玖源化工(集團)有限公司

Ko Yo Chemical (Group) Limited

(incorporated in the Cayman Islands with limited liability)
(Stock code: 00827)

ANNUAL REPORT 2022

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Corporate Information

DIRECTORS

Executive Directors

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

Independent non-executive Directors

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

COMPANY SECRETARY

Mr. Chung Tin Ming, HKICPA, FCCA

QUALIFIED ACCOUNTANT

Mr. Chung Tin Ming, HKICPA, FCCA

AUDIT COMMITTEE

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

AUTHORIZED REPRESENTATIVES

Mr. Tang Guoqiang
Mr. Shi Jianmin

COMPLIANCE OFFICER

Mr. Zhang Weihua

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

SHARE REGISTRAR

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

AUDITOR

ZHONGHUI ANDA CPA Limited
23/F, Tower 2, Enterprise Square Five
38 Wang Chiu Road
Kowloon Bay
Hong Kong

PRINCIPAL BANKERS

China Everbright Bank Co., Ltd.
— Chengdu Branch

Huaxia Bank Co., Ltd.
— Chengdu Tianfu Branch

China Bohai Bank Co., Ltd.
— Chengdu Branch

Gui Yang Bank
— Chengdu Branch

STOCK CODE

827

WEBSITE

www.koyochem.com

Highlights

— For the year ended 31 December 2022, the net cash inflow from operating activities before working capital changes and profit tax and interest payment was approximately RMB823 million, which represent a decrease of approximately 7.9% as compared to that of approximately RMB894 million in year 2021.

— For the year ended 31 December 2022, the profit attributable to shareholders was approximately RMB202 million, which represent a decrease in profit of approximately 46.7% as compared to the profit of approximately RMB379 million in year 2021.

— Basic earnings per share was approximately RMB0.0344 for the year ended 31 December 2022.

— For the year ended 31 December 2022, sale turnover was approximately RMB3,205 million, which represents an increase of approximately 4.5% as compared to year 2021.

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

			% change compare with year 2021	
Type	**Sales amount** (million RMB)	**Sales quantities** (tonnes)	**Sales amount**	**Sales quantities**
BB & compound fertilizers	–	–	(100.0)	(100)
Urea	1,009	394,326	4.9	(9.7)
Ammonia	1,227	336,282	10.4	(4.7)
Methanol	912	399,170	(7.9)	(12.2)
Others — trading	57	N/A	N/A	N/A

— The Directors do not recommend the payment of any final dividend for the year ended 31 December 2022.

Chairman's Statement

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

During the period under review, the Group and its subsidiaries have been operating actively and steadily, adhering closely to the management philosophy of "safety as the bottom line, efficiency as the focus and results as the guide". The incentive policies implemented in early stage have shown a conspicuous effect by continuous optimisation and adjustment in the course of operation. Across the Group, we work with cohesion and in unison, resulting in a significant increase in team dynamics, remarkable improvement in economic efficiency as well as various innovations and income generation. In 2022, we actively responded to the policy in China, fulfilled our social responsibility, and gained great achievements while making electricity and gas available to the people. Sales model optimisation continued by innovating new marketing model through the open bidding of products and urea export business development. Through the signing of strategic cooperation agreements, terminal logistics and distribution and other value-added services, the cooperation with direct sales customers was further enhanced; through the iteration and upgrade of various production devices, we solved the safety hazards that had long troubled us, broke through the bottleneck of production capacity, and tapped into the production potential of the devices; the branding strategy of the supply chain was implemented, and the branding of core parts ensured the safe and stable operation of the devices; information construction, file regulation and other basic work made a breakthrough, which laid a solid foundation for the Group's further growth. During the year, the control standards of the Group were gradually established in accordance with the highest standards of the industry, which became a strong guarantee for the Group's stability and development. In general, the overall operation continued to improve in 2022, with safety, environmental protection, production, consumption and revenue expense control all performing better than that on the best ever level in 2021. Despite the complex external environment, i.e. tight natural gas supply, rising natural gas prices and extreme weather throughout 2022 as well as the recovery of the product market, the Group made concerted internal efforts to achieve overall profitability and better-than-expected operating conditions.

