance of convertible bonds	**–**	**–**	**–**	**19,418**	**–**	**19,418**
Share-based payments	**–**	**–**	**7,521**	**–**	**–**	**7,521**
At 31 December 2020	**1,519,172**	**37,162**	**35,790**	**401,754**	**(2,451,774)**	**(457,896)**

(c) Nature and purpose of reserves

(i) Merger reserve

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

28. RESERVES *(Continued)*

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

(ii) Reserve fund

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

(iii) Contributed surplus

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

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

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

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

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

29. BORROWINGS

	2020 **RMB'000**	2019 RMB'000
Non-current portion of long-term bank borrowings *(Note a)*	**–**	428,300
Current portion of long-term bank borrowings *(Note a)*	**–**	158,419
Short-term borrowings *(Note b)*	**1,886,250**	1,302,714
	1,886,250	1,889,433

29. BORROWINGS *(Continued)*

The borrowings are secured by bank deposits of approximately RMB29,593,000 (2019: approximately RMB30,116,000), property, plant and equipment with a total net book value of approximately RMB1,360,938,000 (2019: approximately RMB1,538,018,000), investment properties with a total net book value of approximately RMB55,850,000 (2019: approximately RMB57,694,000), mining right with a total net book value of approximately RMB318,000,000 (2019: approximately RMB309,456,000), right-of-use assets with total net book value of approximately RMB106,411,000 (2019: approximately RMB109,094,000), 100% equity interest in Dazhou Ko Yo Chemical, Sichuan Cuyo, Guangan New Material, Ko Yo GuangAn, Ko Yo Lotusan and Ko Yo Argochem (2019: 100% equity interest in Dazhou Ko Yo Chemical, Sichuan Cuyo, Guangan New Material, Ko Yo GuangAn, Ko Yo Lotusan and Ko Yo Argochem).

(a) Long-term bank borrowings

The average effective interest rate of bank borrowings as at 31 December 2020 is nil (2019: 6.24%).

As at 31 December 2020 and 2019, the Group's long-term bank borrowings were repayable as follows:

	2020 **RMB'000**	2019 RMB'000
Within 1 year	–	158,419
Between 1 and 2 years	–	164,500
Between 2 and 3 years	–	263,800
	–	586,719
Within 1 year included in current liabilities	–	(158,419)
	–	428,300

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.

As at 31 December 2020, the Group had not met certain financial covenant for its borrowings and an amount of approximately RMB586,680,000 was then reclassified as current liabilities according to the loan agreement.

(b) Short-term borrowings

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

	2020 **RMB'000**	2019 RMB'000
At fixed rates in RMB	**1,886,250**	1,302,714

The short-term borrowings were issued at interest rates which range from 4.35% to 8.64% (2019: 4.35% to 8.00%) per annum. The fair value of short-term borrowings approximate to their carrying amounts.

30. CONVERTIBLE BONDS

	2020 RMB'000	2019 RMB'000
Liability component		
Convertible bonds 1	**150,982**	135,597
Convertible bonds 2	**26,267**	24,296
Convertible bonds 3	**68,733**	63,706
Convertible bonds 4	**41,950**	–
	287,932	223,599

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 2019	123,274	218,947	342,221
Interest expense accrued	30,291	–	30,291
Interest expense charged to accrued expense	(17,968)	–	(17,968)
At 31 December 2019	135,597	218,947	354,544
At 1 January 2020	**135,597**	**218,947**	**354,544**
Interest expense accrued	**33,353**	**–**	**33,353**
Interest expense charged to accrued expense	**(17,968)**	**–**	**(17,968)**
At 31 December 2020	**150,982**	**218,947**	**369,929**

The principal amount of the convertible bonds as at 31 December 2020 is approximately RMB256,685,000 (2019: approximately RMB256,685,000).

