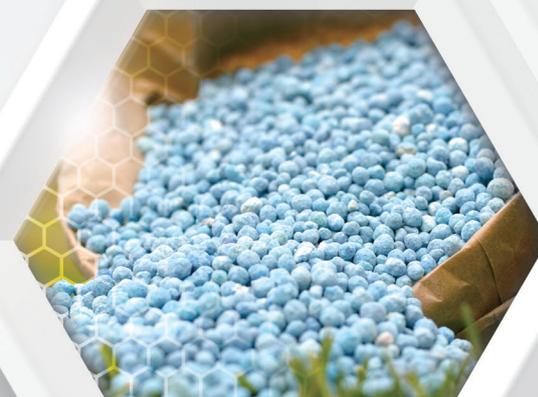




玖源化工(集團)有限公司
Ko Yo Chemical (Group) Limited

(incorporated in the Cayman Islands with limited liability)

(Stock code: 00827)



ANNUAL REPORT
2021

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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. Xu Congcai
Mr. Le Yiren

COMPANY SECRETARY

Mr. Chung Tin Ming, HKICPA, FCCA

QUALIFIED ACCOUNTANT

Mr. Chung Tin Ming, HKICPA, FCCA

AUDIT COMMITTEE

Mr. Hu Xiaoping
Mr. Xu Congcai
Mr. Le Yiren

AUTHORIZED REPRESENTATIVES

Mr. Tang Guoqiang
Mr. Shi Jianmin

COMPLIANCE OFFICER

Mr. Zhang Weihua

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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255–257 Gloucester Road
Causeway Bay, Hong Kong

SHARE REGISTRAR

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

AUDITOR

ZHONGHUI ANDA CPA Limited
23/F, Tower 2, Enterprise Square Five
38 Wang Chiu Road
Kowloon 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 31 December 2021, the net cash inflow from operating activities before working capital changes and profit tax and interest payment was approximately RMB894 million, which represent an increase of approximately RMB734 million as compared to that of approximately RMB160 million in year 2020.
- For the year ended 31 December 2021, the profit attributable to shareholders was approximately RMB379 million, which represent an increase in profit of approximately RMB621 million as compared to a loss of approximately RMB242 million in year 2020. If neglect the share-based payment arising from issue of convertible bonds of approximately RMB193 million, the profit attributable to shareholders in year 2021 was approximately RMB572 million.
- Basic earnings per share was approximately RMB0.0683 for the year ended 31 December 2021.
- For the year ended 31 December 2021, sale turnover was approximately RMB3,067 million, which represents an increase of approximately 45.3% as compared to year 2020.
- The sales amount and quantities of main products of the Group are as follows:

Type	Sales amount (million RMB)	Sales quantities (tonnes)	% change compare with year 2020	
			Sales amount	Sales quantities
BB & compound fertilizers	4	2,430	(82)	(84)
Urea	962	436,734	55	7
Ammonia	1,111	352,812	59	6
Methanol	990	454,880	31	(13)
Others — trading	0	N/A	(100)	N/A

- The Directors do not recommend the payment of any final dividend for the year ended 31 December 2021.

Chairman's Statement

TO SHAREHOLDERS

In 2021, adhering to the development strategy and working plan of “changing management approach in respect of effectiveness”, the Group and its subsidiaries has deepened the reform of its performance appraisal program for the employees among the headquarters, as well as the performance-based allocation solutions in its subsidiaries. Such reforms ensured that every employee was required to take the relevant appraisal, with the aim of ensuring the implementation of works. In the second half of the year, emphasis was given to the adjustment of the Group's remuneration system, thus providing the promotion channel for technicians, and prompting their enthusiasm to improve their skills. Thanks to our sustained efforts in improvement for special projects and leaders' assessment schemes, which completely changed our team's working style and habits, our corporate innovation and management level have been enhanced. No major safety and environmental incidents took place throughout the year 2021. The total output, average daily output, consumption and operation days reached record levels beyond that of 2020. Guang'an Ko Yo Chemical Industry's KAM facility has even created a new historical record for the accumulative number of production days in the year. In 2021, facing the headwind in post-pandemic era, our sales team has achieved the production-sales balance, as well as pursued a series of management innovation, such as the optimization of sales structure, the innovation in differentiated products and the introduction of competitive bidding mechanism. Such initiatives not only brought remarkable benefits to the Company, but also provided our marketing team with greater trials and room for enhancement.

In 2021, certain achievements were made. Benefiting from the sufficient supply of natural gas and the favourable product market, the Group generally achieved better operations than expected. 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, 2021. During the year ended 31 December, 2021, the Group did not declare any dividends (2020: nil).

OUTLOOK

Industry Review and Outlook

I. Decline in urea production, with increased costs and firm rise in prices in 2021

According to statistics, in 2021, the facility operation rate of domestic urea enterprises stayed at an upper-middle level in the past four years, with an annual average facility operation rate of 68.35%, representing a decrease of 0.25% as compared with 2020. In 2021, the cumulative domestic production of urea reached 53.7 million tons, representing a decrease of 0.06% as compared to the same period in 2020. Urea is greatly sensitive to the demand cycle and policies. A balance between supply and demand was generally achieved throughout the year. Furthermore, in terms of energy, the prices of coal and natural gas recorded a new high in the year, and the cost of fertilisers also rose accordingly. Coupled with legal inspection policy on urea export of the PRC and chemical fertilisers export quota policy of Russia, the price of chemical fertilisers globally soared by more than 200% in the previous year. With the increase in costs, urea price has also risen to a new record high. As of 31 December 2021, the average price of urea amounted to RMB2,398/ton, representing an increase of RMB726/ton as compared with the average price of urea of RMB1,672/ton in 2020.

Chairman's Statement

Looking forward to 2022, with the official launch of the long-term contractual price of thermal coal, the price will return to normal. It is expected that the pithead price will remain downward after the winter, which will weaken the cost support of urea. However, in the first half of the year, supported by the peak season of agricultural demands, the domestic supply guarantee policy of chemical fertilisers may contribute to the sufficient supply of urea. With the rolling-out of the policy of low-season reserve and preparation of fertilisers for agricultural demands in the first half of the year, the inventory of urea enterprises is expected to gradually decline. Given that there are demands for compound fertilisers, and the state maintains its commercial low-season reserve of fertilisers, the price is expected to remain volatile in the first half of the year. For the second half of the year, upon the domestic demand weakens, the market may rely on export demand. The increase in exports will greatly relieve the domestic supply pressure. However, if there is no change in export policy, the domestic urea export is expected to experience a significant drop, which will result in domestic inventory accumulation, thus causing pressure on prices. After the fourth quarter, it is necessary to pay attention to the intensity of production limit and natural gas usage limit for environmental protection reasons. In general, it is expected that the domestic urea price will show a trend featuring lower in front and higher behind in 2022.

II. High cost of coal base methanol producer in 2021, with upward trend presented by the overall market

According to statistics, in 2021, the effective methanol production capacity in the PRC reached 96.905 million tons, representing an annual growth rate of 2.69%, which had been below 7% for five consecutive years. The full-year output of methanol totaled 67.28 million tons, representing an increase of 3.71 million tons, and a year-on-year increase of 5.68% as compared with 2020. As of 31 December 2021, the average price of southwestern methanol was RMB2,550/ton, representing a year-on-year increase of RMB805/ton as compared with that of RMB1,745/ton in 2020.

Stage I (January to the end of July): In the first half of the year, the futures price and spot price of Zhengzhou methanol generally fluctuated in a certain range, and the center showed a slight rise. In the first quarter, with the ongoing of foreign "black swan" incidents and the rise in crude-oil price, together with inflation expectations, the methanol price increased in line with the entire energy and chemical sector. Besides, considering the effect of the favorable policy of "energy consumption and intensity dual control system" in Inner Mongolia, it is expected that the methanol price maintains its momentum under the declining supply. In addition, as the coal price hit new highs, which resulted in constant reassessment of the methanol valuation, combined with the relatively low port inventory and issues from the Iranian facility, the futures price went up amid fluctuations under the circumstance that the future cargo remained low.

Stage II (early August-early October): Under the combined effects of factors, including the continuous rise in coal and natural gas in terms of cost, the increasingly strict policy under the energy consumption and intensity dual control system, less accumulated reserve than expected as a result of slow unloading of goods in the port area, and the upcoming Mid-Autumn Festival and National Day, as well as intensive stocking in the downstream, the spot price of domestic methanol gained a significant increase, and the futures price of Zhengzhou methanol maintained its upward trend, hitting a new high in the past three years.

Chairman's Statement

Stage III (mid-October-December): The rising raw material price caused the increase in the production costs of downstream enterprises, triggering strong reactions from all sectors of society. As the National Development and Reform Commission implemented intervening measures on the prices of related products in accordance with the Pricing Law, and at the same time, high-level officials also conducted policy regulations on coal prices in Yulin City and Qinhuangdao Port, the decrease in costs contributed to the decline in product prices. In view of this, methanol market sentiment turned to weak rapidly, and the futures price and spot price returned to the level of the mid-year.

Looking back on China in 2021, the domestic demand cycle and energy policy dominated the methanol price throughout the year, which will be also affected by policy factors such as "carbon peaking and carbon neutrality goals" and "energy consumption and intensity dual control system" in 2022. Due to the emergence of novel coronavirus variant strains (Omicron), the release of crude-oil supply and the weakening of demand expectations may put pressure on the methanol market. In terms of supply and demand structure, although both the supply and demand of methanol registered growth throughout the year, the growth rate of supply was far beyond that of demand under the policy regulation. This resulted in a high probability of excess production capacity. From January to February 2022, due to the release of supply expectations after the Chinese New Year, the market is projected to weaken; from the beginning to the end of the spring inspection during March to May, as the enterprises will destock before reserving, the tightening supply will drive the prices up; from June to August, despite the coming traditional low season of the downstream, the rainy season and typhoons in the summer are favourable for ports, thus stimulating the mainland market; from the end of the third quarter to the fourth quarter, driven and influenced by the "Golden September and Silver October" high season and policies such as winter supply guarantee, environmental protection, and dual control, the market will be featured by fluctuations with weak momentum. Therefore, in general, the market of methanol will be under pressure in 2022, with a high probability to be relatively weak and fluctuated throughout the year.

III. The price of synthetic ammonia was fluctuated (fell after a strong rising momentum), which was due to factors such as the mismatch between supply and demand, policies and tight foreign supply in 2021

According to statistics, the full-year average facility operation rate of domestic synthetic ammonia enterprises in 2021 was 70%, representing a decrease of 4.11% as compared with 2020. From January to December 2021, the cumulative domestic production of synthetic ammonia was 49.5 million tons, representing a decrease of 0.08% as compared with the same period in 2020. In 2021, the overall price of domestic synthetic ammonia experienced all-the-way rising amid fluctuations, and the market price repeatedly hit new highs. As of 31 December, market prices of synthetic ammonia averaged RMB3,819/ton, representing a year-on-year increase of RMB1,197/ton or 45.65% from RMB2,622/ton in 2020. We can see from the trend in the first half of the year that, the synthetic ammonia market maintained a strong momentum after the Chinese New Year and continued to rise as driven by the favorable conditions such as fertiliser preparation for spring ploughing, dual control in Inner Mongolia, and tight supply and high price of international synthetic ammonia, as well as the concentration of enterprises with short-term failures. As the urea market grew, the output of ammonia decreased accordingly after the conversion of synthetic ammonia to urea products. The average price in major synthetic ammonia-producing regions reached a new high of around RMB4,000/ton after mid-June. It is analyzed that in the second half of the year, the mainstream price of the synthetic ammonia market was generally higher than that in the first half of the year and remained at high level. It was mainly caused by the following factors: with the rise in coal and natural gas prices and the expectation of heating in winter, the cost remained high despite the weak downstream industry and agriculture; and the price had been rising to the yearly record high of RMB5,200/ton, followed by the cost of the downstream

Chairman's Statement

enterprises of synthetic ammonia increasing to a high level, which caused shutdown of most of them. Besides, for the purposes of protecting people's livelihood and spring ploughing and winter reserves in the coming year, the state introduced coal control measures for several times. With the recovery of thermal coal prices to rational prices and the resumption of opencast coal mines, the price of synthetic ammonia dropped rapidly since mid-to-late October. However, due to more demands for coal and electricity, the support from cost remained high, and the mainstream price of synthetic ammonia remained high and firm.

Looking forward to 2022, the market price of synthetic ammonia will continue to be dominated by the demand cycle and policies. In the first quarter, as coal-heading and gas-heading facilities restart, it will be relatively abundant in terms of the supply, and upstream companies will therefore be active in shipping, with the high probability of market downturn around the Chinese New Year. However, as the spring ploughing period comes, the concentration of production of nitrogen fertilisers and compound fertilisers will be undertaken to ensure spring ploughing, and the industry has begun to recover. Driven by demands, the market may rise in stages. In the second quarter, with the gradual release of new production capacity, at the end of the downstream farming, the industrial demand will not be so strong that the market is expected to weaken. In the third quarter, with the recovery of the demand of phosphate fertiliser enterprises and the follow-up reserve for agricultural autumn, the market may have a wave of upward trend. In the fourth quarter, there will be some companies to destock around the Chinese National Day, resulting in the weakened market. Subsequently, due to the advent of winter and frequently introduced national policies, involving measures in relation to coal, supply guarantee, environmental protection and gas usage limit, together with the slack season of downstream agricultural industry and weakened industrial demand, there is a high probability that the market will fluctuate downwards. In conclusion, the full-year demand growth for synthetic ammonia is limited, and it is highly possible that the overall market will be choppy and slightly weak in 2022.

OBJECTIVES AND STRATEGIES

In 2021, affected by the domestic and international environment and the post pandemic era, the fertiliser and chemical industries experienced drastic fluctuations, increasing the difficulties in product shipments and the long-term high-level operation of storage tanks. Facing many dilemmas, the Group mainly focused on internal reforms and innovations: on the one hand, through our technological transformation, to reduce the production and operation costs, especially minimising the loss from unplanned shutdown to the lowest level; on the other hand, through our continuous adjustment of the sales model, to increase the proportion of direct sales customers; to control the sales rhythm, and seize opportunities in market fluctuations, thus increasing revenue of the Group. In 2022, 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.

Chairman's Statement

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 daily monitoring, calculation and early warnings, efforts will be made to adjust and optimise production arrangement and operation load in time, so as 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.
3. Centring on the goal of "fine management", it will step-up the 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 approval for and promote, the operation commencement, construction and production of new projects based on the development needs of the Group.
6. It will proactively promote the "process-based and standardised" work, and solidify and consolidate the previous management achievements. Meanwhile, in the coming year, the Group will put forward "new goals" to continuously optimise management at "new heights".
7. The Group will undertake trial implementation of the Amoeba operating model, to build each functional department into an independent profit-making center, and constantly tap the management potential.