Guang'an Ko Yo Chemical Industry (Guang'an Plant)

Due to the influence of natural gas supply in the heating season, the alcohol-ammonia co-production unit and KAM unit of Guang'an Plant resumed production since January 16, and the production volume and energy consumption both recorded new high as compared to those at the best level in history in 2021. Restricted by the supply of natural gas throughout the year, Guang'an Plant has been unable to produce at full capacity. During the period, Guang'an Plant achieved the goal of producing more synthetic ammonia through process adjustment, which made additional contributions to the Company's profitability. In May, the outbreak of COVID-19 at Linshui in Guang'an had a direct impact on Guang'an Plant. The plant encountered obstructions in product transportation, high-storage operation, and the inability of employees to commute to and from work normally. With the joint efforts of all colleagues in the Group and Guang'an Plant, the above difficulties have been overcome, the safety, stability and continuous operation of the device have been ensured, and the products have been sold out of the warehouse normally, making a significant contribution to the Group's profitability. In August 2022, facing the most extreme high temperature weather in history, Guang'an Plant actively responded to the state's call to share the electricity to the people, and the purge gas synthesis ammonia unit and KAM unit were shut down for about 20 days.

Dazhou Ko Yo Chemical Industry (Dazhou Plant)

Affected by the natural gas supply during the heating season, the synthesis ammonia unit and the urea unit at Dazhou Plant have resumed production since 30 January and 6 February, respectively, reaching new high in both production volume and energy consumption as compared to those at the best level in history in 2021. In the first half of 2022, Dazhou Plant realized the dual gas supply of PetroChina and Sinopec, successfully avoiding the risk of forced shutdown caused by the maintenance of Sinopec Puguang Gas Field. In May and June, the two gas sources were successfully switched without stopping the plant, ensuring the safe, stable and continuous operation of the plant and making a significant contribution to the economic benefits of the Group. In August 2022, facing the most extreme high temperature weather in history, Dazhou Plant actively responded to the state's call to share the electricity to the people, and the synthesis ammonia unit and urea unit were shut down for about 20 days. In September, the outbreak of COVID-19 in Dazhou had a direct impact on Dazhou Plant. The plant encountered obstructions in product transportation and the inability of employees to commute to and from work normally. With the joint efforts of all colleagues in the Group and Dazhou Plant, the above difficulties have been overcome, the safety, stability and continuous operation of the device have been ensured, and the products have been sold out of the warehouse normally, making a significant contribution to the Group's profitability.

Industry Review and Outlook

I. **Affected by the macroeconomic and energy crises, the costs of urea increased with a firm rise in prices in 2022, showing an "N-shaped" trend as a whole.**

According to statistics, the annual production of urea in 2022 was expected to be 56.3 million tons, with a year-on-year increase of 4.8%. In 2022, domestic urea production capacity was around 75.35 million tons, with a year-on-year growth rate of 3.4%. As of 31 December 2022, the average price of urea was RMB2,731/ton, representing a year-on-year increase of RMB333/ton as compared with that of RMB2,398/ton in 2021.

Since urea was greatly affected by the demand cycle, macroeconomic and geopolitical wars, and policies, the domestic supply was tight and balanced throughout the year. Internationally, affected by the outbreak of the Russia-Ukraine war where Russia was the second largest fertilizer exporter in the world, plus the superimposed energy crisis, global grain and fertilizer prices were driven up. From March to May, the peak season of the agricultural demand nationwide, the demand for urea in agriculture and compound fertilizer production has increased significantly while the inventory of urea has been continuously reduced to a low level. In July, the off-season of the agricultural demand, high supply and the release of restricted fertilizer for summer, superimposed on high price conflicts, the price of urea fell all the way to the low point of the year. After the price fell to the psychological price of the downstream, the downstream began to actively enter the market for replenishment. In August, the high temperature and power cuts across China led to a rise in coal prices during the summer peak. The increase in the cost pressure of urea in the coal chemical industry has led to an increase in the maintenance of enterprises while favourable factors such as India's bidding has stimulated the price of urea to bottom out. After November, the price of urea continued to rise driven by demand for winter reserves, humanitarian aid exports, compound fertilizer replenishment, and state storage tasks. Until the middle and late December, due to the stable supply of coal, the weakening of downstream storage, the off-season of agriculture, the decline in the operating rate of industrial compound fertilizers and the conflict of high prices, the price began to fluctuate and decline.

Chairman's Statement

Looking forward to 2023, after the winter, coal prices will drop, and urea prices will return to normal. From the perspective of supply and demand structure, the annual supply and demand of urea is expected to remain loose. In the first half of the year, the increase in supply is not large, and at the same time, agricultural demand will be released in a concentrated manner. The price of urea is expected to run relatively strong, but the room for price fluctuations may be affected by factors such as the decline in coal prices and the export of goods in Xinjiang. In the second half of the year, agricultural demand will enter the off-season, and industrial demand may gradually pick up. India's bidding and export may loosen, but the demand is still not as good as the first half of the year. At the same time, there are new production capacity (Russian and Indian installations) and the expected release of restricted fertilizer for summer. The overall supply and demand pressure is increasing, and the price may face a correction. In the fourth quarter, we need to pay attention to environmental protection and natural gas restrictions. In general, it is expected that the domestic urea market will show pressure on supply and demand, or the shock will be weak, and the price will show a trend featuring higher in front and lower behind in 2023.

