KOYO

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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 00827)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2020

HIGHLIGHTS

— For the year ended 31st December 2020, the net cash inflow from operating activities before working capital changes and tax and interest payment was approximately RMB159.9 million, which represent an increase of approximately RMB76.4 million as compared to that of approximately RMB83.5 million in year 2019.

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

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

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

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

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

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

The board of directors (the "Board") is pleased to present the audited annual results of Ko Yo Chemical (Group) Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 December 2020.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

1. GENERAL INFORMATION

Ko Yo Chemical (Group) Limited (the "Company") was incorporated in the Cayman Islands as an exempted company with limited liability. The address of the registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The address of the principal place of business is Suite No. 02, 31st Floor, Sino Plaza, 255–257 Gloucester Road, Causeway Bay, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company is an investment holding company. The Company and its subsidiaries (the "Group") are principally engaged in the manufacture and sale of chemical products and chemical fertilisers in the People's Republic of China (the "PRC").

The consolidated financial statements have been presented in Renminbi ("RMB"), which is also the functional currency of the Company and its principal subsidiaries.

2. GOING CONCERN BASIS

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

In the view of the directors of the Company, the Group had a net operating cash inflow of approximately RMB6,575,000 during the year and the Group's business is under normal operations. In order to improve the Group's financial position, to provide liquidity and cash flows and sustain the Group as a going concern, the Group has been implementing a number of measures, including but not limited to:

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

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

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

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

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

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

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

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are relevant to its operations and effective for its accounting year beginning on 1 January 2020. HKFRSs comprise Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards; and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's consolidated financial statements and amounts reported for the current year and prior years.

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

4. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

Consolidation

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

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

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

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

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

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

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

Business combination and goodwill

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

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

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

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

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

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

Foreign currency translation

(i) Functional and presentation currency

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

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

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

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

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

Property, plant and equipment

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

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

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

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

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

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

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

Investment properties

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

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

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

Mining rights

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

Leases

The Group as lessee

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

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

The Group as lessor

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

Construction permits

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

Inventories

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

Recognition and derecognition of financial instruments

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

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

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

Financial assets

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

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

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

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

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

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

Loss allowances for expected credit losses

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

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

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

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

Cash and cash equivalents

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

Financial liabilities and equity instruments

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

Convertible bonds

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

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

Financial guarantee contract liabilities

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

— the loss allowance; and

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

Borrowings

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

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

Trade and other payables

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

Equity instruments

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

Share-based payment transactions

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

(a) Share options

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

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

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

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

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

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

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

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

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

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

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

The equity component is not remeasured subsequent to initial recognition.

Revenue from contracts with customers

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

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

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

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

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

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

Interest revenue

Interest revenue is recognised using the effective interest method.

Other income

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

Employee benefits

(a) Employee leave entitlements

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

(b) Pension obligations

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

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

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

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

Borrowing costs

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

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

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

Government grants

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

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

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

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

Taxation

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

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

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

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

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

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

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

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

Related parties

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

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

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

 (ii) has significant influence over the Group; or

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

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

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

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

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

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

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

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

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

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

Impairment of assets

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

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

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

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

Provisions and contingent liabilities

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

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

Events after the reporting period

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

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Critical judgements in applying accounting policies

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

(a) Going concern basis

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

Key sources of estimation uncertainty

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

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

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

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

(b) Impairment of mining right

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

(c) Income taxes

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

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

6. FINANCIAL RISK MANAGEMENT

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

(a) Foreign exchange risk

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

(b) Cash flow and fair value interest rate risk

The Group's interest rate risk mainly arises from pledged bank deposits and borrowings. Long-term borrowing issued at variable rates expose the Group to cash flow risk which is partially offset by cash held at variable rates. The Group's pledged bank deposits, short-term borrowings and convertible bonds were issued at fixed rates and exposed the Group to fair value interest rate risk. During 2020 and 2019, the Group's long-term borrowings at variable rate were denominated in RMB.

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

As at 31 December 2020, if interest rates on long-term borrowings had been increased/decreased by 20 basis points with all other variables held constant, post-tax loss for the year would have been increased/decreased by nil (2019: post-tax loss increased/decreased by approximately RMB1,173,000), mainly as a result of higher/lower interest expense on floating rate borrowings.

(c) Credit risk

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

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

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

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

— internal credit rating;

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

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

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

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

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

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

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

(d) Liquidity risk

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

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

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

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

The Group has been investing in the construction of new production lines and a significant amount of the financing was obtained from short-term borrowings. As a result, the Group had net current liabilities of approximately RMB2,184 million as at 31 December 2020 (2019: approximately RMB1,801 million). The Group is actively negotiating with Group's bankers to renew and/or restructure the borrowings.