"New Heights, New Goals, New Start in 2022". The expansion and transformation of existing projects and the continuous investment in new projects require the team to be equipped with better capabilities and brand new goals. In the coming year, we will continue to carry out various work under the guiding ideology featuring safety-based, benefit-centered and result-orientated. Even though we have made achievements in the past, we still have a long way to go. It is hoped that we can demand more of ourselves at a higher level than we were, by learning from yesterday's achievement as tomorrow's foundation; and can set higher goals, by taking yesterday's excellence as tomorrow's standards.

Chairman's Statement

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

The project uses urea and methanol as raw materials, and adopts urea alcoholysis method to produce dimethyl carbonate and ethylene carbonate. As compared with the traditional transesterification synthesis method, the urea alcoholysis method can greatly reduce the production cost, with advantages of mild reaction conditions, clean and environmental protection and low cost. The raw materials required for the project are the products of the self-owned projects that have been completed and put into production. The cost of raw materials is low, with nearly no transportation cost, which can bring greater operating cost advantage. Moreover, the public works of water, electricity, gas, steam and other ancillary facilities required by this project will fully rely on the projects that have already been completed and put into production in Dazhou Ko Yo Chemical Industry, which can save a lot of investment costs. The investment for the project totals approximately RMB1.5 billion, with RMB600 million and approximately RMB900 million for the first and second phases respectively. Upon the completion, the project is expected to create an output value of RMB2.9 billion.

2. 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 nonperforming 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, ecofriendly 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.

3. Guang'an Ko Yo Chemical Industry's 100,000 tons DMF and 100,000 tons pyrrolidone project

The project is situated in Xinqiao Chemical Industry Park, Guang'an Economic and Technological Development Zone, Sichuan. The distance between the factory and surrounding facilities is in line with the fire separation distance required by the code for fire protection design of petroleum and natural gas engineering. The project enjoys prime geographical location and well-developed transportation network, which contribute to the convenient transportation of raw materials and products and extensive range of the product sales. The project uses methanol and liquid ammonia as raw materials to produce intermediate products monomethylamine and dimethylamine, and then adopts dimethylamine and carbon monoxide as raw materials to produce DMF.

Chairman's Statement

Monomethylamine and γ -butyrolactone are used as raw materials to produce pyrrolidone. The selection of technical route of raw materials, product plan and scale of the project is in line with national conditions and the planning for optimal allocation of resources. The source of raw materials is stable and reliable, and the product market is promising. The products of the project are consistent with the requirements under the state industrial policies and technical policies, industry development planning and product structure adjustment, and also meet the needs of national clean production. The investment for the project totals approximately RMB568 million. Upon the completion, the project is expected to create an output value of RMB5.3 billion.

4. **Guang'an Ko Yo Chemical Industry's hexamethylenediamine project with a production capacity of 400,000 tons/year**

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. The investment for the project totals around RMB5.85 billion, with RMB1.8 billion and approximately RMB4.03 billion for the first and second phases respectively. Upon the completion, the project is expected to create an output value of RMB14.55 billion.

The planned construction of the above four new projects is underway in an orderly manner. Among them, the first phase of 100,000 tons PBAT will be put into mass production in the second quarter; Guang'an Ko Yo Chemical Industry's 100,000 tons DMF and 100,000 tons pyrrolidone project will be put into production within this year; the first phase of Guang'an Ko Yo Chemical Industry's hexamethylenediamine project with a production capacity of 400,000 tons/year intends to commence construction within the year; all approval procedures for the 300,000 tons/year dimethyl carbonate project of Dazhou Ko Yo Chemical Industry will be completed within the year. With full leverage on the Company's existing resources, new projects broaden the product offerings of the Company, extend the industrial chain and optimize the industrial layout. Their operations will promote Ko Yo Chemical (Group) to turn a crisis into an opportunity, and move on a right track of sound development, thus achieving the transformation from a traditional chemical enterprise to a large-scale modern fine chemical enterprise.

Chairman's Statement

ACKNOWLEDGEMENT

Drastic fluctuation in the chemical industry was witnessed during the past year. Under the leadership of the management, all employees worked collectively to rearrange the production and sales work for moving beyond effectiveness, as well as to make efforts in the management optimisation and adjustment work, thus forming a more pragmatic and efficient working style among the team. The coming year is a crucial year for the Group to leverage the foundation laid in the past and continue to grow. It is also a year for us to learn from yesterday's achievements and strive for new progress. Under the organization and leadership of the Board, we will seize new opportunities, meet new challenges and strive to achieve the goals required by the Board. 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. It makes ever more sense to assume that with the steadily improving macroeconomic situation together with its own efforts, the Group shall 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 2022

Business Review

FINANCIAL PERFORMANCE

Results

During the year under review, the Group recorded turnover of approximately RMB3,067 million, an increase of 45.3% as compared to last year. The increase in turnover was mainly due to the increase sales of urea and ammonia. The profit attributable to shareholders of the Company amounted to approximately RMB379 million, representing an increase of approximately RMB621 million as compared to last year. Basic earnings per share amounted to approximately RMB0.0683.

Cost and profit margin

Cost of sales of the Group amounted to approximately RMB2,253 million, representing an increase of 8.5% as compared to the figure in 2020. The major reasons of increase in cost of sales were due to the increase in market price of raw material.

Gross profit margin of the Group increased approximately from 1.6% in 2020 to 26.5% in 2021. The increase in the gross profit margin was due to the increase in selling price of products.

During the year under review, distribution costs increased approximately by 2.1% as compared with last year. The increase in distribution cost was due to increase in sales quantities. The ratio of the distribution costs over sales was 0.87% in 2021 which was 0.36% lower than those in 2020.

In comparison with last year, there was an increase in administrative expenses of the Group by approximately 40.9% from approximately RMB82.2 million in 2020 to approximately RMB115.8 million in 2021. The increase in administrative expenses is mainly due to increase in business activities.

Other income increased from approximately RMB23.8 million in 2020 to approximately RMB140.3 million in 2021. It was mainly due to the gain on disposal of investment properties in 2021. Details are set out in Note 9 to consolidated financial statements. Other expenses amounted to approximately RMB193.6 million in 2021 (2020: approximately RMB21.0 million). The increase in other expenses in 2021 was mainly due to share-based payment arising from issue of convertible bonds of approximately RMB193 million. Details are set out in Note 10 to consolidated financial statements.

The Group's income tax expenses in 2021 amounted to approximately RMB81.2 million. Details of tax schemes are set out in Note 12 to consolidated financial statements.

Dividends

Considering the Group's result during the year under review, the Directors do not recommend the payment of any final dividend for the year ended 31 December 2021. The Group has not declared any dividend for the year ended 31 December 2021 (2020: Nil).

Business Review

PRODUCTS

Sales of the Group's products for the year 2020 and 2021 are as follows:

	Turnover in year 2021		Turnover in year 2020		Percentage
	RMB'000	Composite %	RMB'000	Composite %	Change in turnover %
BB & compound fertilizers	4,000	0.1	22,000	1.0	(82)
Urea	962,000	31.4	620,000	29.4	55
Ammonia	1,111,000	36.2	699,000	33.1	59
Methanol	990,000	32.3	757,000	35.9	31
Others — Trading	0	0	13,000	0.6	(100)

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

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2021, the Group had net current liabilities of approximately RMB1,303,898,000. Current assets as at 31 December 2021 comprised cash and bank deposits of approximately RMB393,259,000, time deposits of approximately RMB20,000,000, restricted bank balances of approximately RMB250,000, inventories of approximately RMB112,041,000, trade receivables of approximately RMB1,891,000, note receivable of approximately RMB35,087,000, and prepayments and other current assets of approximately RMB494,032,000. Current liabilities as at 31 December 2021 comprised short-term borrowings of approximately RMB1,783,709,000, trade payables of approximately RMB27,671,000, contract liabilities of approximately RMB117,322,000 and accrued charges and other payables of approximately RMB431,756,000. Details of the Group's adoption of going concern basis in preparing the consolidated financial statements is set out in Note 2 to the consolidated financial statements.

CAPITAL COMMITMENTS

As at 31 December 2021, the Group had outstanding capital commitments of approximately RMB2,744,240,000. Details of the Group's capital commitments are set out in Note 36 to the consolidated financial statements.

FINANCIAL RESOURCES

As at 31 December 2021, the Group had cash and bank deposits of approximately RMB393,259,000 and time deposits of approximately RMB20,000,000. The Company intends to finance the Group's future operations, capital expenditure and other capital requirements with the existing bank balances and the operation income.

As at 31 December 2021, the total borrowings, convertible bonds and notes payable balances of the Group amounted to approximately RMB2,555,578,000.

Business Review

GEARING RATIO

The Group's gearing ratios were approximately 72% and 99% as at 31 December 2021 and 31 December 2020 respectively. The gearing ratios were calculated as net debt divided by total capital. Details of the Group's gearing ratio is set out in Note 27 to the consolidated financial statements.

CONTINGENT LIABILITIES

The Group had no significant contingent liabilities as at 31 December 2021.

MATERIAL ACQUISITION/DISPOSAL

Save as disclosed in the announcement dated 19 November 2021 and Notes 17 to the consolidation financial statements regarding the investment properties, there was no material acquisition or disposal in the year 2021 which would have been required to be disclosed under the Rules Governing the Listing of Securities ("Listing Rules") on Stock Exchange.

SEGMENTAL INFORMATION

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

DETAILS OF FUTURE PLANS FOR MATERIAL INVESTMENT OR CAPITAL ASSETS

Save as disclosed of the plans stated in the chairman's statement of this annual report, the circular dated 4 December 2020 (Dazhou new production line, Guangan new production line and the PBAT production line) and 19 November 2021 (propose acquisition of a company which in the establishment of production line of propylene oxide), the Directors do not have any future plans for material investment.

EXPOSURE ON EXCHANGE RATE FLUCTUATION

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

CHARGES ON THE GROUP'S ASSETS

As at 31 December 2021, note receivables of approximately RMB660,000 (2020: nil), land use rights with a total net book value of approximately RMB102,332,000 (2020: approximately RMB106,411,000), property, plant and machinery with a total net book value of approximately RMB1,729,038,000 (2020: approximately RMB1,942,335,000), investment properties with a total net book value of approximately RMB10,925,000 (2020: approximately RMB55,850,000), mining right with a total net book value of approximately RMB334,306,000 (2020: approximately RMB318,000,000), and no bank deposits (2020: approximately RMB29,175,000) were pledged as collateral for the Group's borrowings and notes payable.

NUMBER OF EMPLOYEES

As at 31 December 2021, the Group had 674 (2020: 648) employees, comprising 5 (2020: 5) in management, 101 (2020: 101) in finance and administration, 552 (2020: 529) in production, 15 (2020: 13) in sales and marketing and 1 (2020: 0) in research and development of these employees, 669 (2020: 643) were located in the PRC and 5 (2020: 5) were located in Hong Kong.

RETIREMENT BENEFITS SCHEME

During the years ended 31 December 2020 and 2021, there were no contributions forfeited by the Group on behalf of its employees who leave the plan prior to vesting fully in such contribution, nor had there been any utilization of such forfeited contributions to reduce future contributions. As at 31 December 2020 and 2021, no forfeited contributions were available for utilization by the Group to reduce the existing level of contributions as described in paragraph 26(2) of Appendix 16 to the Listing Rules.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

For the year ended 31 December 2021, the Group's key business operations make continuous effort and investment on managing and monitoring environmental and social performance. Technology advancement, especially new materials development, continues to assist the Group achieve long-term business resilience, to achieve its economic, environmental and social sustainability. The group ensures strict compliance with and keeps a close eye on updates of any applicable regulations, laws, and standards. Engagement with stakeholders has resulted in raised concerns on key material issues, which include: Energy, Emissions, Effluents and Waste, Environmental Protection Policies, and Occupational Health and Safety. The Group will continue to identify areas of improvement for the concerned aspects and keep close communication with its stakeholders for advancing ESG management.

The Environmental, Social, Governance Report is set out on pages 27 to 41 of the annual report.

Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Tang Guoqiang, aged 64, 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 54, 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 59, 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 71, 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. Xu Congcai, aged 70, is an Independent Non-Executive Director of the Group. He received a bachelor degree in political economics from Anhui University of Finance and Economics (formerly known as Anhui Institute of Finance and Trade) in 1982, and in 1998, received a doctorate in economics from the School of Economics, Fudan University. Mr. Xu was admitted to the Special Allowance Program for Outstanding Experts sponsored by the State Council. In 1996, he was recognized as a Young and Middle-aged Expert with Outstanding Contribution. In 2002, he began to serve as an instructor for doctoral candidates to be admitted to the industrial economics programs in Renmin University of China. Currently, he is a professor at Nanjing University of Finance and Economics, a vice president at the Commerce Economy Association of China, a member of the Seventh Session of the Higher Education Institution Approval Committee under the Ministry of Education (from 2017 to 2021), and an executive dean of Taihu University of Wuxi. In addition, Mr. Xu is an independent director of Daqian Ecology and Landscape Co. Ltd. He was previously an independent director of Wuxi Rural Commercial Bank. He was appointed as an Independent Non-Executive Director of the Group on 1 August 2017.

Directors and Senior Management

Mr. Le Yiren, aged 59, is the vice chairman of the Association of China Commercial Enterprise Management since September 2019 and an independent non-executive director of Jiangyin Rural Commercial Bank Co. Ltd., whose shares are listed on the Shenzhen Stock Exchange (stock code: 002807) since April 2019. Mr. Le is currently serving as a director of each of Suzhou Aibo Venture Capital Co., Limited, Jiangsu Yangshan Silicon Material Technology Co., Limited, Suzhou Longhan Investment Management Co., Limited and Jiangsu Zhongmei Tongji Investment Co., Limited. Mr. Le was the vice president of Fengde Capital Limited from 2004 to 2005 and founded Nanjing Yuanhan Enterprise Management Co., Limited (formerly known as Nanjing Bofa Investment Consulting Co., Limited) in 2006. Mr. Le graduated from the Gradual School of Chinese Academy of Social Science with a master's degree in Monetary Banking in 1997, a doctorate degree in social sciences in 2002, then successively engaged in post-doctoral research in applied economics between August 2002 and July 2008. Mr. Le was a committee member of the Senior Technical Position Review Committee of the Industrial and Commercial Bank of China, a distinguished professor at the Graduate School of the Chinese Academy of Social Sciences and a researcher at the School of Social Development of Nanjing Normal University. He was appointed as an Independent Non-Executive Director of the Group on 1 July 2021.

SENIOR MANAGEMENT

Mr. Chung Tin Ming, aged 51 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 55, 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 59, 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 53, 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 31 December 2021.

GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 11 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 10 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 30 June 2003. The shares of the Company were listed on GEM of the Stock Exchange on 10 July 2003. On 25 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.