II. Affected by the macroeconomic and energy crises, the costs of methanol rocketed with frequent price fluctuations in 2022, showing an "M-shaped" trend as a whole.

According to statistics, the total output of refined methanol in China was expected to be 68.41 million tons in 2022, a year-on-year increase of 920,000 tons (2021: total output of 67.49 million tons), an increase of 1.36%. The total domestic methanol production capacity was about 100.91 million tons, breaking through the 100 million mark, a year-on-year increase of 4.1% (2021: production capacity of 96.905 million tons). As of 31 December 2022, the average price of southwestern methanol in 2022 was RMB2,570/ton, with a year-on-year increase of RMB20/ton compared with that of RMB 2,550/ton in 2021.

From January to March, with the global energy crisis caused by the outbreak of the Russia-Ukraine war and the rising costs, superimposed on the gradual production resumption of downstream enterprises and the low port inventory, the futures price and domestic spot price of Zhengzhou methanol generally rose in waves, and the centre showed a rise. From April to June, due to the postponement of the maintenance during the Chinese New Year, the accumulated inventory, and the off-season of consumption, the weakening demand dragged the centre of methanol price down. From July to September, under the combined effects of factors, including the continuous rise in coal and natural gas in terms of cost, the significant port destocking due to the lower-than-expected port import volume plus the upcoming Mid-Autumn Festival and National Day, as well as intensive stocking in the downstream, the spot price of domestic methanol gained an increase again. From October to December, as Ningxia Kunpeng's 600,000-ton methanol plant and Inner Mongolia Jiutai's 2,000,000-ton methanol plant were successfully put into operation, the social supply has increased. At the same time, the downstream production enterprises of olefins, formaldehyde, and acetic acid have shut down or reduced their load due to high costs. High supply and low demand have led to a downward trend in methanol futures and spot prices.

Looking forward to 2023, the prices of methanol will be also affected by policy factors such as "carbon peaking and carbon neutrality goals" and "energy consumption and intensity dual control system" in 2022. At the same time, international crude-oil prices may still be affected by geography, finance, and commodity attributes with a high probability of maintaining high volatility, which will provide certain support for the methanol market. In 2023, from January to February, due to the gradual release of supply after the Chinese New Year, the market is expected to weaken; from the beginning to the end of the spring inspection during March to May, as the Company will destock before reserving, the tightening supply will drive the prices up; from June to August, despite the coming traditional off-season of the downstream enterprises, due to the increase in coal costs and the favourable impact of typhoons on ports, prices in the mainland market may fluctuate; from September to October, driven by the peak consumption season of golden September and silver October, superimposed on the start of winter heating coal energy reserves at the end of October, the market has a higher probability of rising; from November to December, the demand for energy is high in winter, and methanol manufacturers gradually start maintenance plans, which is conducive to the price of methanol, but the profits of downstream olefin companies and traditional downstream companies are constantly squeezed, resulting in plant shutdown or load reduction. Under the background of a sharp weakening of demand, the market is mainly volatile. In summary, the methanol environment in 2023 will be under pressure as a whole, supply and demand will still be weak, and methanol companies may continue to operate under pressure.

III. Despite the impact from agricultural cycle, macroeconomic and geopolitical wars, and policies and other factors, the price of synthesis ammonia rose firmly in 2022, showing an "N-shaped" trend as a whole.

According to statistics of OILCHEM, the annual production of synthesis ammonia in 2022 was expected to be 53.65 million tons, with a year-on-year increase of 8.4%, and the annual production capacity was around 81 million tons, with a year-on-year growth rate of 14%. As of 31 December 2022, the average price of southwestern synthesis ammonia was RMB4,020/ton, representing a year-on-year increase of RMB432/ton as compared with that of RMB3,588/ton in 2021.

In the first half of 2022, before the Chinese New Year, upstream factories carried out inspections, and downstream factories were on holiday one after another. In addition, due to restricted transportation, repetitive pandemic and against the backdrop of a simultaneous decrease in supply and demand, the market continued to weaken. After the Chinese New Year, as upstream and downstream companies resumed production one after another, the market gradually recovered. With the energy crisis caused by the outbreak of the Russia-Ukraine war, and March was the peak season for spring ploughing and fertilizer use, the downstream companies such as phosphorus and compound fertilizers have increased their work load, following up on industrial demand. Meanwhile, as the profit of urea was greater than that of synthetic ammonia, enterprises reduced the amount of ammonia, and therefore, the price of synthetic ammonia continued to rise. In May, the price of southwestern ammonia has almost reached RMB5,240/ton, the highest price in the whole year. In the second half of the year, the demand for downstream chemical products was poor, phosphorus and compound fertilizers have entered the traditional off-season, and the process of preparing fertilizers in late autumn was slow. In the middle and late August, there was a national power cut, and the downstream enterprises maintained a low-level operating load, and only followed up with rigid demand. As a result, the market gradually weakened, and the southwestern price nearly fell to the lowest point of the year, RMB2,510/ton. Entering the peak season of golden September and silver October, with the follow-up of downstream agricultural autumn reserves, the increase in industrial operating rates, and the start of winter heating raw material reserves, the market began to pick up. In winter, ammonia prices continued to rise against the backdrop of rising natural gas prices and plans for maintenance by upstream companies.