30. CONVERTIBLE BONDS *(Continued)*

Convertible bonds 2

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

	Liability component RMB'000	Equity component RMB'000	Total RMB'000
Fair value of convertible bonds on grant date	71,707	133,505	205,212
Interest expense accrued	7,151	–	7,151
Converted during the year	(54,562)	(93,454)	(148,016)
At 31 December 2019	24,296	40,051	64,347
At 1 January 2020	**24,296**	**40,051**	**64,347**
Interest expense accrued	**3,294**	**–**	**3,294**
Interest expense charged to accrued expense	**(1,323)**	**–**	**(1,323)**
At 31 December 2020	**26,267**	**40,051**	**66,318**

The principal amount of the convertible bonds as at 31 December 2020 is approximately RMB33,047,000 (2019: approximately RMB33,047,000).

30. CONVERTIBLE BONDS *(Continued)*

Convertible bonds 3

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

	Liability component RMB'000	Equity component RMB'000	Total RMB'000
Fair value of convertible bonds on grant date	78,569	168,778	247,347
Interest expense accrued	8,273	–	8,273
Converted during the year	(23,136)	(45,440)	(68,576)
At 31 December 2019	63,706	123,338	187,044
At 1 January 2020	**63,706**	**123,338**	**187,044**
Interest expense accrued	**8,516**	**–**	**8,516**
Interest expense charged to accrued expense	**(3,489)**	**–**	**(3,489)**
At 31 December 2020	**68,733**	**123,338**	**192,071**

The principal amount of the convertible bonds as at 31 December 2020 is approximately RMB87,208,000 (2019: approximately RMB87,208,000).

30. CONVERTIBLE BONDS *(Continued)*

Convertible bonds 4

On 28 September 2020, the convertible bonds in the principal amount of HKD70,500,000 was subscribed by the subscriber, pursuant to the subscription agreement entered into between the Company and the subscriber on 10 July 2019. The convertible bonds bears interest at 5% per annum on the principal amount of the convertible bonds outstanding from time to time. The convertible bonds can be converted into ordinary shares at a conversion price of HKD0.141 from the day immediately following the date of the issue of convertible bonds to the maturity date which is 28 September 2025. If the convertible bonds have not been converted, they will be redeemed at par on 28 September 2025. The convertible bonds shall be translated at the exchange rate of RMB1.00 to HKD1.1765.

	Liability component RMB'000	**Equity component** RMB'000	**Total** RMB'000
Fair value of convertible bonds on grant date	40,506	19,418	59,924
Interest expense accrued	1,444	–	1,444
At 31 December 2020	41,950	19,418	61,368

The principal amount of the convertible bonds as at 31 December 2020 is approximately RMB59,924,000.

31. DEFERRED INCOME TAX

There were no offsetting of deferred income tax assets and liabilities in 2020 and 2019.

	2020 **RMB'000**	2019 RMB'000
Deferred tax assets:		
— To be recovered after more than 12 months	**65,284**	82,319
— To be recovered within 12 months	**–**	–
	65,284	82,319
Deferred tax liabilities		
— To be settled after more than 12 months	**(76,790)**	(74,655)
— To be settled within 12 months	**–**	–
	(76,790)	(74,655)

31. DEFERRED INCOME TAX *(Continued)*

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

Deferred income tax assets:

	Tax losses	Deferred subsidy income	Total
	RMB'000	RMB'000	RMB'000
At 1 January 2019	101,856	108	101,964
Charged to profit or loss	(19,537)	(108)	(19,645)
At 31 December 2019	82,319	–	82,319
At 1 January 2020	**82,319**	**–**	**82,319**
Charged to profit or loss	**(17,035)**	**–**	**(17,035)**
At 31 December 2020	**65,284**	**–**	**65,284**

Deferred income tax liabilities:

	Mining right
	RMB'000
At 1 January 2019	(74,730)
Charged to profit or loss	75
At 31 December 2019	(74,655)
At 1 January 2020	**(74,655)**
Charged to profit or loss	**(2,135)**
At 31 December 2020	**(76,790)**