RESULTS AND APPROPRIATIONS

Details of the Group's profits for the year ended 31 December 2021 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 31 December 2021 (2020: Nil).

SHARE CAPITAL

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

RESERVES

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

DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31 December 2021 amounted to approximately RMB330,622,000 (2020: nil).

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 18 September 2020 and 29 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 118.

PROPERTY, PLANT AND EQUIPMENT

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

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The Directors who held office during the year ended 31 December 2021 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. Xu Congcai

Mr. Le Yiren

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

The Independent Non-Executive Directors of the Company are appointed with specific terms inside the letter of appointment for initial fixed terms of two years. Pursuant to A.4.3 of the Corporate Governance Code (the "Corporate Governance Code") set out in Appendix 14 of the Listing Rules, any further appointment of an Independent Non-Executive Director in excess of nine years should subject to a separate resolution to be approved by shareholders. Mr. Hu Xiaoping was appointed as Independent Non-Executive Directors in June 2003 and will serve on the Board for more than nineteen years in June 2022. Therefore, Mr. Hu Xiaoping should retire and re-election at the forthcoming annual general meeting.

Report of the Directors

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 entitled to a discretionary bonus which approximately 3% and may not exceed 3% of the audited consolidated net profit of the Group attributable to shareholders in respect of that financial year of the Company. The percentage rate of discretionary bonus is subject to annual review by the Board.

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

SHARE OPTIONS

The share option 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 28 to the consolidated financial statements.

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

Share Option 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.

Report of the Directors

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 31 December 2021, 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 2021 ('000)	Grant during period ('000)	Exercised during period ('000)	Forfeited/ Lapsed during period ('000)	Held at 31 December 2021 ('000)	*Share Options A ('000)	*Share Options B ('000)	*Share Options C ('000)	*Share Options D ('000)
Directors (31.12.2021)									
Tang Guoqiang	-	-	-	-	-	-	-	-	-
Shi Jianmin	300,000	-	-	-	300,000	-	-	300,000	-
Zhang Weihua	-	-	-	-	-	-	-	-	-
Hu Xiaoping	400	-	-	-	400	400	-	-	-
Shi Lei	-	-	-	-	-	-	-	-	-
Xu Congcai	-	-	-	-	-	-	-	-	-
Employees	5,300	77,312	-	-	82,612	3,800	1,500	-	77,312
Total	305,700	77,312	-	-	383,012	4,200	1,500	300,000	77,312

- * 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.
 Share Options D: Grant at 22 November 2021 whereas the closing price of shares of the Company before the date of grant was HK\$0.199, 35% exercisable 1 year from grant date until 21 November 2031, 35% exercisable 2 years from grant date until 21 November 2031 and 30% exercisable 3 years from grant date until 21 November 2031 with exercise price HK\$0.182.

As at 31 December 2021, the Company had 171,492,259 share options outstanding under the share option scheme adopted on 23 October 2020, which represented approximately 3.01% of the Company's shares as at 31 December 2021. The remaining life of the share option scheme adopted on 9 October 2020 was about 8.8 years as at 31 December 2021.

Report of the Directors

DIRECTORS' INTERESTS IN SHARES

As at 31 December 2021, 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 31.12.2021)	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	169,800,000	8,080,000,000	8,249,800,000	145.04%
Shi Jianmin	247,000,000	300,000,000	547,000,000	9.62%
Zhang Weihua	500,000,000	1,020,000,000	1,520,000,000	26.72%
Hu Xiaoping	–	400,000	400,000	0.01%

Note: As at 31 December 2021, among 69,800,000 out of the 8,249,800,000 in the aggregate long position in shares and underlying shares of Mr. Tang Guoqiang was held by Coherent Gallery International Limited which was wholly owned by Mr. Tang Guoqiang. As at 31 December 2021, China Mass Enterprises Limited is indirectly owned by Mr. Zhang Weihua through Jiangsu Kang Tai Holdings Group Limited which held a total amount of 500,000,000 shares of the Company and an amount of HK\$110,160,000 convertible bonds of the Company which can be converted into 1,020,000,000 shares of the Company.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2021, so far as is known to any Director or Chief Executive of the Company, no 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.

Report of the Directors

INTEREST OF OTHER PERSONS IN THE COMPANY

Interest in the shares or underlying shares of the Company

As at 31 December 2021, 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.

Outstanding Convertible Securities

As at 31 December 2021, 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, the outstanding convertible securities (the "Convertible Securities 4") that issued on 28 September 2020 can convert into 300,000,000 Shares and the outstanding convertible securities (the "Convertible Securities 5") that issued on 30 November 2021 can convert into 7,700,000,000 Shares. Assuming all outstanding convertibles securities converted into shares as at 31 December 2021, set out below is the shareholding structure of the Company before and after such conversion:

As at 31/12/2021	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	169,800,000	2.99	8,080,000,000	8,249,800,000	51.56
Mr. Shi Jianmin	247,000,000	4.34	–	247,000,000	1.54
Mr. Zhang Weihua	500,000,000	8.79	1,020,000,000	1,520,000,000	9.50
Others					
Public	4,771,242,599	83.88	1,212,675,000	5,983,917,599	37.40
Total	5,688,042,599	100.00	10,312,675,000	16,000,717,599	100.00

The diluted gain per shares for the year ended 31 December 2021 assuming all outstanding convertible securities being converted was RMB0.0237 which is calculated by dividing the profit attribute to the shareholders of the Company by the total number of Shares after all outstanding convertible securities being converted.

Report of the Directors

Based on the cash and cash equivalent as at 31 December 2021 and the cash flow from the operation of the Company, the Company has its ability to meet its redemption obligations under Convertible Securities 2 and Convertible Securities 3 and Convertible Securities 4 but not Convertible Securities 1 and Convertible Securities 5. The maturity dates of Convertible Securities 1, Convertible Securities 2, Convertible Securities 3, Convertible Securities 4 and Convertible 5 are 12 November 2024, 30 January 2024, 14 March 2024, 27 September 2025 and 29 November 2026 respectively.

Based on the implied internal rate of returns and other relevant parameters of Convertible Securities 1, Convertible Securities 2, Convertible Securities 3, Convertible Securities 4 and Convertible Securities 5, the share prices at which it would be equally financially advantageous for the securities holders to convert or redeem for the end of year 2022 to 2024 were as follows:

Convertible Securities

Date	31-12-2022 (Share price HK\$)	31-12-2023 (Share price HK\$)	31-12-2024 (Share price HK\$)
Convertible Securities 1	0.341	0.351	–
Convertible Securities 2	0.219	0.224	–
Convertible Securities 3	0.209	0.214	–
Convertible Securities 4	0.241	0.247	0.253
Convertible Securities 5	0.151	0.154	0.158

ISSUE OF HK\$902.1 MILLION OF CONVERTIBLE BONDS

As disclosed in the announcements dated 30 November 2021, the Company had completed issued convertible bonds with 5% annual interest rate and maturity on the 5th anniversary of the issue date of convertible bonds in an amount of HK\$70,500,000 with conversion price of HK\$0.141 per share of the company on 28 September 2020 and an amount of HK\$831,600,000 on 30 November 2021 to Mr. Tang Guoqiang. All the net proceeds of HK\$899,600,000 with approximately HK\$5,000,000 had been used for the Dazhou new production line, approximately HK\$80,000,000 had been used for the PBAT production line, approximately HK\$658,600,000 had been used for the nylon 66 production line and approximately HK\$156,000,000 had been used for general working capital of the Company.

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 2022.

Report of the Directors

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

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 2021.

As described in Note 2 to the consolidation financial statements and the section headed "Going Concern and Mitigation Measures", 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 2021, and also the discussions with the Management and the Auditor regarding the Disclaimer Opinion. With the Group's profitability and financial position had improved greatly in 2021, the audit committee is of the view that the Management should continue the actions and measures and its efforts in with the intention of removing the Disclaimer Opinion in the next coming annual financial statement.

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.

Report of the Directors

CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2021, the five largest customers accounted for approximately 34.8% of the Group's total turnover and the five largest suppliers of the Group accounted for approximately 90.1% of the Group's total purchases. The largest customer of the Group accounted for approximately 14.1% of the Group's total turnover and the largest supplier accounted for approximately 40.7% 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 42 to 48 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 28 May 2021.

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 2022

Environmental, Social, Governance Report

SCOPE AND REPORTING PERIOD

This is the sixth 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 2021 to 31 December 2021 (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” 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 support towards a 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 increase 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 businesses, the Group attaches great importance to 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.

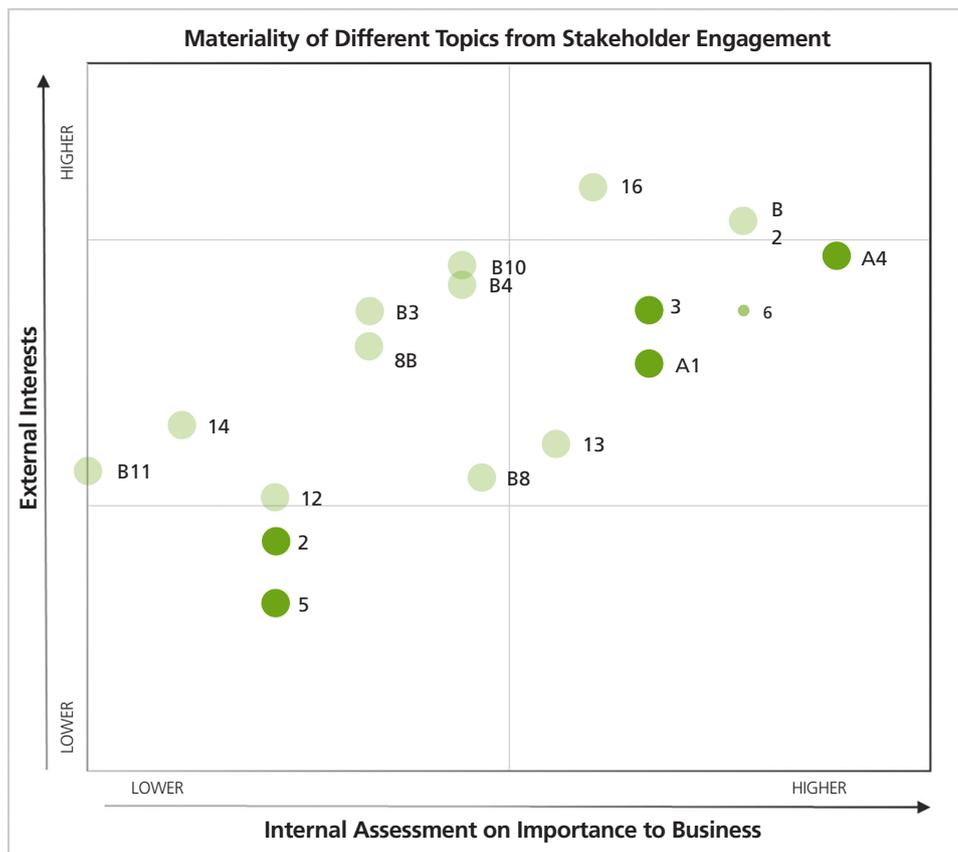
The Group implements three management systems— ISO 9001 Quality management System, ISO 14001 Environmental Management System, and ISO 50001 Energy Management System—in an integrative manner. In addition, the Group takes notice of all legal and regulatory updates and ensures that it is fully prepared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

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.

Environmental, Social, Governance Report

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

Environmental, Social, Governance Report

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

- Product/Service Quality
- Occupational Health and Safety
- Waste and Effluent
- Anti-Corruption
- Labour Standards

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 an 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 following:

- 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 11,536 kg of nitrogen oxides (“NOx”), 28.65 kg of sulphur oxides (“SOx”) and 33.92 kg of respiratory suspended particles (“PM”).

A1.2 Greenhouse Gas Emissions

The Group’s operation contributed to 355,472.44 tonnes of carbon dioxide equivalent (“tCO₂e”) (carbon dioxide, methane, nitrous oxide and hydrofluorocarbons) emission, with an intensity of 11.7 tonnes/m² of total production area and 0.3 tonnes/ton of total chemical products produced. The group consumed 278,543,573 m³ of natural gas as raw material to synthesize ammonia, urea and methanol for sale. In the past few reporting years, the total of natural gas consumption of the Group was calculated on a consolidated basis, leading to a significantly higher emissions reported in Scope 1 Direct Emission. Starting from this reporting year, the natural gas used for production of synthetic methanol is not included in Scope 1 Direct Emission.

Scope of Greenhouse Gas Emissions	Emission Sources		Emission (in tonnes of carbon dioxide equivalent “tCO ₂ e”)	Total Emission (in %)
Scope 1 Direct emissions	Combustion of fuels in stationary sources	Natural Gas	148,741.77	41.88%
		Diesel	1.67	
	Combustion of fuels in mobiles sources	Diesel	56.11	
		Petrol	63.65	
Scope 2 Energy indirect emission	Purchased electricity		169,113.55	57.28%
	Purchased town gas		34,492.57	
Scope 3 Other indirect emissions	Paper waste disposed at landfills		4.46	0.84%
	Electricity used for processing fresh water by third parties		2,963.0	
	Electricity used for processing sewage by third parties		28.30	
	Business air travel by employees		7.37	
Total			355,472.44	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 0.6101 tCO₂/MWh was used for purchased electricity in 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.

Environmental, Social, Governance Report

A1.3 Hazardous Waste

A total of 236.82 tonnes of hazardous waste was generated from the Group's production, representing an intensity of 0.008 tonnes/m² of total production area and 0.199 kg/ton of total chemical products produced, during the Reporting Period. The hazardous wastes generated by the Group's business activities mainly consists 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 110.10 tonnes of non-hazardous waste was generated, with an intensity of 0.0036 tonnes/m² of total production area and 0.09 kg/ton of total chemical products produced, during the Reporting Period. The non-hazardous waste generated from the Group's production mainly consisted of packaging 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 its energy consumption. A high-pressure boiler and low nitrogen converting burner has been installed to enhance energy efficiency and reduce pollution. The Group is purchasing new vehicles which will meet the "National VI" standards for emissions and rent new energy conserving vehicles for staff for their daily commute. The Group has set a target of reducing total emissions produced by the Guangan facility by 1930 tCO₂e per year over the next 10 years, a total reduction of 193,000 tCO₂e in total. In the Dazhou facility, the Group will take advantage of modern technology to reduce overall emissions.

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. Initiatives such as recycling and reusing paper and office waste, sorting waste into distinct categories and introducing reusable materials in the Group's canteen are all being implemented. The Group will continue to its effort to reduce waste in its operation by encouraging staff to make use of public transport wherever possible and encourage double sided printing to reduce paper waste. The Group has a set a target of reducing waste by 10% over the next 10 years.