Chairman's Statement

Looking forward to 2023, the increase in downstream demand is expected to be insufficient, mainly due to the cyclical impact of agriculture. From January to February, the supply and demand will decrease before the Chinese New Year, and the market will weaken. After the Chinese New Year, the supply and demand will increase together, and the market will gradually pick up. From March to May, the peak season for downstream agricultural fertilizers, the operating rate of industrial nitric acid and ammonium phosphorous enterprises will rebound, and the market may reach the highest point of the year. From July to August, off-season of agriculture, the industrial performance will be poor. As the upstream manufacturers will resume production one after another and the supply will increase, the market may reach the lowest level of the year. From September to October, with the downstream agricultural autumn reserves, increasing demand as a result of the continuous recovery of industrial nitric acid and phosphorus ammonia enterprises, and under the hype of winter heating raw material reserves, the market may continue to rise. From November to December, affected by gas restriction and coal shortage, the price of ammonia will still run at a high level. In general, against the backdrop of expected global economic recession and unstable international situation, the price of synthetic ammonia market in 2023 may show a weak and volatile pattern.

STRATEGIES

In 2022, affected by the domestic and international environment and the post pandemic era, the fertiliser and chemical industries experienced drastic fluctuations, increasing the difficulties in product shipments and the long-term high-level operation of storage tanks. Facing many dilemmas, the Group mainly focused on internal reforms and innovations: on the one hand, through our technological transformation, to reduce the production and operation costs, especially minimising the loss from unplanned shutdown to the lowest level; on the other hand, through our continuous adjustment of the sales model, to increase the proportion of direct sales customers; to control the sales rhythm, and seize opportunities in market fluctuations, thus increasing revenue of the Company. In 2023, we will seize the real-time dynamics of changes in the fertiliser and chemical industries and adopt the following strategies and measures to help the Company to embark on the track of healthy development. At the same time, the CO project, DMF&NMP project, and propylene oxide project that have started construction in 2022 are expected to be put into use gradually from the first quarter of 2023, accelerating the Company's rapid development.

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. Taking safety and environmental protection as the bottom line, while ensuring the long-term and safe operation, it will carry out daily monitoring, accounting, issue early warnings, and timely adjust and optimise the production organisation and operational capacity to ensure the best operation benefits;

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

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

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

5. The Company will promote sales model optimization, increase the proportion of direct sales customers, and increase the sales scale of local customers. At the same time, the Company will optimize the rhythm of signing contracts, establish an internal sales competition mechanism, and maximize sales benefits;

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

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

8. The Company will gradually reduce the proportion of exclusive suppliers to solve industry-specific problems, thereby reducing procurement costs and improving procurement quality;

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

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

II. The Company will actively promote the progress of new projects and help Ko Yo Chemical (Group) to embark on the track of healthy development

1. Guang'an Ko Yo Chemical Industry's 100,000 tons DMF and 100,000 tons pyrrolidone project are in the construction and commissioning stage, and trial production is expected to start in the second quarter of 2023;

2. Changzhou Ko Yo Chemical Industry's 400,000 tons propylene oxide is in the construction and commissioning stage, and trial production is expected to start in the second quarter of 2023;

3. For the first phase of 100,000 tons PBAT project of Guang'an Ko Yo Chemical Industry, all preparations for trial production have been completed in the first half of the year. It is expected to complete production tuning in the third quarter of 2023 and formal mass production in the fourth quarter;

4. The first phase of the 1,200,000 tons Nylon 66 project in Guang'an Ko Yo Chemical Industry (600,000 tons/year of hexamethylenediamine) is in the stage of project design and preliminary procedures, and it is planned to officially start construction in the fourth quarter of 2023;

Chairman's Statement

5. The 300,000 tons/year dimethyl carbonate project of Dazhou Ko Yo Chemical Industry will complete all approval procedures within 2023;

6. In 2023, the preliminary industrial planning of the Phosphorus Chemical Industrial Park needs to be completed.

With full leverage on the Company's existing resources, new projects broaden the product offerings of the Company, extend the industrial chain and optimize the industrial layout. The commissioning of these new projects will promote the Company to enter the track of healthy development, bring new highlights to the sustainable growth of the Company's benefits, maintain the leading position in the industry in subdivided products, and realize the coexistence development model of traditional chemical enterprises and large modern fine chemical enterprises.