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

(e) Categories of financial instruments

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

(f) Fair values

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

7. REVENUE

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

Disaggregation of revenue from contracts with customers

Geographical information

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

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

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

Timing of revenue recognition

For the years ended 31 December 2020 and 2019, all revenue is recognised at a point of time.

The Group's sales made in Mainland China are subject to value-added tax. The applicable rates of output value added tax range from 0% to 16% for the years ended 31 December 2020 and 2019.

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

Sale of chemical products and chemical fertilizers

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

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

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

8. OTHER INCOME — NET

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

9. OTHER EXPENSES

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

10. FINANCE EXPENSES — NET

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

11. INCOME TAX EXPENSE

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

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

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

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

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

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

12. LOSS FOR THE YEAR

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

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

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

13. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

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

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

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

Note:

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

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

(b) Five highest paid individuals

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

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

The emoluments fell within the following bands:

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

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

14. LOSS PER SHARE

Basic

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

Diluted

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

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

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

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

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

15. PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

16. INVESTMENT PROPERTIES

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

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

The fair values of the investment properties as at 31 December 2020 were estimated on the open market basic value by reference to market evidence of recent transaction for similar properties by management. It falls under level 2 in the fair value hierarchy.

The rental income arising from investment properties for the year 2020 of approximately RMB5,395,000 (2019: approximately RMB5,049,000) and depreciation charges are included in other income.

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

17. LEASES AND RIGHT-OF-USE ASSETS

Disclosures of lease-related items:

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

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

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

18. MINING RIGHT

The mining right represents the right to conduct mining activities in a phosphate mine located in Sichuan, Mainland China, which has a remaining legal life of 19 years, expiring in 2039.

The Group has not commenced any mining activities, therefore no amortisation was charged in this year. The impairment test information of mining right is set out in Note 20.

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

19. OTHER INTANGIBLE ASSETS

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

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

20. IMPAIRMENT OF GOODWILL AND MINING RIGHT

The goodwill (Note 19) and mining right (Note 18) are allocated to the Group's cash-generating unit ("CGU") in relation to the mining activities of the phosphate mine located in Sichuan, Mainland China and its production of phosphoric acid. The recoverable amount of the CGU is determined based on fair value less costs of disposal calculations. The fair value less costs of disposal is derived by using discounted cash flow approach which incorporates assumptions that market participants would use in estimating the CGU's fair value. It falls under level 3 in the fair value hierarchy.

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

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

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

21. SUBSIDIARIES

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

Name ***(Note i)***	**Place of incorporation/ establishment**	**Principal activities and place of operation**	**Particulars of issued share capital**	**Interest held**
Held directly:				
Ko Yo Ecological Agrotech (BVI) Limited ("Ko Yo BVI")	the British Virgin Islands (the "BVI")	Investment holding, the BVI	100 ordinary shares of USD1 each	100%
Bright Bridge Investments Limited	BVI	Investment holding, the BVI	1 ordinary share of USD1 each	100%
Ko Yo Hong Kong New Material Company Limited ("Hong Kong New Material")	Hong Kong	Investment holding, Hong Kong	HK$10,000 ordinary shares	100%

Name *(Note i)*	Place of incorporation/ establishment	Principal activities and place of operation	Particulars of issued share capital	Interest held
Held indirectly:				
Ko Yo Development Company Limited ("Ko Yo Hong Kong")	Hong Kong	Investment holding, Hong Kong	3,000,000 non-voting deferred shares and HK$100 ordinary shares	100%
Chengdu Ko Yo Compound Fertilisers Co., Ltd. ("Chengdu Ko Yo Compound")	Mainland China	Manufacture, research, development and sale of bulk blended fertilisers, Mainland China	RMB15,000,000	100%
Dazhou Ko Yo Chemical Industry Co., Ltd ("Dazhou Ko Yo Chemical") *(Note ii)*	Mainland China	Manufacture and sale of chemical products, Mainland China	RMB350,000,000	100%
Qingdao Ko Yo Chemical Industry Co., Ltd. ("Qingdao Ko Yo Chemical")	Mainland China	Manufacture, research, development and sale of bulk blended fertilisers, Mainland China	USD2,100,000	100%
Hong Kong Cuyo Investment Limited ("Hong Kong Cuyo")	Hong Kong	Investment holding, Hong Kong	HK$4,720,000 ordinary shares	100%
Sichuan Chengyuan Chemical Industry Co., Ltd ("Sichuan Cuyo") *(Note ii)*	Mainland China	Exploration and exploitation of a phosphorous mine, Mainland China	RMB5,000,000	100%
Sichuan Ko Yo Agrochem Co., Ltd ("Ko Yo Agrochem") *(Note ii)*	Mainland China	Sale of chemical products and chemical fertilisers, Mainland China	RMB24,000,000	100%
Guangan Ko Yo Chemical Industry Co., Ltd ("Ko Yo GuangAn") *(Note ii)*	Mainland China	Manufacture and sale of chemical products, Mainland China	RMB160,000,000	100%
Chengdu Dayuan Chemical Industry Co., Ltd ("Ko Yo Dayuan")	Mainland China	Investment holding, Mainland China	RMB100,000	100%
Chengdu Meiyuan Chemical Industry Co., Ltd ("Ko Yo Meiyuan")	Mainland China	Investment holding, Mainland China	RMB100,000	100%