As at 31 December 2020, the Group had total unused tax losses of approximately RMB897,125,000 (2019: approximately RMB939,429,000). No deferred tax asset has been recognised in respect of tax losses of certain subsidiaries of approximately RMB588,955,000 (2019: approximately RMB610,152,000) due to the unpredictability of future profit streams of these subsidiaries. Deferred tax asset of approximately RMB77,043,000 (2019: approximately RMB82,319,000) has been recognised in respect of the tax losses of certain subsidiaries of approximately RMB308,170,000 (2019: approximately RMB329,277,000) as management considered it is probable that these subsidiaries can generate sufficient taxable profit to utilise the above tax loss.

32. TRADE AND OTHER PAYABLES

	2020 RMB'000	2019 RMB'000
Trade payables *(Note a)*	**21,811**	14,740
Construction payable	**141,686**	156,995
Accrued expenses	**114,420**	140,001
Interest payables	**90,366**	12,694
Other taxes payable	**37,790**	26,139
Others	**6,226**	5,010
	412,299	355,579

(a) Trade payables

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

	2020 RMB'000	2019 RMB'000
Less than 1 year	**20,126**	14,740
Over 1 year	**1,685**	–
	21,811	14,740

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

33. CONTRACT LIABILITIES

Disclosures of revenue-related items:	At 31 December 2020 RMB'000	At 31 December 2019 RMB'000	At 1 January 2019 RMB'000
Contract liabilities	**159,903**	204,667	141,670

	At 31 December 2020 RMB'000	At 31 December 2019 RMB'000	At 1 January 2019 RMB'000
Contract receivables (included in trade receivables)	**74**	867	54

	2020 RMB'000	2019 RMB'000
Revenue recognised in the year that was included in contract liabilities at beginning of year	**203,834**	139,072

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

	2020 RMB'000	2019 RMB'000
— 2020	**N/A**	204,667
— 2021	**159,903**	–
	159,903	204,667

Significant changes in contract liabilities during the year

	2020 RMB'000	2019 RMB'000
Increase due to operations in the year	**159,070**	202,069
Transfer of contract liabilities to revenue	**(203,834)**	(139,072)

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.

34. LEASE LIABILITIES

	2020 RMB'000	2019 RMB'000
Minimum lease payments		
Within one year	2,161	300
In the second to fifth years, inclusive	2,505	–
	4,666	300
Less: Future finance charges	(262)	(3)
Present value of lease obligations	4,404	297
Present value of minimum lease payments		
Within one year	1,995	297
In the second to fifth years, inclusive	2,409	–
	4,404	297
Less: Amount due for settlement within 12 months (shown under current liabilities)	(1,995)	(297)
Amount due for settlement after 12 months	2,409	–

At 31 December 2020, the average effective borrowing rate was 4.75% (2019: 4.75%) . Interest rates are fixed at the contract dates and thus expose the Group to fair value interest rate risk.

35. COMMITMENTS

(a) Capital commitments

	2020 RMB'000	2019 RMB'000
Constructions-in-progress:		
Contracted but not provided for	**77,588**	85,217

(b) Operating leases rental receivables

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

	2020 RMB'000	2019 RMB'000
Not later than 1 year	**3,936**	4,362
More than one year but not exceeding five years	**1,076**	4,013
	5,012	8,375

36. RELATED-PARTY TRANSACTIONS

At 31 December 2020, long-term borrowings of nil (2019: approximately RMB54,500,000) and short-term borrowings of approximately RMB1,310,525,000 (2019: approximately RMB1,112,412,000) were guaranteed by the Company. In the opinion of the directors of the Company, the fair value of guarantee provided by the Company is insignificant to the Group. Such guarantee has not been accounted for by the Group.