ACKNOWLEDGEMENT

Looking back on the past year, there have been certain fluctuations in the chemical fertilizer and chemical industries. Under the leadership of the Board of Directors and management, all employees are united, adhere to market-oriented production and operation activities, follow up market conditions in a timely manner, and make real-time calculations to ensure the best operating efficiency of the device and realize the long-term stable operation of the device. In 2023, in accordance with the decisions and strategies of the Board of Directors, under the leadership of the management, we will stabilize the basic chemical business, develop new projects, and seize market opportunities.

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

Tang Guoqiang
Chairman

30 March 2023

FINANCIAL PERFORMANCE

Results

During the year under review, the Group recorded turnover of approximately RMB3,205 million, an increase of 4.5% as compared to last year. The increase in turnover was mainly due to the increase sales of urea and ammonia. The profit attributable to shareholders of the Company amounted to approximately RMB202 million, representing a decrease of approximately 46.7% as compared to last year. Basic earnings per share amounted to approximately RMB0.0344.

Cost and profit margin

Cost of sales of the Group amounted to approximately RMB2,412 million, representing an increase of 7.0% as compared to the figure in 2021. The major reasons of increase in cost of sales were due to the increase in market price of raw material.

Gross profit margin of the Group decreased approximately from 26.5% in 2021 to 24.7% in 2022. The decrease in the gross profit margin was due to the increase in market price of raw material.

During the year under review, distribution costs increased approximately by 71.6% as compared with last year. The increase in distribution cost was due to increase in transportation cost. The ratio of the distribution costs over sales was 1.42% in 2022 which was 0.55% higher than those in 2021.

In comparison with last year, there was an increase in administrative expenses of the Group by approximately 29.2% from approximately RMB115.8 million in 2021 to approximately RMB149.6 million in 2022. The increase in administrative expenses is mainly due to increase in business activities and inflation.

Other income decreased from approximately RMB140.3 million in 2021 to approximately RMB5.9 million in 2022. The difference was mainly due to the gain on disposal of investment properties in 2021. Details are set out in Note 9 to consolidated financial statements. Other expenses amounted to approximately RMB3.2 million in 2022 (2021: approximately RMB193.6 million). The decrease in other expenses in 2022 was mainly due to there were share-based payment arising from issue of convertible bonds of approximately RMB193 million in 2021. Details are set out in Note 10 to consolidated financial statements.

The Group's income tax expenses in 2022 amounted to approximately RMB154.8 million. Details of tax schemes are set out in Note 12 to consolidated financial statements.

Dividends

Considering the Group's result during the year under review, the Directors do not recommend the payment of any final dividend for the year ended 31 December 2022. The Group has not declared any dividend for the year ended 31 December 2022 (2021: Nil).

Business review

PRODUCTS

Sales of the Group's products for the year 2021 and 2022 are as follows:

	Turnover in year 2022		Turnover in year 2021		**Percentage Change in turnover**
	RMB million	**Composite %**	RMB million	Composite %	**%**
BB & compound fertilizers	**0**	**0**	4	0.1	(100.0)
Urea	**1,009**	**31.5**	962	31.4	4.9
Ammonia	**1,227**	**38.3**	1,111	36.2	10.4
Methanol	**912**	**28.4**	990	32.3	(7.9)
Others — Trading	**57**	**1.8**	0	0	N/A

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2022, the Group had net current liabilities of approximately RMB2,318,569,000. Current assets as at 31 December 2022 comprised cash and bank deposits of approximately RMB224,058,000, pledged bank deposits of approximately RMB390,850,000, restricted bank balances of approximately RMB864,000, inventories of approximately RMB241,330,000, trade receivables of approximately RMB9,280,000, note receivable of approximately RMB6,780,000, and prepayments and other current assets of approximately RMB161,422,000. Current liabilities as at 31 December 2022 comprised short-term borrowings of approximately RMB1,822,377,000, trade payables of approximately RMB39,912,000, contract liabilities of approximately RMB119,831,000, due to a related company of approximately RMB660,863,000 and accrued charges and other payables of approximately RMB710,170,000. Details of the Group's adoption of going concern basis in preparing the consolidated financial statements is set out in Note 2 to the consolidated financial statements.

CAPITAL COMMITMENTS

As at 31 December 2022, the Group had outstanding capital commitments of approximately RMB2,788,724,000. Details of the Group's capital commitments are set out in Note 37 to the consolidated financial statements.