A2. Use of Resources

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

Environmental, Social, Governance Report

A2.1 Energy Consumption

Energy Consumption Sources	Consumption (in various unit)	Consumption (in kilowatt hours "kWh")
Electricity	277,189,880kWh	277,189,880
Natural Gas	73,020,756 m ³	721,769,604
Petrol	17,725 kg	212,063
Diesel	17,988 kg	213,123
TOTAL		999,384,670

The Group's business operations resulted in a total energy consumption of 999,384,670 kWh from the use of diesel, electricity, natural gas and petrol, with an overall energy intensity of 32,883kWh/m² and 839 kWh/ton of total products produced.

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 7,105,511 m³, with an overall intensity of 233.8 m³/m² of total production area and 5.96 m³/ton of total chemical products produced.

Wastewater

A total amount of 141,503 m³ of wastewater was discharged from the Group, representing an intensity of 4.66 m³/m² of total production area and 0.12m³/ton of total chemical products produced, 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. An 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

Environmental, Social, Governance Report

The Group has adopted the “Reclaimed Water Reuse” and has set a target of reducing water consumption by 50,000 m³ and set a 10-year reduction target of 500,000 m³.

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 the replenishment of fresh water for manufacturing process. The Group has adopted the “Reclaimed Water Reuse” initiative to further reduce water consumption.

A2.5 Packaging Material

The major packaging material used by the Group are packaging bags for containing fertilizer. During the Reporting Period, 1,465.39 tonnes of packaging materials were used for the production and product packaging, representing an intensity of 0.05 m³/m² of total production area and 1.23 kg/ton of total chemical products produced. All packaging materials contained no hazardous materials.

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, but it is committed to minimizing its environmental impact. The Group has installed new equipment to increase the energy efficiency and reduce pollution and is retrofitting the Group’s facilities to enhance pollutant reduction. The Group will continue its efforts in process optimization, enhancing inspection, and reducing the overall dependence on natural gas. The Group continues to strengthen its policies for 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, are all made of recyclable materials.

A4. Climate Change

A warming planet creates a wide range of risks for business, from disrupted supply chains to rising insurance costs to labour challenges. With the increasing threat of climate change and the associated physical damage, change in market perception and shift in preference of the public towards more environmentally friendly products and services, the financial, reputational and strategic risk implications are becoming increasingly prominent. Climate change will undoubtedly be of increasing concern to the Group and industry as a whole for the foreseeable future. The Group has identified the following risks that climate change pose.

Physical Risks

Extreme weather events, such as typhoons, storm surges and rainstorms, will disrupt production, transportation and ultimately sales revenue. During extreme weather events, employees are advised to remain in a safe place until it is safe to resume normal activities. Extreme weather events may affect footfall, and thereby revenue, in many of the Group’s sales outlets which may result in an adverse effect on the Group’s revenue. The Group has established clear management principles to formulate an extreme weather policy.

Environmental, Social, Governance Report

Opportunities

As people become more health conscious and the availability of the groups products increase, the Group sees strong future for its various business lines going forward.

Transition Risks

Transition risk refers to the financial risk related to the process of adjustment towards a lower-carbon economy which can be prompted by, for example, changes in climate policy, technological changes or a change in market sentiment. Revenues may be affected by changing consumer behaviour and regulatory changes. Additionally, costs and the availability of raw materials may have a negative impact on revenue streams in the future.

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 575 employees in the plants as of 31 December 2021 and all of them were full time employees from the PRC.

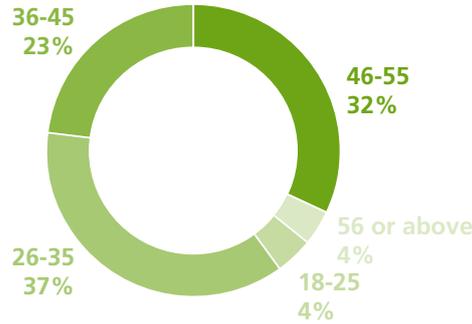
During the end of Reporting Period, the total workforce by employment category, age group and gender are as follows:

Employee Category

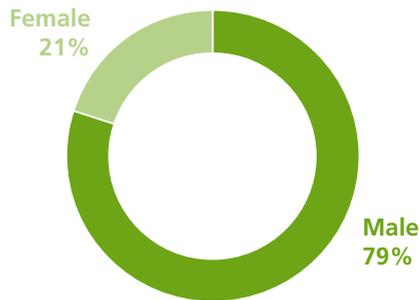


Environmental, Social, Governance Report

Employee by Age Group



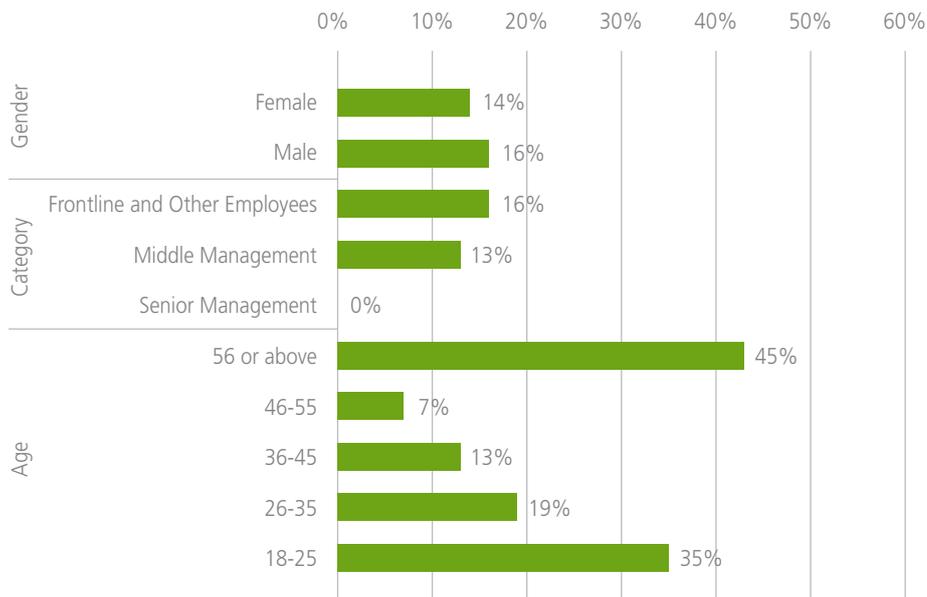
Employee by Gender



Turnover

A total number of 89 full-time employees from the PRC left the Group during the Reporting Period, representing an annual turnover rate of 15.5%. The employee turnover rate by gender, age group and employee category in the Reporting Period are as follows:

Turnover Rate



Environmental, Social, Governance Report

Compensation and Benefits Package

The Group believes that employees are important assets, upon which the Group can develop further. Therefore, the Group ensures the remuneration is in line with the market rate to attract and retain top 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 alerts current employees of any position opening before posting the role externally. The remuneration structure is “merit-based” and set objectively based on the employee’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 this manner, the managers’ performance is evaluated by supervisors while subordinates can express opinions and concerns.

Equal Opportunity

The principles of equal opportunities are applied in all employment policies, including recruitment, training, career development and employee promotion. The Group promotes fair competition and prohibits discrimination or harassment against any employees on the basis of 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 the recruitment, evaluation, and promotion processes.

Staff Communication

The Group believes that workplace communication is of paramount importance to enhance the effectiveness of operations and production. The Group organizes an annual meeting, Spring Festival Mass Greeting event, sports activities and team outings to improve communication and build stronger bonds between employees. These communication channels and activities improve teamwork and enhance working efficiency. A trade union has been 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, the Production Safety Law of the PRC (which was amended by the government and came into effect on 1 September 2021) 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.

Environmental, Social, Governance Report

The Group has established a 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 an injury-free workplace. The department also identifies and assesses the occupational health hazards, monitors the situation and develops preventative and mitigation plans. All employees participate in at least one training session 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 operates a high power exhaust fan and air conditioning system in the workplace, and makes sure that all ventilation systems are 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 provides an annual Occupational health test to all its employees, and the Group will explore further about 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				
	2021	2020	2019	2018	2017
Work related fatality	0	0	0	0	0
Work injury cases ≥ 3 days	0	0	1	0	1
Work injury cases < 3 days	0	0	0	0	0
Lost days due to work injury	0	0	97	0	60

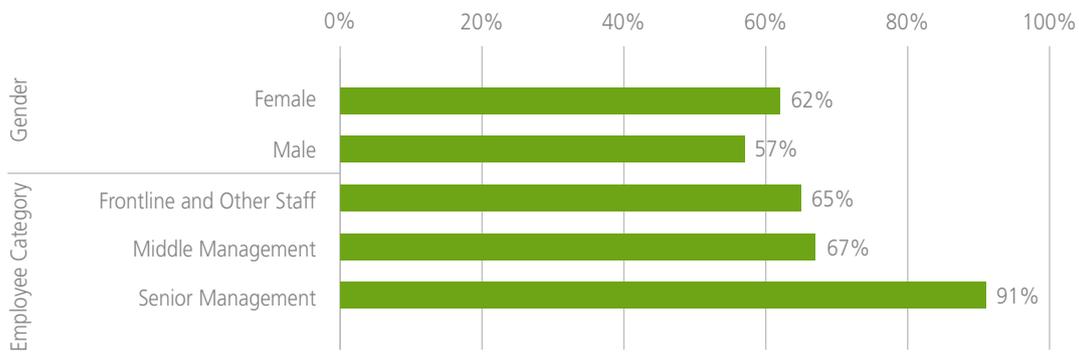
Environmental, Social, Governance Report

B3. Development and Training

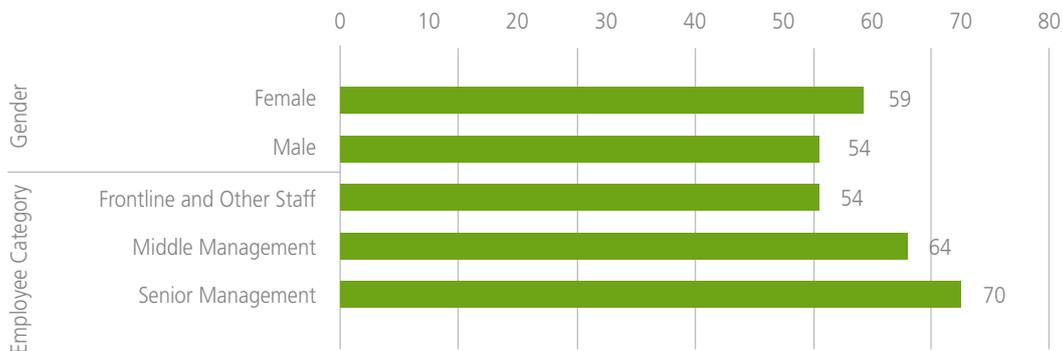
The Group provides continuous training and development programmes for its employees to enhance their expertise and problem-solving skills. At the end of each year, the Group collects training needs from departments and positions to design appropriate training programmes. The following year, the employees 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. Evaluation is conducted after training.

During the Reporting Period, the Group provided a total of 31,872 hours of training to 377 employees. The details of staff training for 2021 are as follows:

Percentage of Employees Trained



Average Training Hours Per Employee



Environmental, Social, Governance Report

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 checks on 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. Any over-time must be previously approved by the Group, and will be entitled to over-time remuneration. 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 surveys and evaluations on the qualifications of suppliers and their product quality every year, ensuring that they continue to meet the suppliers' standards. Qualified suppliers are updated and kept on the list for selection. Any suppliers who fail to meet the evaluation and standards for their performance twice are 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 473 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. In the case of a product quality problem, the Quality Control Department will evaluate the safety, effectiveness of the equipment and integrate this information into an "adverse event" report. The "adverse event" report will then be passed upwards to the senior management. The production equipment of Dazhou has been updated with an emergency plan for treating unexpected accidents. In case the service is interrupted, the agricultural sales companies will be notified immediately to respond to any external sales request in time.

Environmental, Social, Governance Report

During the Reporting Period, the Group received 2 complaints relating to product quality and customer experience. All complaints were investigated thoroughly and were resolved through communication with the clients. No product recalls were needed. The Group is committed to making improvements to enhance not only product quality but also the customer experience.

Intellectual Property Rights

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 intellectual rights practices are based on the Group's Intellectual Rights Management Policy. Any infringements will be thoroughly investigated by senior management, and legal action will be taken where necessary. The Group has set up an 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.

During the Reporting Period, 74 employees an Anti-Corruption course in December. 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.

Environmental, Social, Governance Report

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 arranged the following events and donations:

Activities in the reporting period	Beneficiary/Collaborators/ Partner organizations	Detailed resources input
Guangan		
Poverty alleviation (Party building activity)	Xinqiaoxiang difficult households	RMB18,000
Fertilizer donation	Fuanzhen	3 tonnes
Dazhou		
Subsidized the sub-district construction of Dazhou Gaoxin District	Dazhou Gaoxin District	RMB 30,000
Village visit, and support the revitalization work of the villages	Tuxizhen Sanxing Village	Disinfection materials(Masks 2000pc, 24 bottles of hand sanitizers)
Urea donation	Poverty households	Urea 4.4 tonnes, RMB10,072

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 2021. The detail is as follow:

Executive Directors

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

Independent Non-Executive Directors

Mr. Hu Xiaoping
 Mr. Xu Congcai
 Mr. Le Yiren (assign on 1 July 2021)
 Mr. Shi Lei (resign on 1 July 2021)

The Independent Non-Executive Directors represented over one-third of the Board during the year 2021. 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 31 December 2021, 7 board meetings and 1 shareholders' meeting were held and the attendance record for the meetings by each director is as follow:

Attendants	Number of board meetings attended/total	Board meetings attendance percentage	Number of shareholders' meetings attended/total	Shareholders' meetings Attended percentage
<i>Executive Directors</i>				
Mr. Tang Guoqiang	7/7	100%	1/1	100%
Mr. Shi Jianmin	7/7	100%	1/1	100%
Mr. Zhang Weihua	7/7	100%	1/1	100%
<i>Independent Non-Executive Directors</i>				
Mr. Hu Xiaoping	7/7	100%	1/1	100%
Mr. Xu Congcai	7/7	100%	1/1	100%
Mr. Le Yiren (assign on 1 July 2021)	4/4	100%	N/A	N/A
Mr. Shi Lei (resign on 1 July 2021)	3/3	100%	1/1	100%

Chairman and Chief executive officer

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

Corporate Governance Practices

DIRECTORS' TRAINING

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

COMPANY SECRETARY'S TRAINING

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

SHAREHOLDERS' RIGHTS

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

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

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

Procedures for propose a person for election as a Director

The procedures for proposing a person for election as a Director can be found in the post on 27 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
<i>Independent Non-Executive Directors</i>		
Mr. Hu Xiaoping (<i>Chairman</i>)	1/1	100%
Mr. Xu Congcai	1/1	100%
Mr. Shi Lei (resign on 1 July 2021)	1/1	100%
Mr. Le Yiren (appoint on 1 July 2021)	N/A	N/A

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
<i>Independent Non-Executive Directors</i>		
Mr. Xu Congcai (<i>Chairman</i>)	1/1	100%
Mr. Hu Xiaoping	1/1	100%
Mr. Shi Lei (resign on 1 July 2021)	1/1	100%
Mr. Le Yiren (appoint on 1 July 2021)	N/A	N/A

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.