37. KEY MANAGEMENT COMPENSATION (EXCLUDING DIRECTORS' EMOLUMENTS)

	2020 RMB'000	2019 RMB'000
Salaries and other short-term employee benefits	**2,791**	1,176

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

38. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in liabilities arising from financing activities

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

	Lease liabilities	Convertible bonds	Long-term and short-term borrowings	Total liabilities from financing activities
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2019	–	136,528	2,017,089	2,153,617
Changes in cash flows	(902)	216,142	(127,656)	87,584
Non-cash changes				
— impact of adoption of HKFRS 16 Leases	1,162	–	–	1,162
— classified as equity component	–	(302,283)	–	(302,283)
— interest charged	37	45,820	–	45,857
— reallocation to interest payables including in other payables	–	(17,968)	–	(17,968)
— converted during the year	–	(77,698)	–	(77,698)
— share-based payment arising from the issue of convertible bonds	–	223,058	–	223,058
At 31 December 2019 and 1 January 2020	**297**	**223,599**	**1,889,433**	**2,113,329**
Changes in cash flows	**(1,252)**	**59,924**	**(3,183)**	**55,489**
Non-cash changes				
— classified as equity component	**–**	**(19,418)**	**–**	**(19,418)**
— interest charged	**127**	**46,607**	**–**	**46,734**
— new lease	**5,232**	**–**	**–**	**5,232**
— reallocation to interest payables including in other payables	**–**	**(22,780)**	**–**	**(22,780)**
At 31 December 2020	**4,404**	**287,932**	**1,886,250**	**2,178,586**

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

	2020 RMB'000	2019 RMB'000
ASSETS		
Non-current assets		
Interests in subsidiaries	**107,264**	107,264
Right-of-use assets	**1,873**	–
Loan to subsidiaries	**481,371**	515,877
	590,508	623,141
Current assets		
Other receivables	**368**	368
Cash and cash equivalents	**19**	19
	387	387
Total assets	**590,895**	623,528
EQUITY		
Capital and reserves attributable to equity holders of the Company		
Share capital	**474,879**	474,879
Reserves	**(457,896)**	(243,056)
Total equity	**16,983**	231,823
LIABILITIES		
Non-current liabilities		
Convertible bonds	**287,932**	223,599
Lease liabilities	**297**	–
	288,229	223,599
Current liabilities		
Accruals and other payables	**115,958**	11,455
Financial guarantee liabilities	**168,563**	156,651
Lease liabilities	**1,162**	–
	285,683	168,106
Total liabilities	**573,912**	391,705
Total equity and liabilities	**590,895**	623,528
Net current liabilities	**(285,296)**	(167,719)
Total assets less current liabilities	**305,212**	455,422

40. LITIGATIONS

On 15 September 2020, Koyo Agrochem and the Bank of Communications Limited entered into a loan agreement ("BOCOM") for an aggregate principal loan amount of RMB68,000,000 ("Agrochem Loan A"). On 30 October 2020, the Intermediate People's Court of Chengdu Municipality, Sichuan Province* (四川省成都市中級人民法院) (the "Chengdu Intermediate Court") issued a judgment (the "Judgment") pursuant to which Koyo Agrochem was required to repay the Agrochem Loan A. Following the handing down of the Judgment, on 16 November 2020, the Company provided a repayment schedule in respect of the Agrochem Loan A to BOCOM. The Company is engaged in the negotiation process with BOCOM with an aim to renew and/or restructure the Agrochem Loan A. No action has been initiated by BOCOM in enforcing the Judgment. The Company has submitted its proposed repayment schedule to BOCOM Bank Xindu, and the Company is awaiting BOCOM Bank Xindu to revert on their views on the proposal.