Name *(Note i)*	Place of incorporation/ establishment	Principal activities and place of operation	Particulars of issued share capital	Interest held
Guangan Lotusan Natural Gas Chemicals Co., Ltd ("Ko Yo Lotusan") *(Note ii)*	Mainland China	Manufacture and sale of chemical products, Mainland China	RMB43,000,000	100%
Sichuan Ko Chang Technology Co., Ltd ("Ko Yo Ko Chang")	Mainland China	Development of phosphoric acid production technology	RMB10,000,000	55%
Guangan Ko Yo New Material Co., Ltd ("Guangan New Material") *(Note ii)*	Mainland China	Manufacture and sale of engineering plastics, Mainland China	RMB64,000,000	100%
Sichuan KoYo Chemical Sci-tech Development Co., Ltd	Mainland China	Development of chemical production technology, Mainland China	–	100%
Guangan Ko Yo Phos-chemical Technology Co., Ltd ("Guangan Phos")	Mainland China	Manufacture and sale of chemical products, Mainland China	RMB100,000,000	100%
Guangan Koyo Commercial and Trading Co., Ltd.	Mainland China	Sale of chemical products and chemical fertilisers, Mainland China	RMB 50,000,000	100%
Guangan Hong Yuan Chemical Co., Ltd.	Mainland China	Sale of chemical products and chemical fertilisers, Mainland China	–	100%
Guangan Hong Yuan Technology Co., Ltd.	Mainland China	Investment holding, Mainland China	–	100%
Sichuan Koyo Advanced Material Co. Ltd.	Mainland China	Investment holding, Mainland China	–	100%
Guangan Qianfeng Koyo Chemical Co., Ltd.	Mainland China	Sale of chemical products and chemical fertilisers, Mainland China	–	100%
Dazhou Koyo New Material Co. Ltd	Mainland China	Sale of chemical products and chemical fertilisers, Mainland China	–	100%

Notes:

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

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

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

22. INVENTORIES

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

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

23. TRADE AND OTHER RECEIVABLES

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

As at 31 December 2020 and 2019, the fair value of trade and other receivables of the Group approximated to their carrying amounts.

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

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

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

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

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

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

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

	Current	**Over 365 days past due**	**Total**
At 31 December 2020			
Weighted average expected loss rate	**0%**	**0%**	
Receivable amount (RMB'000)	**74**	**–**	**74**
Loss allowance (RMB'000)	**–**	**–**	**–**
At 31 December 2019			
Weighted average expected loss rate	0%	0%	
Receivable amount (RMB'000)	867	–	867
Loss allowance (RMB'000)	–	–	–

24. PLEDGED BANK DEPOSITS

The deposits are denominated in RMB and pledged for certain bank borrowings. The effective interest rates on pledged bank deposits are ranging from 0.15% to 2.80% (2019: 0.15% to 2.80%).

25. CASH AND CASH EQUIVALENTS

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

26. SHARE CAPITAL

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

	Number of shares		Share capital	
	2020	2019	**2020**	2019
	'000	*'000*	***HKD'000***	*HKD'000*
Authorised				
(Ordinary share of HK$0.10 each):				
At the beginning and the end of the year	**8,000,000**	8,000,000	**800,000**	800,000

Ordinary shares, issued and fully paid:

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

(a) Conversion of bonds

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

Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may issue new shares, borrow or repay debts or adjust the amount of dividends paid to shareholders.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents and pledged bank deposits. Total capital is calculated as "equity" as shown in the consolidated statement of financial position plus net debt.