Corporate Governance Practices

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 years until terminated by not less than three months' notice in writing served by either party on the other. The Independent Non-Executive Directors of the Company are appointed with specific terms inside the letter of appointment for initial fixed terms of two years.

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

The Independent Non-Executive Directors of the Company are appointed with specific terms inside the letter of appointment for initial fixed terms of two years. Pursuant to A.4.3 of the Corporate Governance Code (the "Corporate Governance Code") set out in Appendix 14 of the Listing Rules, any further appointment of an Independent Non-Executive Director in excess of nine years should subject to a separate resolution to be approved by shareholders. Mr. Hu Xiaoping was appointed as Independent Non-Executive Directors in June 2003 and will sever on the Board for more than nineteen years in June 2022. Therefore, Mr. Hu Xiaoping should retire and re-election at the forthcoming annual general meeting.

AUDIT COMMITTEE

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

Attendants	Number of meetings attended/total	Attendance percentage
<i>Independent Non-Executive Directors</i>		
Mr. Shi Lei (<i>Chairman</i>) (resign on 1 July 2021)	3/3	100%
Mr. Le Yiren (<i>Chairman</i>) (appoint on 1 July 2021)	1/1	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.

Corporate Governance Practices

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 31 December 2021.

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

GOING CONCERN AND MITIGATION MEASURES

During the year 2021, the Group had certain litigations with banks as described in Note 41 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 in 2021 and the Group's financial position was greatly improved. During the year 2021, the profitability of the Group's plants was dramatically increased. The gross profit margin of the Group increased from 1.6% in 2020 to 26.5% in 2021. The Group's profit increased from a loss of approximately RMB242 million in 2020 to a profit of approximately RMB379 million in 2021 and the net cash inflow from operating activities before working capital changes and profit tax and interest payment increase from approximately from RMB160 million in 2020 to approximately RMB894 million in 2021. The net current liabilities of the Group had been decreased from approximately RMB2,184 million to RMB1,304 million.

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

- 1) The Group has been actively negotiating with a number of banks for renewal or restructuring of the loans since last year. Most of the bank loans had been renewed, restructured or repaid. It takes times for the Group to negotiate a better repayment schedules with banks. There is an amount of approximately RMB625 million bank loans that are in negotiation of renewal or restructuring. The Management are in confident that the renewal and restructuring of the above mentioned bank loans will be completed within this year;
- 2) It is expected that the Group's PBAT production line will commence production within six months. Together with the development of other new projects as stated in the Chairman's Statement, it is believed that the liquidity and profitability of the Group can be further improved; and
- 3) The Group will continue to take active measures as stated in the headlines under the Chairman's Statement "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" to control the administrative and production costs.

Corporate Governance Practices

Taking into account the completion of the above-mentioned plans and measures, the existing cash balance in bank, the positive operating cash flow, profitability of the Group's plants, and the frozen assets as described in Note 2 to the consolidation financial statements do not affect the normal operation of the Group, 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 2021, the total remuneration charged by to the independent external auditors amounted to approximately RMB1.8 million, which approximately RMB1.5 million was for the audit services and approximately RMB0.3 million was for non-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 49 and 50 of this annual report.

The audit committee has resolved the re-appointment of ZHONGHUI ANDA CPA Limited for the financial year 2022. 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



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 51 to 117, which comprise the consolidated statement of financial position as at 31 December 2021, 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

Multiple uncertainties relating to going concern

We draw attention to note 2 to the consolidated financial statements which mentions that during the year 2021, the Group had certain litigations as disclosed in note 41 to the consolidated financial statements. The Group's assets of approximately RMB1,964,630,000 was frozen by the court due to the litigations, the Group is still in negotiations with banks on the repayment schedule. As at 31 December 2021, the Group had net current liabilities of approximately RMB1,303,898,000. 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 disclosed in note 2 to the consolidated financial statements 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 multiple uncertainties 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 2022

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
Revenue	7	3,066,543	2,111,133
Cost of sales		(2,253,366)	(2,076,920)
Gross profit		813,177	34,213
Distribution costs		(26,599)	(26,041)
Administrative expenses		(115,783)	(82,150)
Other income — net	9	140,333	23,753
Other expenses	10	(193,626)	(20,988)
Operating profit/(loss)		617,502	(71,213)
Finance income	11	5,314	865
Finance expenses	11	(162,440)	(152,091)
Profit/(loss) before tax		460,376	(222,439)
Income tax expense	12	(81,158)	(19,363)
Profit/(loss) and total comprehensive income/(expense) for the year	13	379,218	(241,802)
Attributable to:			
Equity holders of the Company		379,235	(241,779)
Non-controlling interests		(17)	(23)
		379,218	(241,802)
Earnings/(loss) per share attributable to the equity holders of the Company during the year (expressed in RMB per share)			
— Basic	15	0.0683	(0.0441)
— Diluted	15	0.0490	(0.0441)

Consolidated Statement of Financial Position

As at 31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	16	1,857,363	2,019,822
Investment properties	17	10,925	55,850
Right-of-use assets	18	104,668	110,777
Mining right	19	334,306	318,000
Other intangible assets	20	–	108
Prepayments	24	635,228	–
Deferred income tax assets	32	38,658	65,284
		2,981,148	2,569,841
Current assets			
Inventories	23	112,041	72,467
Trade and other receivables	24	531,010	160,807
Time deposits	25	20,000	–
Restricted bank balances	25	250	418
Pledged bank deposits	25	–	29,175
Cash and cash equivalents	26	393,259	14,539
		1,056,560	277,406
Total assets		4,037,708	2,847,247
EQUITY			
Equity attributable to owners of the Company			
Share capital	27	491,449	474,879
Reserves	29	330,622	(457,896)
		822,071	16,983
Non-controlling interests		1,517	1,534
Total equity		823,588	18,517

Consolidated Statement of Financial Position

As at 31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
LIABILITIES			
Non-current liabilities			
Convertible bonds	31	771,869	287,932
Deferred income tax liabilities	32	80,867	76,790
Lease liabilities	35	926	2,409
		853,662	367,131
Current liabilities			
Trade and other payables	33	411,005	412,299
Contract liabilities	34	117,322	159,903
Provision for tax		46,939	1,152
Short-term borrowings	30	1,783,709	1,886,250
Lease liabilities	35	1,483	1,995
		2,360,458	2,461,599
Total liabilities		3,214,120	2,828,730
Total equity and liabilities		4,037,708	2,847,247
Net current liabilities		(1,303,898)	(2,184,193)
Total assets less current liabilities		1,677,250	385,648

The consolidated financial statements on pages 51 to 117 were approved and authorised for issue by Board of Directors on 30 March 2022 and are signed on behalf of the Board by:

Director

Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2021

	Attributable to equity holders of the Company											
	Share capital	Share premium	Merger reserve	Share options reserve	Convertible bonds reserve	Reserve fund	Enterprise expansion fund	Accumulated loss	Transaction with non-controlling interests	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
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 expense 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
At 1 January 2021	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
Total comprehensive income for the year	-	-	-	-	-	-	-	379,235	-	379,235	(17)	379,218
Issuance of convertible bonds	-	-	-	-	407,071	-	-	-	-	407,071	-	407,071
Share-based payments	-	-	-	344	-	-	-	-	-	344	-	344
Issue of shares:												
— Conversion of bonds	16,570	9,604	-	-	(7,736)	-	-	-	-	18,438	-	18,438
At 31 December 2021	491,449	1,528,776	(22,041)	36,134	801,089	45,273	1,131	(2,056,231)	(3,509)	822,071	1,517	823,588

Consolidated Statement of Cash Flows

For the year ended 31 December 2021

Notes	2021 RMB'000	2020 RMB'000
Cash flows from operating activities		
Profit/(loss) before tax	460,376	(222,439)
Adjustments for:		
Lease interest expenses	166	127
Depreciation of property, plant and equipment	206,988	211,958
Depreciation of investment properties	1,844	1,844
Depreciation of right-of-use assets	4,711	3,839
Amortisation of other intangible assets	108	270
(Gain)/loss on disposal of property, plant and equipment	(34,395)	750
Gain on disposal of investment properties	(78,660)	–
Gain on disposal of right-of-use assets	(1,600)	–
Share-based payment	193,626	7,521
Interest revenue	(3,414)	(832)
Interest expense	162,274	151,964
Exchange gain	(1,900)	(33)
Reversal of impairment loss on mining right	(16,306)	(8,544)
Impairment loss on property, plant and equipment	–	13,467
Operating cash flows before working capital changes	893,818	159,892
Changes in inventories	(39,574)	4,588
Changes in trade and other receivables	(271,888)	(56,713)
Changes in trade and other payables	(16,337)	(5,323)
Changes in contract liabilities	(42,581)	(44,764)
Cash generated from operations	523,438	57,680
Lease interests expenses paid	(166)	(127)
Tax paid	(314)	(193)
Interest paid	(87,662)	(50,785)
Net cash generated from operating activities	435,296	6,575

Consolidated Statement of Cash Flows

For the year ended 31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
Cash flows from investing activities			
Purchases of property, plant and equipment and payments for construction-in-progress		(663,452)	(59,396)
Proceeds from disposal of property, plant and equipment	39(b)	432	246
Increase in time deposits		(20,000)	–
Decrease/(increase) in restricted bank balances		168	(418)
Decrease in pledged bank deposits		29,175	941
Interest received		3,414	832
Net cash used in investing activities		(650,263)	(57,795)
Cash flows from financing activities			
Issuance of convertible bonds	39(a)	680,000	59,924
Proceeds from borrowings		156,500	584,982
Repayment of borrowings		(240,648)	(588,165)
Repayment of lease liabilities		(1,995)	(1,125)
Net cash generated from financing activities		593,857	55,616
Net increase in cash and cash equivalents			
Cash and cash equivalents at beginning of year		14,539	10,110
Exchange (loss)/gain		(170)	33
Cash and cash equivalents at end of year		393,259	14,539
Analysis of cash and cash equivalents			
Bank and cash balances		393,259	14,539

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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 2021, the Group had certain litigations as disclosed in note 41 to the consolidated financial statements. The Group’s assets of approximately RMB1,964,630,000 was frozen by the court due to the litigations, the Group is still in negotiations with banks on the repayment schedule. As at 31 December 2021, the Group had net current liabilities of approximately RMB1,303,898,000. 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 net profit of approximately RMB379,218,000 and operating cash flows before working capital changes of approximately RMB893,818,000 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) It is expected that the Group’s polybutyrate adipate terephthalate production line will commence production within six months. Together with the development of other new projects as stated in the section of the Chairman’s Statement of this report, it is believed that the liquidity and profitability of the Group can be further improved; and
- (iii) The Group will continue to take active measures to control the administrative and production costs.

On the basis that the Group can successfully completed the certain measures as mentioned above to improve its operating results and cash flows, the existing cash and cash equivalent, the positive operating cash flow, profitability of the Group’s plants and the frozen assets as described above do not affect the normal operation of the Group. 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 2021

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 2021. 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Consolidation *(Continued)*

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

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

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

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

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

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

Business combination and goodwill

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combination and goodwill *(Continued)*

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

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

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

Foreign currency translation

(i) Functional and presentation currency

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Mining rights

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

Leases

The Group as lessee

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

Land use rights	40-46 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Recognition and derecognition of financial instruments

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

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

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

Financial assets

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

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

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

- the assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Loss allowances for expected credit losses

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

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

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

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

Cash and cash equivalents

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

Financial liabilities and equity instruments

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

Convertible bonds

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial guarantee contract liabilities

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

- the loss allowance; and
- the amount initially recognised less cumulative amortisation recognised in profit or loss over the terms of the guarantee contracts.

Borrowings

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

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

Trade and other payables

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

Equity instruments

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

Share-based payment transactions

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

(a) Share options

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

- (a) including any market performance conditions (for example, an entity's share price);
- (b) 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
- (c) including the impact of any non-vesting conditions (for example, the requirement for employees to save).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payment transactions *(Continued)*

(a) Share options *(Continued)*

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

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

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

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

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

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

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

The equity component is not remeasured subsequent to initial recognition.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue from contracts with customers

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

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

- the customer simultaneously receives and consumes the benefits provided by the Group's performance;
- the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

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

Interest revenue

Interest revenue is recognised using the effective interest method.

Other income

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

Employee benefits

(a) Employee leave entitlements

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Employee benefits *(Continued)*

(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 administered 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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 basis over the useful lives of the related assets.

Taxation

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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

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

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

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

PRC land appreciation tax ("LAT")

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

Related parties

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

- (a) A person or a close member of that person's family is related to the Group if that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Company or of a parent of the Company.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties *(Continued)*

- (b) An entity is related to the Group if any of the following conditions applies:
- (i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Company or to a parent of the Company.

Impairment of assets

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of assets *(Continued)*

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

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

Provisions and contingent liabilities

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

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

Events after the reporting period

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

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Critical judgements in applying accounting policies

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

(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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

Key sources of estimation uncertainty

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

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

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

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

(b) Impairment of mining right and goodwill

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

(c) Income taxes

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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 short-term borrowings. 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.

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

(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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

6. FINANCIAL RISK MANAGEMENT *(Continued)*

(c) Credit risk *(Continued)*

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

- internal credit rating;
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations;
- actual or expected significant changes in the operating results of the borrower; and
- significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers.

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

6. FINANCIAL RISK MANAGEMENT *(Continued)*

(d) Liquidity risk

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

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

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years
	RMB'000	RMB'000	RMB'000
At 31 December 2021			
Trade and other payables	393,316	–	–
Short-term borrowings	1,783,709	–	–
Convertible bonds	–	–	1,092,894
Interest payment on borrowings and convertible bonds	153,402	59,919	132,406
<hr/>			
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
<hr/>			

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

The Group has been investing in the construction of new production lines and a significant amount of the financing was obtained from short-term borrowings. As a result, the Group had net current liabilities of approximately RMB1,304 million as at 31 December 2021 (2020: approximately RMB2,184 million).

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

6. FINANCIAL RISK MANAGEMENT *(Continued)*

(e) Categories of financial instruments

	2021 RMB'000	2020 RMB'000
Financial assets:		
Financial assets at amortised cost (including cash and cash equivalents)	849,239	67,993
Financial liabilities:		
Financial liabilities at amortised cost	2,948,894	2,548,691

(f) Fair values

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

7. REVENUE

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

Disaggregation of revenue from contracts with customers

Geographical information

For the years ended 31 December 2021 and 2020, all revenue is derived from the PRC.