FINANCIAL RESOURCES

As at 31 December 2022, the Group had cash and bank deposits of approximately RMB224,058,000, pledged bank deposits and restricted bank balances of approximately RMB391,714,000. The Company intends to finance the Group's future operations, capital expenditure and other capital requirements with the existing bank balances and the operation income.

As at 31 December 2022, the total borrowings, convertible bonds and notes payable balances of the Group amounted to approximately RMB3,127,908,000.

GEARING RATIO

The Group's gearing ratios were approximately 70% and 72% as at 31 December 2022 and 31 December 2021 respectively. The gearing ratios were calculated as net debt divided by total capital. Details of the Group's gearing ratio is set out in Note 27 to the consolidated financial statements.

CONTINGENT LIABILITIES

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

MATERIAL ACQUISITION/DISPOSAL

Save as disclosed in the circular dated 23 March 2022 and the announcement dated 30 September 2022, regarding the acquisition of Jiangsu Bluestar Green Material Co. Limited, there was no material acquisition or disposal in the year 2022 which would have been required to be disclosed under the Rules Governing the Listing of Securities ("Listing Rules") on Stock Exchange.

SEGMENTAL INFORMATION

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

DETAILS OF FUTURE PLANS FOR MATERIAL INVESTMENT OR CAPITAL ASSETS

Save as disclosed of the plans stated in the chairman's statement of this annual report, the circulars dated 4 December 2020 (Dazhou new production line, Guangan new production line and the PBAT production line) and 23 March 2022 (propose acquisition of Jiangsu Bluestar Green Material Co., Limited which in the establishment of production line of propylene oxide), the Directors do not have any future plans for material investment.

EXPOSURE ON EXCHANGE RATE FLUCTUATION

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

CHARGES ON THE GROUP'S ASSETS

As at 31 December 2022, none of the note receivables (2021: RMB660,000), land use rights with a total net book value of approximately RMB244,154,000 (2021: approximately RMB102,332,000), property, plant and machinery with a total net book value of approximately RMB1,610,908,000 (2021: approximately RMB1,729,038,000), investment properties with a total net book value of approximately RMB5,984,000 (2021: approximately RMB10,925,000), mining right with a total net book value of approximately RMB334,306,000 (2021: approximately RMB334,306,000), and bank deposits of approximately RMB390,850,000 (2021: nil) were pledged as collateral for the Group's borrowings and notes payable.

Business review

NUMBER OF EMPLOYEES

As at 31 December 2022, the Group had 802 (2021: 674) employees, comprising 6 (2021: 5) in management, 124 (2021: 101) in finance and administration, 652 (2021: 520) in production, 17 (2021: 15) in sales and marketing and 3 (2021: 1) in research and development of these employees, 798 (2021: 669) were located in the PRC and 4 (2021: 5) were located in Hong Kong.

RETIREMENT BENEFITS SCHEME

During the years ended 31 December 2021 and 2022, there were no contributions forfeited by the Group on behalf of its employees who leave the plan prior to vesting fully in such contribution, nor had there been any utilization of such forfeited contributions to reduce future contributions. As at 31 December 2021 and 2022, no forfeited contributions were available for utilization by the Group to reduce the existing level of contributions as described in paragraph 26(2) of Appendix 16 to the Listing Rules.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

For the year ended 31 December 2022, the Group's key business operations make continuous effort and investment on managing and monitoring environmental and social performance. Technology advancement, especially new materials development, continues to assist the Group achieve long-term business resilience, to achieve its economic, environmental and social sustainability. The group ensures strict compliance with and keeps a close eye on updates of any applicable regulations, laws, and standards. Engagement with stakeholders has resulted in raised concerns on key material issues, which include: Energy, Emissions, Effluents and Waste, Environmental Protection Policies, and Occupational Health and Safety. The Group will continue to identify areas of improvement for the concerned aspects and keep close communication with its stakeholders for advancing ESG management.

The Environmental, Social, Governance Report is set out on pages 25 to 44 of the annual report.

Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Tang Guoqiang, aged 65, is an Executive Director and chairman of the Board. Mr. Tang has over 30 years of management experience. He obtained a high school diploma from Jiangsu Province Liyang Middle School in 1977. Mr. Tang was previously the general manager of Liyang Economic Development Corporation from May 1990 to August 1996. From November 2003 to April 2007, he was an executive director of Zhenjiang Runfeng Real Estate Development Company Limited. He was the chairman of Shunfeng International Clean Energy Ltd. (stock code: 1165), a listed company on the Main Board of the Stock Exchange, from July 2011 to July 2013. Since March 2015, he has been the chairman of Liyang Huakan Jianda Health Company Limited.