On 24 September 2019, Koyo Agrochem and China Minsheng Bank ("Minsheng Bank") entered into a supplemental loan agreement for the principal loan amount of RMB70,000,000, repayable on 28 August 2020 ("Agrochem Loan"). The Agrochem Loan was secured by a pledge of office premises located in Chengdu and guaranteed by a 2 number of guarantors. Due to the events as stated in the Announcement in relation to the Dazhou Loan (which was guaranteed by Koyo Agrochem), Minsheng Bank initiated legal action against Koyo Agrochem and a judgement was handed down by the Chengdu Intermediate Court on 14 December 2020 (the "Agrochem Judgment"). The Company is engaged in negotiation process with Minsheng Bank with an aim to renew and/or restructure the Agrochem Loan. Minsheng Bank is withholding further legal actions against Koyo Agrochem pending the negotiations of the renewal and/or restructuring of the Agrochem Loan. The Company has provided a proposed repayment schedule to Minsheng Bank Chengdu for consideration and the Company has not yet to receive any feedback from Minsheng Bank Chengdu.

In March 2019, Guangan New Material and the Export-Import Bank of China ("EXIM Bank") entered into a supplemental agreement to the loan agreement dated 31 July 2015 in relation to the renewal of an aggregate principal loan amount of RMB90,000,0000 ("New Material Loan"), pursuant to which the last repayment of the New Material Loan were extended to March 2021. EXIM Bank subsequently requested for an early repayment of the New Material Loan, and initiated legal action against Guangan New Material in relation to the New Material Loan with outstanding amount of approximately RMB76,919,000 at the No.4 Intermediate People's Court of Beijing Municipality* (北京市第四中級人民法院). On 28 December 2020, the No.4 Intermediate People's Court of Beijing Municipality* issued a judgment (the "New Material Judgment") pursuant to which Guangan New Material was required to repay the New Material Loan. Following the handing down of the New Material Judgment, the Company and EXIM Bank entered into negotiation, aiming at arriving at a possible repayment schedule in respect of the New Material Loan. No action has been initiated by EXIM Bank in enforcing the New Material Judgment. The Company lodged an appeal against the New Material Judgment and the judgment for the appeal has not been handed down.

Alas the filing of an appeal, the Company and EXIM Bank have been in discussions to settle on a new repayment schedule.

40. LITIGATIONS *(Continued)*

In mid-December 2020, Changzhou Jingliyuan Technology Company against Koyo Agrochem in relation to a dispute arising from an amount of RMB30 million with Changzhou Jingliyuan to Koyo Agrochem. A court hearing took place on 23 February 2021 at Changzhou Court. It is respectfully submitted no judgment has been handed down by the Changzhou Court. The parties have entered discussions in relation to the repayment of the dispute amount.

In 2021, the Chengdu Branch of the Industrial Bank Co., Ltd. claimed Koyo Agrochem, Dazhou Koyo Chemical, Sichuan Chengyuan, Koyo Lotusan, Guangan Koyo Chemical, and Guangan Koyo New Material at the Chengdu Intermediate Court, in respect of an outstanding debt of approximately RMB44,745,000 together with accrued interests and costs. An enforcement action was instituted at Chengdu Intermediate Court on 4 February 2021; but no court order has been published. The Company is in the course of preparing a repayment schedule which will be submitted to the IBC Bank Chengdu for consideration.

41. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements were approved and authorised for issue by the Board of Directors on 30 March 2021.

Five Year Financial Summary

The following table summarizes the audited results, assets and liabilities of the Group for the five years ended 31st December 2020.

	2020	2019	2018	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	**2,111,133**	1,964,476	3,101,031	3,678,169	1,947,027
Loss before taxation	**(222,439)**	(712,242)	(347,685)	(471,170)	(417,039)
Taxation	**(19,363)**	(19,570)	(601)	16,737	9,054
Minority interest	**(23)**	(248)	(77)	(94)	(831)
Loss after taxation	**(241,779)**	(731,564)	(348,209)	(454,339)	(407,154)
Total assets	**2,847,247**	2,982,762	3,282,871	3,954,871	4,494,129
Total liabilities	**(2,828,730)**	(2,749,382)	(2,697,660)	(3,021,374)	(3,107,238)
Total equity	**18,517**	233,380	585,211	933,497	1,386,891