Major products	2021 RMB'000	2020 RMB'000
BB & compound fertilizers	3,833	21,778
Urea	961,593	620,441
Ammonia	1,111,062	699,022
Methanol	990,055	757,369
Others-trading	-	12,523
	3,066,543	2,111,133

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

7. REVENUE *(Continued)*

Timing of revenue recognition

For the years ended 31 December 2021 and 2020, all revenue is recognised at a point of time.

Sale of chemical products and chemical fertilizers

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

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

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

8. SEGMENT INFORMATION

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

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

Geographical information

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

Revenue from major customers

	2021 RMB'000	2020 RMB'000
Customer a	14.11%	9.09% [#]

[#] Revenue from this customer did not exceed 10% of total revenue in the respective year. This amount was shown for comparative purpose.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

9. OTHER INCOME — NET

	2021 RMB'000	2020 RMB'000
Subsidy income	4,674	8,929
Rental income, net	2,066	3,551
Reversal of impairment loss on mining right	16,306	8,544
Gain/(loss) on disposal of property, plant and equipment	34,395	(750)
Gain on disposal of investment properties	78,660	–
Gain on disposal of right-of-use assets	1,600	–
Others, net	2,632	3,479
	140,333	23,753

10. OTHER EXPENSES

	2021 RMB'000	2020 RMB'000
Share-based payment arising from issue of convertible bonds	193,282	–
Share-based payment arising from issue of share option	344	7,521
Impairment losses on property, plant and equipment	–	13,467
	193,626	20,988

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

11. FINANCE EXPENSES — NET

	2021 RMB'000	2020 RMB'000
Finance income:		
Exchange gain	(1,900)	(33)
Interest revenue	(3,414)	(832)
	(5,314)	(865)
Finance expenses:		
— leases interests expenses	166	127
Interest expense:		
— short-term borrowings	101,533	106,928
— convertible bonds	60,741	46,607
Less: capitalisation in construction-in-progress	—	(1,635)
	162,440	152,027
Others	—	64
	162,440	152,091
Finance expenses — net	157,126	151,226

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

12. INCOME TAX EXPENSE

No provision for profits tax in the Cayman Islands, British Virgin Islands or Hong Kong has been made, as the Group had no assessable profit arising in or derived from those jurisdictions during the years ended 31 December 2021 and 2020.

The applicable income tax rate of other subsidiaries located in Mainland China in 2021 and 2020 is 25%.

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

	2021 RMB'000	2020 RMB'000
PRC Corporate Income Tax for Mainland China	15,957	193
LAT for Mainland China	34,498	–
Deferred income tax	30,703	19,170
	81,158	19,363

The taxation on the Group's profit/(loss) before income tax differs from the theoretical amount that would arise using the taxation rate of 25% (2020: 25%). The difference is analysed as follows:

	2021 RMB'000	2020 RMB'000
Profit/(loss) before tax	460,376	(222,439)
Tax calculated at a taxation rate of 25% (2020: 25%)	115,094	(55,610)
Tax rate difference	23,061	4,740
LAT	34,498	–
Income tax effect of LAT of 25%	(8,624)	–
Expenses not deductible for tax purposes	44,304	22,099
Utilisation of tax losses not previously recognised	(131,752)	–
Tax losses previously recognised and reversed	–	9,508
Tax losses for which no deferred income tax was recognised	5,061	37,605
Temporary differences for which no deferred income tax was recognised	–	1,230
Income not subject to tax	(484)	(209)
Income tax expense	81,158	19,363

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

13. PROFIT/(LOSS) FOR THE YEAR

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

	2021 RMB'000	2020 RMB'000
Cost of inventories sold	2,253,366	2,076,920
Depreciation of property, plant and equipment	206,988	211,958
Depreciation of investment properties	1,844	1,844
Depreciation of right-of-use assets	4,711	3,839
Directors' emoluments (<i>note 14</i>)		
— As directors	996	1,080
— For management	10,000	7,521
Amortisation of other intangible assets	108	270
Auditors' remuneration		
— Audit services	1,494	1,620
— Non-audit services	274	—
(Gain)/loss on disposal of property, plant and equipment	(34,395)	750
Reversal of impairment loss on mining right	(16,306)	(8,544)
Gain on disposal of investment properties	(78,660)	—
Gain on disposal of right-of-use assets	(1,600)	—
Share-based payment arising from issue of convertible bonds	193,282	—
Staff costs including directors' emoluments		
Salaries, bonus and allowances	82,012	63,524
Retirement benefits scheme contributions	3,813	1,583
Share-based payment arising from issue of share option	344	7,521
	86,169	72,628

Cost of inventories sold includes staff costs, depreciation of property, plant and equipment and expenses related to short-term lease of approximately RMB242,677,000 (2020: approximately RMB241,438,000) which are included in the amounts disclosed separately above.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

14. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The remuneration of every director for the years ended 31 December 2021 and 2020 is set out below:

	Fees RMB'000	Salaries, allowances and benefits in-kind RMB'000	Share-based payment RMB'000	Total RMB'000
Executive directors				
Mr. Shi Jianmin	–	10,000	–	10,000
Mr. Tang Guoqiang	498	–	–	498
Mr. Zhang Weihua	–	–	–	–
Independent non-executive directors				
Mr. Hu Xiaoping	166	–	–	166
Mr. Shi Lei (<i>Note i</i>)	83	–	–	83
Mr. Xu Congcai	166	–	–	166
Mr. Le Yiren (<i>Note ii</i>)	83	–	–	83
Total for 2021	996	10,000	–	10,996

	Fees RMB'000	Salaries, allowances and benefits in-kind RMB'000	Share-based payment RMB'000	Total RMB'000
Executive directors				
Mr. Shi Jianmin	–	–	7,521	7,521
Mr. Tang Guoqiang	540	–	–	540
Mr. Zhang Weihua	–	–	–	–
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

Notes:

- (i) Mr. Shi Lei was resigned as an independent non-executive director on 1 July 2021.
- (ii) Mr. Le Yiren was appointed as an independent non-executive director on 1 July 2021.

Notes to the Consolidated Financial Statements

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

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2020: one) directors whose emoluments are reflected in the analysis presented above. The emoluments of the remaining three (2020: four) individuals are set out below:

	2021 RMB'000	2020 RMB'000
Salaries and other benefits	2,196	3,060
Retirement benefit scheme contributions	70	40
Share-based payments expense	56	–
	2,322	3,100

The emoluments fell within the following bands:

	Number of individuals	
	2021	2020
Nil to HK\$1,000,000	2	4
HK\$1,000,001 to HK\$1,500,000	1	–
	3	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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

15. EARNINGS/(LOSS) PER SHARE

Basic

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

Diluted

Diluted earnings/(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 earnings/(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 earnings/(loss) per share.

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

	2021 RMB'000	2020 RMB'000
Earnings/(loss)		
Earnings/(loss) for the purpose of calculating basic earnings/(loss) per share	379,235	(241,779)
Finance costs saving on conversion of convertible bonds outstanding	60,741	–
	439,976	(241,779)
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic earnings/(loss) per share	5,549,960	5,488,043
Effect of dilutive potential ordinary shares arising from convertible bonds outstanding	3,425,826	–
	8,975,786	5,488,043

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16. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Motor vehicles	Office equipment and others	Construction-in-progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost						
At 1 January 2020	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 upon completion	–	8,747	–	–	(8,747)	–
At 31 December 2020	912,044	2,484,134	7,679	24,104	411,694	3,839,655
Additions	1,975	8,487	1,180	1,584	48,150	61,376
Disposals	(31,994)	(1,346)	(3,825)	(115)	–	(37,280)
Transferred upon completion	–	1,093	–	–	(1,093)	–
At 31 December 2021	882,025	2,492,368	5,034	25,573	458,751	3,863,751
Accumulated depreciation and impairment loss						
At 1 January 2020	(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)
Depreciation	(13,222)	(192,917)	(363)	(486)	–	(206,988)
Disposals	16,432	971	2,900	130	–	20,433
At 31 December 2021	(127,158)	(1,474,200)	(2,897)	(24,460)	(377,673)	(2,006,388)
Net book amount						
At 31 December 2021	754,867	1,018,168	2,137	1,113	81,078	1,857,363
At 31 December 2020	781,676	1,201,880	2,245	–	34,021	2,019,822

All the Group's buildings are located in Mainland China. As at 31 December 2021, property, plant and equipment with a total net book value of approximately RMB1,729,038,000 (2020: approximately RMB1,942,335,000) were pledged as collateral for the Group's bank borrowings.

As at 31 December 2021, property, plant and equipment with a total net book value of approximately RMB1,527,742,000 (2020: nil) were frozen by the court. Please refer to note 41 to consolidated financial statements for details.

Notes to the Consolidated Financial Statements

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

The Group carried out reviews of the recoverable amount of its construction-in-progress in 2021 and 2020, having regard to its ongoing growth and the market conditions of the Group's products. No impairment loss has been recognised in profit or loss for the construction-in-progress (2020: impairment loss of approximately RMB13,467,000). The recoverable amount of the relevant assets of approximately RMB81,078,000 (2020: approximately RMB34,021,000) has been determined on the basis of their value in use discounted cash flow method (level 3 fair value measurements). The discount rate used was 11% (2020: 10%).

For the year ended 31 December 2021, borrowing costs of approximately nil (2020: approximately RMB1,635,000) have been capitalised in the construction-in-progress.

17. INVESTMENT PROPERTIES

	2021 RMB'000	2020 RMB'000
Cost		
As at 1 January	73,052	73,052
Disposal	(59,020)	–
As at 31 December	14,032	73,052
Accumulated depreciation and impairment loss		
As at 1 January	(17,202)	(15,358)
Charge for the year	(1,844)	(1,844)
Disposal	15,939	–
As at 31 December	(3,107)	(17,202)
Net book value		
As at 31 December	10,925	55,850
Fair value as at 31 December	13,503	82,200

All the Group's investment properties are located in Mainland China. As at 31 December 2021, investment properties with a total net book value of approximately RMB10,925,000 (2020: approximately RMB55,850,000) were pledged as collateral for the Group's bank borrowings.

The fair values of the investment properties as at 31 December 2021 were estimated on the open market basic value by reference to market evidence of recent transaction for similar properties by management.

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17. INVESTMENT PROPERTIES *(Continued)*

The rental income arising from investment properties for the year 2021 of approximately RMB3,923,000 (2020: approximately RMB5,395,000) and depreciation charges are included in other income.

As at 31 December 2021, the Group had no unprovided contractual obligations for future repairs and maintenance (2020: Nil).

18. LEASES AND RIGHT-OF-USE ASSETS

Disclosures of lease-related items:

	2021 RMB'000	2020 RMB'000
At 31 December:		
Right-of-use assets		
— Land use rights	102,332	106,411
— Land and buildings	2,336	4,366
	104,668	110,777
The maturity analysis, based on undiscounted cash flows, of the Group's lease liabilities is as follows:		
— Less than 1 year	1,560	2,161
— In the second to fifth years, inclusive	945	2,505
	2,505	4,666
Year ended 31 December:		
Depreciation charge of right-of-use assets		
— Land use rights	2,681	2,683
— Land and buildings	2,030	1,156
	4,711	3,839
Lease interest expenses	166	127
Expenses related to short-term leases	244	131
Total cash outflow for leases	2,405	1,383
Additions to right-of-use assets	—	5,232

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18. LEASES AND RIGHT-OF-USE ASSETS *(Continued)*

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 2021, land use rights with a net book value of approximately RMB102,332,000 (2020: approximately RMB106,411,000) were pledged as collateral for the Group's borrowings.

As at 31 December 2021, land use rights with a net book value of approximately RMB102,332,000 (2020: nil) were frozen by the court. Please refer to note 41 to consolidated financial statements for details.

19. MINING RIGHT

The mining right represents the right to conduct mining activities in a phosphate mine located in Sichuan, Mainland China, which has a remaining legal life of 18 years, expiring in 2039.

The Group has not commenced any mining activities, therefore no amortisation was charged in this year. The impairment test information of mining right is set out in note 21 to the consolidated financial statements.

As at 31 December 2021, mining right with a net book value of approximately RMB334,306,000 (2020: approximately RMB318,000,000) were pledged as collateral for the Group's bank borrowings.

As at 31 December 2021, mining right with a net book value of approximately RMB334,306,000 (2020: nil) were frozen by the court. Please refer to note 41 to consolidated financial statements for details.

Notes to the Consolidated Financial Statements

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20. OTHER INTANGIBLE ASSETS

	Goodwill RMB'000	Construction permits RMB'000	Total RMB'000
Cost			
At 1 January 2020 and 31 December 2020	8,900	2,700	11,600
Written off	–	(2,700)	(2,700)
At 31 December 2021	8,900	–	8,900
Accumulated amortisation and impairment loss			
At 1 January 2020	(8,900)	(2,322)	(11,222)
Amortisation charge	–	(270)	(270)
At 31 December 2020	(8,900)	(2,592)	(11,492)
Amortisation charge	–	(108)	(108)
Written off	–	2,700	2,700
At 31 December 2021	(8,900)	–	(8,900)
Net book amount			
At 31 December 2021	–	–	–
At 31 December 2020	–	108	108

Construction permits represent the permissions granted by the government for the construction of GuangAn Project. Amortisation charge of approximately RMB108,000 (2020: approximately RMB270,000) is included in administrative expenses.

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21. IMPAIRMENT OF GOODWILL AND MINING RIGHT

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

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

	2021	2020
Growth rate	3%	3%
Discount rate (post-tax discount rate applied to the cash flow projections)	16.99%	16.10%
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 RMB16,306,000 (2020:RMB8,544,000) was provided on mining right for the year ended 31 December 2021.