Mr. Shi Jianmin, aged 55, is an Executive Director and the chief executive officer of the Group. Mr. Shi has over 22 years of management experience. Mr. Shi obtained a diploma in business administration from the E-learning College, Shanghai Jiao Tong University in July 2007 and studied an EMBA business course in Xiamen University in the autumn of 2011. He was previously the president of Guanghua Sub-branch of ICBC Changzhou and the general manager of the electronic bank department of ICBC Changzhou. From September 2011 to June 2017, Mr. Shi was the deputy chairman and executive director of Shunfeng International Clean Energy Ltd. (stock code: 1165), a company listed on the Stock Exchange. Since August 2017, Mr. Shi has been an executive director of Jiangsu Wei Lan Photovoltaic System Integrated Ltd. in the People's Republic of China.

Mr. Zhang Weihua, aged 60, is an Executive Director and the compliance officer of the Group. Mr. Zhang has over 33 years of management experience. He has been the deputy chairman and general manager of Changzhou Kangmei Chemical Industry Co., Ltd. since 1995, the chairman of Jiangsu Kangtai Biomedical Science Technology Co., Ltd. since 2009, and the chairman of Jiangsu Kangtai Holdings Group Co., Ltd. since 2011. Mr. Zhang was a member of the National People's Congress representing Jintan city from 2003 to 2017.

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

Mr. Le Yiren, aged 60, is the vice chairman of the Association of China Commercial Enterprise Management since September 2019 and an independent non-executive director of Jiangyin Rural Commercial Bank Co. Ltd., whose shares are listed on the Shenzhen Stock Exchange (stock code: 002807) since April 2019. Mr. Le is currently serving as a director of each of Suzhou Aibo Venture Capital Co., Limited, Jiangsu Yangshan Silicon Material Technology Co., Limited, Suzhou Longhan Investment Management Co., Limited and Jiangsu Zhongmei Tongji Investment Co., Limited. Mr. Le was the vice president of Fengde Capital Limited from 2004 to 2005 and founded Nanjing Yuanhan Enterprise Management Co., Limited (formerly known as Nanjing Bofa Investment Consulting Co., Limited) in 2006. Mr. Le graduated from the Gradual

Directors and Senior Management

School of Chinese Academy of Social Science with a master's degree in Monetary Banking in 1997, a doctorate degree in social sciences in 2002, then successively engaged in post-doctoral research in applied economics between August 2002 and July 2008. Mr. Le was a committee member of the Senior Technical Position Review Committee of the Industrial and Commercial Bank of China, a distinguished professor at the Graduate School of the Chinese Academy of Social Sciences and a researcher at the School of Social Development of Nanjing Normal University. He was appointed as an Independent Non-Executive Director of the Group on 1 July 2021.

Ms. Lu, aged 38, is currently a professor and a doctoral advisor at Nanjing University. Ms. Lu graduated from the School of Chemistry and Chemical Engineering, Nanjing University with a bachelor's degree in science in 2006. During 2008 to 2010, Ms. Lu joined a doctorate programme at The Scripps Research Institute, the United States, sponsored by China Scholarship Council. Ms. Lu obtained a doctorate degree in science from the School of Chemistry and Chemical Engineering, Nanjing University in 2011. She was an associate professor at the School of Chemistry and Chemical Engineering, Nanjing University from 2015 to 2019. Ms. Lu was appointed as a professor at the School of Chemistry and Chemical Engineering, Nanjing University in 2020. Ms. Lu has published over 20 articles in Journal of the American Chemical Society, Angewandte Chemie International Edition, Nature Communications and other scholarly journals as author or corresponding author. She was appointed as an Independent Non-Executive Director of the Group on 1 January 2023.

SENIOR MANAGEMENT

Mr. Chung Tin Ming, aged 52 is the financial controller and company secretary of the Group. Mr. Chung is an associate member of each of the Hong Kong Institute of Certified Public Accountants and Association of Chartered Certified Accountants. Mr. Chung graduated from the Chinese University of Hong Kong with a bachelor degree in science, and received a master degree in Financial Engineering and Electronic Engineering from the City University of Hong Kong and a master degree in laws from University of Wolverhampton. Prior to joining the Group in January 2006, he was a director of Keen Ocean Industrial Limited in Hong Kong. Mr. Chung has over 20 years of related working experience in accounting and financial management.

Mr. Li Ciping, aged 56, is the managing vice president of the Group. He was an Executive Director of the Group from 1 July 2014 to 15 January 2017. He graduated from Fuzhou University in 1985, majoring in Chemical Engineering. Mr. Li joined Ko Yo Group in 2008. Before joining Ko Yo Group, he was the director and general manager of Max Giant International Group Limited in Hong Kong. He had an extensive experience in corporate management.