The gearing ratio as at 31 December were as follows:

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

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

27. SHARE-BASED PAYMENT

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

New Share Option Scheme

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

Date of grant	14 January 2010	23 November 2010	28 March 2013	22 June 2016	23 October 2020	Total Number of Share Options	Weighted average exercise price (HKD)
Exercise price (HKD per option)	1.15	1.1	0.595	0.151	0.141		
Remaining life	N/A	N/A	2.24 years	5.47 years	9.81 years		
Granted to	5 executive directors and 8 employees	3 independent directors	4 executive directors and 2 independent directors and 21 employees	1 executive director and 3 employees	1 executive director		
1 January 2019	3,900,000	800,000	6,200,000	1,500,000	–	12,400,000	0.7484
Forfeited	(500,000)	–	(2,000,000)	–	–	(2,500,000)	0.7060
31 December 2019	3,400,000	800,000	4,200,000	1,500,000	–	9,900,000	0.7591
1 January 2020	3,400,000	800,000	4,200,000	1,500,000	–	9,900,000	0.7591
Granted	–	–	–	–	300,000,000	300,000,000	0.1410
Lapsed	(3,400,000)	(800,000)	–	–	–	(4,200,000)	0.4202
31 December 2020	–	–	4,200,000	1,500,000	300,000,000	305,700,000	0.1473

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

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

Notes:

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

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

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

The estimated fair value of the options granted was approximately HKD8,735,000 (approximately RMB7,521,000). In the year ended 31 December 2020, the Group recognised share-based payments of approximately HKD8,735,000 (approximately RMB7,521,000) in profit or loss and the corresponding amount has been credited to share option reserve.

28. RESERVES

(a) Group

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

(b) Company

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

(c) Nature and purpose of reserves

(i) Merger reserve

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

(ii) Reserve fund

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

(iii) Contributed surplus

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

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

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

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

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

29. BORROWINGS

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

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

(a) Long-term bank borrowings

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

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

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

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

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

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

(b) Short-term borrowings

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

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

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

30. CONVERTIBLE BONDS

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

Convertible bonds 1

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

	Liability component *RMB'000*	**Equity component** *RMB'000*	**Total** *RMB'000*
At 1 January 2019	123,274	218,947	342,221
Interest expense accrued	30,291	–	30,291
Interest expense charged to accrued expense	(17,968)	–	(17,968)
At 31 December 2019	135,597	218,947	354,544
At 1 January 2020	**135,597**	**218,947**	**354,544**
Interest expense accrued	**33,353**	**–**	**33,353**
Interest expense charged to accrued expense	**(17,968)**	**–**	**(17,968)**
At 31 December 2020	**150,982**	**218,947**	**369,929**

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

Convertible bonds 2

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

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

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

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

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

Convertible bonds 4

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

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

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

31. DEFERRED INCOME TAX

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

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

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

Deferred income tax assets:

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

Deferred income tax liabilities:

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

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

32. TRADE AND OTHER PAYABLES

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

(a) Trade payables

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

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

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

33. CONTRACT LIABILITIES

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

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

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

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

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

Significant changes in contract liabilities during the year

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

A contract liability represents the Group's obligation to transfer products or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

34. LEASE LIABILITIES

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

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

35. COMMITMENTS

(a) Capital commitments

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

(b) Operating leases rental receivables

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

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

36. RELATED-PARTY TRANSACTIONS

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

37. KEY MANAGEMENT COMPENSATION (EXCLUDING DIRECTORS' EMOLUMENTS)

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

38. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in liabilities arising from financing activities

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

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

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

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

40. LITIGATIONS

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

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

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

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

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

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

41. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

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

EXTRACT OF INDEPENDENT AUDITOR'S REPORT

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

OPINION

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"), which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Disclaimer of Opinion

Going Concern

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

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

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.

CHAIRMAN'S STATEMENT

TO SHAREHOLDERS

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

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

OUTLOOK

Industry Review and Outlook

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

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

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

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

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

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

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

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

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

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

Synthetic ammonia prices slumped in the first quarter of 2020 due to the pandemic. The ex-factory prices began to go down in January, when the Spring Festival was approaching. Due to the COVID-19 outbreak during the Spring Festival holiday in February, factories postponed production and transportation was strictly controlled, causing a sharp drop in synthetic ammonia prices. Companies in the upstream and downstream industries began to resume production in late March. Benefitting from free passage on highways and expressways and logistics recovery, synthetic ammonia prices bounced back. However, its prices fell to the bottom in the second quarter of 2020. Companies in the downstream industries saw a decline in facility operation rate in Q2, the slack season for fertiliser application, and the market prices of synthetic ammonia continuously went down in April.