Notes to the Consolidated Financial Statements

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22. SUBSIDIARIES

Particulars of the Company's major subsidiaries as at 31 December 2021 are set out below:

Name (Note i)	Place of incorporation/ establishment	Principal activities and place of operation	Particulars of issued and paid-up/registered share capital	Interest held
Held directly:				
Ko Yo Ecological Agrotech (BVI) Limited ("Ko Yo BVI")	the British Virgin Islands ("BVI")	Investment holding, Hong Kong	100 ordinary shares of USD1 each	100%
Bright Bridge Investments Limited	BVI	Investment holding, Hong Kong	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\$2 ordinary shares	100%
Held indirectly:				
Ko Yo Development Company Limited ("Ko Yo Hong Kong")	Hong Kong	Investment holding, Hong Kong	3,000,000 non-voting deferred shares and HK\$10 ordinary shares	100%
Dazhou Ko Yo Chemical Industry Co., Ltd. ("Dazhou Ko Yo Chemical") (Note ii, iii and v)	Mainland China	Manufacture and sale of chemical products, Mainland China	RMB420,000,000	100%
Sichuan Chengyuan Chemical Industry Co., Ltd. ("Sichuan Cuyo") (Note ii, iii and v)	Mainland China	Exploration and exploitation of a phosphorous mine, Mainland China	RMB8,000,000	100%
Sichuan Ko Yo Agrochem Co., Ltd. ("Ko Yo Agrochem") (Note ii, iii and v)	Mainland China	Sale of chemical products and chemical fertilisers, Mainland China	RMB87,000,000	100%
Guangan Ko Yo Chemical Industry Co., Ltd. ("Ko Yo GuangAn") (Note ii, iii and v)	Mainland China	Manufacture and sale of chemical products, Mainland China	RMB227,000,000	100%
Guangan Lotusan Natural Gas Chemical Co., Ltd. ("Ko Yo Lotusan") (Note ii and iv)	Mainland China	Manufacture and sale of chemical products, Mainland China	RMB160,000,000	100%

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For the year ended 31 December 2021

22. SUBSIDIARIES (Continued)

Name (Note i)	Place of incorporation/ establishment	Principal activities and place of operation	Particulars of issued and paid-up/registered share capital	Interest held
Guangan Ko Yo New Material Co., Ltd. ("Guangan New Material") (Note ii and iii)	Mainland China	Manufacture and sale of engineering plastics, Mainland China	RMB64,000,000	100%
Guangan Trading and Commerce Co., Ltd. (Note iii)	Mainland China	Sale of chemical products, Mainland China	RMB50,000,000	100%
Guangan Wan Yuen Chemical Co., Ltd. (Note iv)	Mainland China	Manufacture and sale of chemical products, Mainland China	RMB60,000,000	100%
SiChuan Ko Yo GaoXin Material Co., Ltd. (Note iii)	Mainland China	Manufacturing of chemical products, Mainland China	RMB100,000,000	100%
Guangan QianFeng Ko Yo Chemical Co., Ltd. (Note iv)	Mainland China	Manufacture and sale of chemical products, Mainland China	RMB50,000,000	100%
Dazhou New Material Co., Ltd. (Note iv)	Mainland China	Manufacture and sale of chemical products, Mainland China	RMB60,000,000	100%

Notes:

- i. The English name of certain companies referred in these consolidated financial statements represent management's best effort at translating the Chinese names of these companies as no English names have been registered.
- ii. 100% equity interest of Dazhou Ko Yo Chemical, Sichuan Cuyo, Ko Yo Agrochem, Ko Yo GuangAn, Ko Yo Lotusan and Guangan New Material were pledged as collateral for the Group's borrowings. There is no restriction on the subsidiary's ability to transfer funds to its parent in the form of cash dividends or to repay loans or advances.
- iii. These subsidiaries are foreign owned enterprises established in the PRC.
- iv. These subsidiaries are wholly domestic owned enterprises established in the PRC.
- v. At as 31 December 2021, 100% equity interest of Dazhou Ko Yo Chemical, Sichuan Cuyo, Ko Yo Agrochem, Ko Yo GuangAn and Guangan Ko Yo Phos-chemical Technology Co., Ltd. (2020: nil) were frozen by the court. Please refer to note 41 to consolidated financial statements for details.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

23. INVENTORIES

	2021 RMB'000	2020 RMB'000
Raw materials	71,077	57,165
Finished goods	40,964	15,302
	112,041	72,467

There is no inventory written down as at 31 December 2021 (2020: Nil).

24. TRADE AND OTHER RECEIVABLES

	2021 RMB'000	2020 RMB'000
Trade receivables (Note a)	1,891	74
Note receivables (Note b)	35,087	10,143
Loan receivables (Note c)	240,000	–
Proceeds from disposal of properties withhold by the court (Note 39(b) and 41)	158,615	–
Prepayments for raw materials	61,664	39,907
Prepayments for property, plant and equipment	99,428	59,600
Prepayment for construction cost	535,800	700
Other tax receivables	13,366	36,321
Due from employees	8,332	7,712
Others	12,055	6,350
	1,166,238	160,807
Analysis as:		
— Non-current assets	635,228	–
— Current assets	531,010	160,807
	1,166,238	160,807

As at 31 December 2021 and 2020, the fair value of trade and other receivables of the Group approximated to their carrying amounts.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

24. TRADE AND OTHER RECEIVABLES (Continued)

Notes:

(a) Trade receivables

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

	2021 RMB'000	2020 RMB'000
0-90 days	1,891	74

There is no movement of loss allowance for trade receivables for the years ended 31 December 2021 and 2020.

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 2021			
Weighted average expected loss rate	0%	0%	
Receivable amount (RMB'000)	1,891	-	1,891
Loss allowance (RMB'000)	-	-	-
At 31 December 2020			
Weighted average expected loss rate	0%	0%	
Receivable amount (RMB'000)	74	-	74
Loss allowance (RMB'000)	-	-	-

(b) Note receivables

As at 31 December 2021, note receivables of approximately RMB660,000 (2020: nil) were pledged as security for certain short-term borrowings.

(c) Loan receivables

The loan receivables bearing interest ranging from 7% to 9% (2020: nil) per annum. All of the loans are expected to be recovered within one year.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

25. TIME DEPOSITS, RESTRICTED BANK BALANCES AND PLEDGED BANK DEPOSITS

The time deposits are denominated in RMB. The effective interest rates are 2.00% (2020: nil).

The restricted bank balances carry interest at market rate of 0.35% p.a. and can only be applied to settle compensation from litigation loss cases. Please refer to note 41 to consolidated financial statements for details.

The pledged deposits are denominated in RMB and pledged for certain bank borrowings. The effective interest rates on pledged bank deposits are nil (at 31 December 2020 are ranging from 1.95% to 3.00%).

26. CASH AND CASH EQUIVALENTS

The weighted average effective interest rate on cash at bank at 31 December 2021 is 0.35% (2020: 0.35%).

As at 31 December 2021, the bank and cash balances of the Group denominated in RMB amounted to RMB385,949,000 (2020: RMB12,132,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations.

27. SHARE CAPITAL

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

	Number of shares		Share capital	
	2021 '000	2020 '000	2021 HKD'000	2020 HKD'000
Authorised (Ordinary share of HK\$0.10 each):				
At the beginning and the end of the year	20,000,000	20,000,000	2,000,000	2,000,000

Ordinary shares, issued and fully paid:

	Number of shares		Share capital	
	2021 '000	2020 '000	2021 RMB'000	2020 RMB'000
At the beginning of the year	5,488,043	5,488,043	474,879	474,879
Issue of shares:				
— Conversion of bonds (Note a)	200,000	—	16,570	—
At the end of the year	5,688,043	5,488,043	491,449	474,879

(a) Conversion of bonds

During the year ended 31 December 2021, the convertible bonds holders exercised certain convertible bonds to subscribe 200,000,000 (No convertible bonds were exercised during the year ended 31 December 2020) ordinary shares at an exercise price of HKD0.141 per share.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

27. SHARE CAPITAL *(Continued)*

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, time deposits and pledged bank deposits. Total capital is calculated as "equity" as shown in the consolidated statement of financial position plus net debt.

The gearing ratio as at 31 December were as follows:

	2021	2020
	RMB'000	RMB'000
Short-term borrowings	1,783,709	1,886,250
Convertible bonds	771,869	287,932
Total borrowings	2,555,578	2,174,182
Less:		
Cash and cash equivalents	(393,259)	(14,539)
Time deposits	(20,000)	–
Pledged bank deposits	–	(29,175)
Net debt	2,142,319	2,130,468
Total equity	823,588	18,517
Total capital	2,965,907	2,148,985
Gearing ratio	72%	99%

The decrease (2020: increase) in the gearing ratio resulted mainly from the profit for the year and issuance of convertible bonds (2020: loss for the year).

Notes to the Consolidated Financial Statements

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28. SHARE-BASED PAYMENT

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

Share Option Schemes

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

Date of grant	14 January 2010	23 November 2010	28 March 2013	22 June 2016	23 October 2020	22 November 2021	Total	Weighted
							Number of Share Options	average exercise price (HKD)
Exercise price (HKD per option)	1.15	1.1	0.595	0.151	0.141	0.182		
Remaining life	N/A	N/A	1.24 year	4.47 year	8.81 year	9.9 year		
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	135 employees		
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)	1.1405
31 December 2020	–	–	4,200,000	1,500,000	300,000,000	–	305,700,000	0.1473
1 January 2021	–	–	4,200,000	1,500,000	300,000,000	–	305,700,000	0.1473
Granted	–	–	–	–	–	77,312,000	77,312,000	0.1820
31 December 2021	–	–	4,200,000	1,500,000	300,000,000	77,312,000	383,012,000	0.1543

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

28. SHARE-BASED PAYMENT *(Continued)*

Share Option Schemes *(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	22 November 2021
Share price on date of grant	HK\$0.182
Exercise price	HK\$0.182
Expected volatility <i>(Note a)</i>	51.941%
Expected life	10 years
Risk-free rate <i>(Note b)</i>	1.410%
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 HKD6,477,000 (RMB5,295,000) (2020: HKD8,735,000 (RMB7,521,000)). In the year ended 31 December 2021, the Group recognised share-based payments of HKD419,000 (RMB344,000) (2020: HKD8,735,000 (RMB7,521,000)) in profit or loss and the corresponding amount has been credited to share option reserve.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

29. RESERVES

(a) Group

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

(b) Company

	Share premium	Contributed surplus	Share option reserve	Convertible bonds reserve	Accumulated losses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
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)
At 1 January 2021	1,519,172	37,162	35,790	401,754	(2,451,774)	(457,896)
Total comprehensive income for the year	-	-	-	-	379,235	379,235
Issuance of convertible bonds	-	-	-	407,071	-	407,071
Share-based payments	-	-	344	-	-	344
Issue of shares: — Conversion of bonds	9,604	-	-	(7,736)	-	1,868
At 31 December 2021	1,528,776	37,162	36,134	801,089	(2,072,539)	330,622

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

29. RESERVES *(Continued)*

(c) Nature and purpose of reserves

(i) Merger reserve

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

(ii) Reserve fund

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

(iii) Contributed surplus

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

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

Sichuan Ko Chang Technology Co., Ltd. ("Ko Yo Ko Chang") was established by the Group with fully paid share capital of RMB10,000,000 in May 2012.

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

30. BORROWINGS

	2021 RMB'000	2020 RMB'000
Short-term borrowings	1,783,709	1,886,250

The borrowings are secured by note receivables of approximately RMB660,000 (2020: nil), pledged bank deposits of nil (2020: approximately RMB29,175,000), property, plant and equipment with a total net book value of approximately RMB1,729,038,000 (2020: approximately RMB1,942,335,000), investment properties with a total net book value of approximately RMB10,925,000 (2020: approximately RMB55,850,000), mining right with a total net book value of approximately RMB334,306,000 (2020: approximately RMB318,000,000), right-of-use assets with total net book value of approximately RMB102,332,000 (2020: approximately RMB106,411,000), 100% equity interest in Dazhou Ko Yo Chemical, Sichuan Cuyo, Guangan New Material, Ko Yo GuangAn, Ko Yo Lotusan and Ko Yo Argochem (2020: 100% equity interest in Dazhou Ko Yo Chemical, Sichuan Cuyo, Guangan New Material, Ko Yo GuangAn, Ko Yo Lotusan and Ko Yo Argochem).

As at 31 December 2021, the Group had not met certain financial covenant for its borrowings and an amount of RMB177,955,000 (2020: RMB586,680,000) was then reclassified as current liabilities according to the loan agreement.

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

	2021 RMB'000	2020 RMB'000
At fixed rates in RMB	1,783,709	1,886,250

The short-term borrowings were issued at interest rates which range from 4.35% to 8.70% (2020: 4.35% to 8.64%) per annum. The fair value of short-term borrowings approximate to their carrying amounts.

31. CONVERTIBLE BONDS

	2021 RMB'000	2020 RMB'000
Liability component		
Convertible bonds 1	170,189	150,982
Convertible bonds 2	28,509	26,267
Convertible bonds 3	74,434	68,733
Convertible bonds 4	26,975	41,950
Convertible bonds 5	471,762	–
	771,869	287,932

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

31. CONVERTIBLE BONDS (Continued)

Convertible bonds 1

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

	Liability component	Equity component	Total
	RMB'000	RMB'000	RMB'000
At 1 January 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
At 1 January 2021	150,982	218,947	369,929
Interest expense accrued	37,175	–	37,175
Interest expense charged to accrued expense	(17,968)	–	(17,968)
At 31 December 2021	170,189	218,947	389,136

The principal amount of the convertible bonds as at 31 December 2021 is approximately RMB256,685,000 (2020: approximately RMB256,685,000).

Notes to the Consolidated Financial Statements

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31. 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
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
At 1 January 2021	26,267	40,051	66,318
Interest expense accrued	3,564	–	3,564
Interest expense charged to accrued expense	(1,322)	–	(1,322)
At 31 December 2021	28,509	40,051	68,560

The principal amount of the convertible bonds as at 31 December 2021 is approximately RMB33,047,000 (2020: approximately RMB33,047,000).

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For the year ended 31 December 2021

31. 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	Equity component	Total
	RMB'000	RMB'000	RMB'000
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
At 1 January 2021	68,733	123,338	192,071
Interest expense accrued	9,190	–	9,190
Interest expense charged to accrued expense	(3,489)	–	(3,489)
At 31 December 2021	74,434	123,338	197,772

The principal amount of the convertible bonds as at 31 December 2021 is approximately RMB87,208,000 (2020: approximately RMB87,208,000).

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For the year ended 31 December 2021

31. 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	Equity component	Total
	RMB'000	RMB'000	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
At 1 January 2021	41,950	19,418	61,368
Interest expense accrued	5,261	–	5,261
Interest expense charged to accrued expense	(1,798)	–	(1,798)
Converted during the year	(18,438)	(7,736)	(26,174)
At 31 December 2021	26,975	11,682	38,657

The principal amount of the convertible bonds as at 31 December 2021 is approximately RMB35,954,000 (2020: RMB59,924,000).

Notes to the Consolidated Financial Statements

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31. CONVERTIBLE BONDS (Continued)**Convertible bonds 5**

On 30 November 2021, the convertible bonds in the principal amount of HKD831,600,000 was subscribed by the subscriber, pursuant to the subscription agreement entered into between the Company and the subscriber on 10 July 2019. The convertible bonds bears interest at 5% per annum on the principal amount of the convertible bonds outstanding from time to time. The convertible bonds can be converted into ordinary shares at a conversion price of HKD0.108 from the day immediately following the date of the issue of convertible bonds to the maturity date which is 30 November 2026. If the convertible bonds have not been converted, they will be redeemed at par on 30 November 2026. The convertible bonds shall be translated at the exchange rate of RMB1.00 to HKD1.2229.