In May, synthetic ammonia prices dropped to the lowest level for 2020. Driven by production limits in major synthetic ammonia-producing regions, the prices rebounded and remained stable until the end of June. Synthetic ammonia prices basically kept stable at a low level in the third quarter. Its price range showed small fluctuations from July to September because of the overhaul of some companies. The prices surged in the fourth quarter. Synthetic ammonia prices began to move up after the National Day holiday thanks to winter chemical fertilizer reserves, production limits for environmental clean-up, Indian urea tenders, increased facility operation rate in downstream industries, rise in natural gas prices, etc. The market prices of synthetic ammonia had been rising from October to December and climbed to the highest level for the year in December.

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

OBJECTIVES AND STRATEGIES

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ACKNOWLEDGEMENT

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

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

BUSINESS REVIEW

FINANCIAL PERFORMANCE

Results

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

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

Cost and profit margin

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

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

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

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

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

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

Dividends

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

PRODUCTS

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

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

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

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31st December 2020, the Group had net current liabilities of approximately RMB2,184,193,000 Current assets as at 31st December 2020 comprised cash and bank deposits of approximately RMB14,539,000 pledged bank deposits of approximately RMB29,593,000 inventories of approximately RMB72,467,000, trade receivables of approximately RMB74,000, and prepayments and other current assets of approximately RMB160,733,000. Current liabilities as at 31st December 2020 comprised short-term borrowings of approximately RMB1,886,250,000, trade and notes payables of approximately RMB21,811,000, contract liabilities of approximately RMB159,903,000 and accrued charges and other payables of approximately RMB393,635,000. Details of the Group's adoption of going concern basis in preparing the consolidated financial statements is set out in Note 2 to the consolidated financial statements.

CAPITAL COMMITMENTS

As at 31st December 2020, the Group had outstanding capital commitments of approximately RMB77,588,000. Details of the Group's capital commitments are set out in Note 35 to the consolidated financial statements.

FINANCIAL RESOURCES

As at 31st December 2020, the Group had cash and bank deposits of approximately RMB14,539,000 and pledged bank deposits of approximately RMB29,593,000. The Company intends to finance the Group's future operations, capital expenditure and other capital requirements with the existing bank balances and the capital market.

As at 31st December 2020, the total borrowings, convertible bonds and notes payable balances of the Group amounted to approximately RMB2,174,182,000.

GEARING RATIO

The Group's gearing ratios were approximately 99% and 90% as at 31st December 2020 and 31st December 2019 respectively. The gearing ratios were calculated as net debt divided by total capital. Details of the Group's gearing ratio is set out in Note 26 to the consolidated financial statements.

CONTINGENT LIABILITIES

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

MATERIAL ACQUISITION/DISPOSAL

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

SEGMENTAL INFORMATION

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

DETAILS OF FUTURE PLANS FOR MATERIAL INVESTMENT OR CAPITAL ASSETS

Save as disclosed of the plans stated in the chairman's statement of this results announcement and in the circular dated 4 December 2020, the Directors do not have any future plans for material investment.

EXPOSURE ON EXCHANGE RATE FLUCTUATION

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

CHARGES ON THE GROUP'S ASSETS

As at 31st December 2020, land use rights with a total net book value of approximately RMB106,411,000 (2019: approximately RMB109,094,000), property, plant and machinery with a total net book value of approximately RMB1,360,938,000 (2019: approximately RMB1,538,018,000), investment properties with a total net book value of approximately RMB55,850,000 (2019: approximately RMB57,694,000), mining right with a total net book value of approximately RMB318,000,000 (2019: approximately RMB309,456,000), and bank deposits approximately RMB29,593,000 (2019: approximately RMB30,116,000) were pledged as collateral for the Group's borrowings and notes payable.

NUMBER OF EMPLOYEES

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

MANAGEMENT CONTRACTS

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

AUDIT COMMITTEE

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

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

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

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

AUDITORS' PROCEDURES PERFORMED ON THIS RESULTS ANNOUNCEMENT

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and the related notes thereto for the year ended 31 December 2020 as set out in the preliminary announcement have been agreed by the Group's auditors, ZHONGHUI ANDA CPA Limited, to the amounts set out in the Group's audited consolidated financial statements for the year ended 31 December 2020. The work performed by ZHONGHUI ANDA CPA Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by ZHONGHUI ANDA CPA Limited on the preliminary announcement.

CORPORATE GOVERNANCE PRACTICES

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

GOING CONCERN AND MITIGATION MEASURES

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

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

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

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

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

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

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

PURCHASE, SALE OR REDEMPTION OF SHARES

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

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

Hong Kong, 30 March 2021

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