	Liability component	Equity component	Total
	RMB'000	RMB'000	RMB'000
Fair value of convertible bonds on grant date	466,211	407,071	873,282
Interest expense accrued	5,551	–	5,551
At 31 December 2021	471,762	407,071	878,833

The principal amount of the convertible bonds as at 31 December 2021 is approximately RMB680,000,000.

32. DEFERRED INCOME TAX

There were no offsetting of deferred income tax assets and liabilities in 2021 and 2020.

	2021	2020
	RMB'000	RMB'000
Deferred tax assets:		
— To be recovered after more than 12 months	38,658	65,284
— To be recovered within 12 months	–	–
	38,658	65,284
Deferred tax liabilities		
— To be settled after more than 12 months	(80,867)	(76,790)
— To be settled within 12 months	–	–
	(80,867)	(76,790)

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32. DEFERRED INCOME TAX (Continued)

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

Deferred income tax assets:

	Tax losses
	RMB'000
At 1 January 2020	82,319
Charged to profit or loss	(17,035)
	<hr/>
At 31 December 2020	65,284
	<hr/>
At 1 January 2021	65,284
Charged to profit or loss	(26,626)
	<hr/>
At 31 December 2021	38,658
	<hr/>

Deferred income tax liabilities:

	Mining right
	RMB'000
At 1 January 2020	(74,655)
Charged to profit or loss	(2,135)
	<hr/>
At 31 December 2020	(76,790)
	<hr/>
At 1 January 2021	(76,790)
Charged to profit or loss	(4,077)
	<hr/>
At 31 December 2021	(80,867)
	<hr/>

As at 31 December 2021, the Group had total unused tax losses of approximately RMB245,974,000 (2020: approximately RMB897,125,000). No deferred tax asset has been recognised in respect of tax losses of certain subsidiaries of approximately RMB91,344,000 (2020: approximately RMB588,955,000) due to the unpredictability of future profit streams of these subsidiaries. Deferred tax asset of approximately RMB38,658,000 (2020: approximately RMB77,043,000) has been recognised in respect of the tax losses of certain subsidiaries of approximately RMB154,630,000 (2020: approximately RMB308,170,000) as management considered it is probable that these subsidiaries can generate sufficient taxable profit to utilise the above tax losses. These tax losses will expire from year 2022 to 2026 (2020: 2021 to 2025).

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33. TRADE AND OTHER PAYABLES

	2021 RMB'000	2020 RMB'000
Trade payables (Note a)	27,671	21,811
Construction payable	114,539	141,686
Accrued expenses	59,035	60,202
Interest payables	183,032	144,584
Other taxes payable	17,689	37,790
Others	9,039	6,226
	411,005	412,299

(a) Trade payables

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

	2021 RMB'000	2020 RMB'000
Less than 1 year	27,460	20,126
Over 1 year	211	1,685
	27,671	21,811

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

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34. CONTRACT LIABILITIES

	At 31 December		At 1 January
	2021	2020	2020
	RMB'000	RMB'000	RMB'000
Disclosures of revenue-related items:			
Contract liabilities	117,322	159,903	204,667

	At 31 December		At 1 January
	2021	2020	2020
	RMB'000	RMB'000	RMB'000
Contract receivables (included in trade receivables)	1,891	74	867

	2021	2020
	RMB'000	RMB'000
Revenue recognised in the year that was included in contract liabilities at beginning of year	159,455	203,834

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

	2021	2020
	RMB'000	RMB'000
— 2021	N/A	159,903
— 2022	117,322	—
	117,322	159,903

Significant changes in contract liabilities during the year:

	2021	2020
	RMB'000	RMB'000
Increase due to operations in the year	116,874	159,070
Transfer of contract liabilities to revenue	(159,455)	(203,834)

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.

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35. LEASE LIABILITIES

	2021 RMB'000	2020 RMB'000
Minimum lease payments		
Within one year	1,560	2,161
In the second to fifth years, inclusive	945	2,505
	2,505	4,666
Less: Future finance charges	(96)	(262)
Present value of lease obligations	2,409	4,404
Present value of minimum lease payments		
Within one year	1,483	1,995
In the second to fifth years, inclusive	926	2,409
	2,409	4,404
Less: Amount due for settlement within 12 months (shown under current liabilities)	(1,483)	(1,995)
Amount due for settlement after 12 months	926	2,409

At 31 December 2021, the average effective borrowing rate was 4.75% (2020: 4.75%) . Interest rates are fixed at the contract dates and thus expose the Group to fair value interest rate risk.

36. COMMITMENTS

(a) Capital commitments

	2021 RMB'000	2020 RMB'000
Constructions-in-progress:		
Contracted but not provided for	2,717,240	248,132
Purchase consideration for a company	27,000	-
	2,744,240	248,132

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

36. COMMITMENTS (Continued)

(b) Operating leases rental receivables

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

	2021 RMB'000	2020 RMB'000
Not later than 1 year	147	3,936
More than one year but not exceeding five years	656	1,076
	803	5,012

37. RELATED-PARTY TRANSACTIONS

At 31 December 2021, short-term borrowings of approximately RMB1,258,692,000 (2020: approximately RMB1,310,525,000) from Huaxia Bank, Bohai Bank, Bank of Dalian, Evergrowing Bank, Bank of Communications ("BOCOM"), Export-Import Bank of China ("EXIM Bank"), China Minsheng Bank ("Minsheng Bank"), Shanghai Pudong Development Bank ("SPD Bank"), Bank of Shanghai, China Industrial Bank ("CIB"), China Merchants Bank ("CMB") and Changzhou Jingliyuan Photovoltaic Technology Company (2020: Huaxia Bank, Bohai Bank, Bank of Dalian, Evergrowing Bank, BOCOM, EXIM Bank, Minsheng Bank, SPD Bank, Bank of Shanghai, CIB, CMB and Changzhou Jingliyuan Photovoltaic Technology Company) 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.

38. KEY MANAGEMENT COMPENSATION (EXCLUDING DIRECTORS' EMOLUMENTS)

	2021 RMB'000	2020 RMB'000
Salaries and other benefits	2,805	2,740
Retirement benefit scheme contributions	86	51
Share-based payments expense	83	–
	2,974	2,791

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

39. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Changes in liabilities arising from financing activities

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

	Lease liabilities RMB'000	Convertible bonds RMB'000	Short-term borrowings RMB'000	Total liabilities from financing activities RMB'000
At 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 and 1 January 2021	4,404	287,932	1,886,250	2,178,586
Changes in cash flows	(2,161)	680,000	(84,148)	593,691
Non-cash changes				
— classified as equity component	–	(213,789)	–	(213,789)
— converted during the year	–	(18,438)	–	(18,438)
— interest charged	166	60,741	–	60,907
— proceeds from disposal of properties withhold by the court and paid to banks	–	–	(19,020)	(19,020)
— issuance of note payables	–	–	627	627
— reallocation to interest payables including in other payables	–	(24,577)	–	(24,577)
At 31 December 2021	2,409	771,869	1,783,709	2,557,987

(b) Non-cash transaction

During the year, investment properties of approximately RMB43,081,000, property, plant and equipment of approximately RMB14,087,000 and land use rights of approximately RMB1,398,000 were auction by the court. Total gross proceeds of approximately RMB183,335,000, of which approximately RMB158,615,000 were held by the court and after deducting direct cost of approximately RMB1,346,000 and LAT of approximately RMB4,354,000, the remaining amount of approximately RMB19,020,000 were paid directly by the court to settle the Group's short-term borrowings. Please refer to note 41 to the consolidated financial statements for details.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

	2021 RMB'000	2020 RMB'000
ASSETS		
Non-current assets		
Interests in subsidiaries	107,264	107,264
Right-of-use assets	–	1,873
Loan to subsidiaries	1,681,126	481,371
	1,788,390	590,508
Current assets		
Other receivables	384	368
Cash and cash equivalents	23	19
	407	387
Total assets	1,788,797	590,895
EQUITY		
Capital and reserves attributable to equity holders of the Company		
Share capital	491,449	474,879
Reserves	330,622	(457,896)
Total equity	822,071	16,983
LIABILITIES		
Non-current liabilities		
Convertible bonds	771,869	287,932
Lease liabilities	–	297
	771,869	288,229
Current liabilities		
Accruals and other payables	94,360	115,958
Financial guarantee liabilities	100,497	168,563
Lease liabilities	–	1,162
	194,857	285,683
Total liabilities	966,726	573,912
Total equity and liabilities	1,788,797	590,895
Net current liabilities	(194,450)	(285,296)
Total assets less current liabilities	1,593,940	305,212

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

41. LITIGATIONS

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

	2021 RMB'000	2020 RMB'000
Property, plant and equipment	1,527,742	–
Land use rights	102,332	–
Mining right	334,306	–
Restricted bank balances	250	418
	1,964,630	418

At as 31 December 2021, 100% equity interest of Dazhou Ko Yo Chemical, Sichuan Cuyo, Ko Yo Agrochem, Ko Yo GuangAn and Guangan Ko Yo Phos-chemical Technology Co., Ltd. (2020: nil) were frozen by the court.

On 15 September 2020, Koyo Agrochem and BOCOM entered into a loan agreement for an aggregate principal loan amount of RMB68,000,000 ("Agrochem Loan A"). On 30 October 2020, the Intermediate People's Court of Chengdu Municipality, Sichuan Province* (四川省成都市中级人民法院) (the "Chengdu Intermediate Court") issued a judgment (the "Judgment") pursuant to which Koyo Agrochem was required to repay the Agrochem Loan A. On 31 August 2021, the Chengdu Intermediate Court made enforcement action on auction of pledged properties held by the Group located on Qingdao (the "Pledged Properties A"). The Pledged Properties A were disposed of and gross proceeds of approximately RMB24,720,000 were used to repay Agrochem Loan A. The Group is engaged in the negotiation process with BOCOM with an aim to renew and/or restructure the outstanding amount of Agrochem Loan A. No action has been initiated by BOCOM after auction of the Pledged Properties A mentioned above. The Group has submitted its proposed repayment schedule to BOCOM, and the Group is awaiting BOCOM to revert on their views on the proposal.

On 24 September 2019, Koyo Agrochem and 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 judgment was handed down by the Chengdu Intermediate Court on 14 December 2020 (the "Agrochem Judgment"). On 20 October 2021, the Chengdu Intermediate Court made enforcement action on auction of pledged properties held by the Group located on Chengdu (the "Pledged Properties B"). The Pledged Properties B were disposed of and gross proceeds of approximately RMB158,615,000, which will be used for settlement of Koyo Agrochem and Dazhou Ko Yo Chemical's bank borrowings after confirming outstanding amounts with Minsheng Bank. The Group is engaged in negotiation process with Minsheng Bank and the Chengdu Intermediate Court for repayment arrangement. The Group is awaiting the Minsheng Bank and the Chengdu Intermediate Court's views on repayment arrangement.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

41. LITIGATIONS *(Continued)*

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

In mid-December 2020, Changzhou Jingliyuan Photovoltaic Technology Company against Koyo Agrochem in relation to a dispute arising from an amount of RMB30,000,000 with Changzhou Jingliyuan Photovoltaic Technology Company to Koyo Agrochem. A court hearing took place on 23 February 2021 at Changzhou Court. On 22 April 2021, Changzhou Jingliyuan Photovoltaic Technology Company and Koyo Agrochem reached a settlement agreement in respect of the amount.

In 2021, CIB claimed Koyo Agrochem, Dazhou Koyo Chemical, Sichuan Cuyo, Lotusan Ko Yo, Ko Yo GuangAn, and Guangan New Material at the Chengdu Intermediate Court, in respect of an outstanding debt of approximately RMB44,745,000 together with accrued interests and costs. An enforcement action was instituted at Chengdu Intermediate Court on 4 February 2021; but no court order has been published. The Group has submitted its proposed repayment schedule to CIB, and the Group is awaiting CIB to revert on their views on the proposal.

During November 2019, Koyo Agrochem, Dazhou Ko Yo Chemical and Ko Yo Guangan entered into a loan agreements with SPD Bank for an aggregate principal loan amount of RMB177,400,000 ("Loan B"). On 21 July 2021, the Chengdu Intermediate Court issued a judgment pursuant to which Koyo Agrochem, Dazhou Ko Yo Chemical and Ko Yo Guangan were required to repay the Loan B together with accrued interest and costs. An execution notice was issued by Chengdu Intermediate Court on 15 November 2021. The Group is engaged in the negotiation process with SPD Bank with an aim to renew and/or restructure the Loan B for outstanding amounts. The Group has submitted its proposed repayment schedule to SPD Bank, and the Group is awaiting SPD Bank to revert on their views on the proposal.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

41. LITIGATIONS *(Continued)*

During March 2021, Dazhou Ko Yo Chemical entered into a loan agreement with Bank of Dalian for aggregate principal loan amount of RMB80,000,000 ("Loan C"). On 24 August 2021, the Chengdu Intermediate Court issued a notice pursuant to which Dazhou Ko Yo Chemical were required to repay the Loan C together with accrued interest and costs in according to notarization made. An enforcement action was enforced by Chengdu Intermediate Court on 8 December 2021. The Group is engaged in the negotiation process with Bank of Dalian with an aim to renew and/or restructure the Loan C. The Group has submitted its proposed repayment schedule to Bank of Dalian, and the Group is awaiting Bank of Dalian to revert on their views on the proposal.

During July 2016, Dazhou Ko Yo Chemical entered into a loan agreement with CMB for an aggregate principal loan amount of RMB75,000,000 ("Loan D"). On 31 May 2021, the Chengdu Intermediate Court issued a notice pursuant to which Dazhou Ko Yo Chemical were required to repay the Loan D together with accrued interest and costs in according to notarization made. On 21 March 2022, the Group reached a settlement agreement with CMB to extend the repayment schedule for 5 years until 2026.

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

42. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements were approved and authorised for issue by the Board of Directors on 30 March 2022.

Five Year Financial Summary

The following table summarizes the audited results, assets and liabilities of the Group for the five years ended 31st December 2021.

	2021	2020	2019	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	3,066,543	2,111,133	1,964,476	3,101,031	3,678,169
Profit/(Loss) before taxation	460,376	(222,439)	(712,242)	(347,685)	(471,170)
Taxation	(81,158)	(19,363)	(19,570)	(601)	16,737
Minority interest	(17)	(23)	(248)	(77)	(94)
Profit/(Loss) after taxation	379,235	(241,779)	(731,564)	(348,209)	(454,339)
Total assets	4,037,708	2,847,247	2,982,762	3,282,871	3,954,871
Total liabilities	(3,214,120)	(2,828,730)	(2,749,382)	(2,697,660)	(3,021,374)
Total equity	823,588	18,517	233,380	585,211	933,497