Mr. Wen Jinfu, aged 60, is the vice president of the Group, who is mainly responsible for safety issues, environmental management affairs of the Group. He was a senior engineer who graduated from The Communist Party of China Sichuan Provincial Committee Party School majoring in economic management in 1996. Mr. Wen joined Koyo Group in 1999, before that, he was appointed as the deputy general manager of Xindu Nitrogen Fertilizer Plant.

Mr. Rui Yongsheng, aged 54, is the vice president of the Group, who is mainly responsible for the financial, legal and supply chain management of the Group. He was graduated from the Nanjing Audit University in 1989 with major in finance. Mr. Rui joined Koyo Group in December 2019.

Report of the Directors

The Directors have the pleasure of presenting their report together with the audited financial statements of the Company and its subsidiaries for the year ended 31 December 2022.

GENERAL INFORMATION

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

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

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Its subsidiaries are principally engaged in the research and development, manufacture, marketing and distribution of chemical products, chemical fertilizers.

RESULTS AND APPROPRIATIONS

Details of the Group's profits for the year ended 31 December 2022 are set out in the consolidated statement of profit or loss and other comprehensive income.

The Directors do not recommend the payment of any final dividend for the year ended 31 December 2022 (2021: Nil).

SHARE CAPITAL

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

RESERVES

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

DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31 December 2022 amounted to approximately RMB538,470,000 (2021: 330,622,000).

RIGHTS OF DIRECTORS AND EMPLOYEES TO ACQUIRE SHARES OR DEBENTURES

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

Report of the Directors

PRE-EMPTIVE RIGHTS

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

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out in page 124.

PROPERTY, PLANT AND EQUIPMENT

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

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The Directors who held office during the year ended 31 December 2022 and up to the date of this report are:

Executive Directors

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

Independent Non-Executive Directors

Mr. Hu Xiaoping (resigned on 1 January 2023)
Mr. Xu Congcai
Mr. Le Yiren
Ms. Lu Yi (appointed on 1 January 2023)

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

Each of the Executive Directors has entered into a service contract with the Company for initial fixed term of three years, and will continue thereafter for successive terms of one year until terminated by not less than three months' notice in writing served by either party on the other. Each of the Executive Directors is entitled to a basic salary and director's fee subject to an annual review by the Board. In addition, the Executive Directors are also entitled to a discretionary bonus, which may not exceed 3% of the audited consolidated net profit of the Group attributable to shareholders in respect of that financial year of the Company. Mr. Shi Jianmin and Mr. Zhang Weihua have no basic salary. Mr. Shi Jianmin is entitled to a discretionary bonus which approximately 3% and may not exceed 3% of the audited consolidated net profit of the Group attributable to shareholders in respect of that financial year of the Company. The percentage rate of discretionary bonus is subject to annual review by the Board.

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

SHARE OPTIONS

The share option schemes (the "Share Option Schemes") adopted on 9 October 2020. The details of the Share Option Schemes can be found in the circular of the Company dated 18 September 2020, and Note 28 to the consolidated financial statements.

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

Share Option Schemes

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

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

Report of the Directors

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

During the year ended 31 December 2022, no share options were exercised. Details of option outstanding and movements are disclosed in the following table:

Number of share options

	Held at 1 January 2022 ('000)	Grant during period ('000)	Exercised during period ('000)	Forfeited/ Lapsed during period ('000)	Held at 31 December 2022 ('000)	*Share Options A ('000)	*Share Options B ('000)	*Share Options C ('000)	*Share Options D ('000)
Directors (31.12.2022)									
Tang Guoqiang	–	–	–	–	**–**	–	–	–	–
Shi Jianmin	300,000	–	–	–	**300,000**	–	–	300,000	–
Zhang Weihua	–	–	–	–	**–**	–	–	–	–
Hu Xiaoping	400	–	–	–	**400**	400	–	–	–
Shi Lei	–	–	–	–	**–**	–	–	–	–
Xu Congcai	–	–	–	–	**–**	–	–	–	–
Employees	82,612	–	–	–	**82,612**	3,800	1,500	–	77,312
Total	383,012	–	–	–	**383,012**	4,200	1,500	300,000	77,312

* Share Options A: Grant at 28 March 2013, exercisable from grant date until 27 March 2023 with exercise price HK$0.595.
Share Options B: Grant at 22 June 2016, exercisable from grant date until 21 June 2026 with exercise price HK$0.151.
Share Options C: Grant at 23 October 2020, exercisable from grant date until 22 October 2030 with exercise price HK$0.141.
Share Options D: Grant at 22 November 2021 whereas the closing price of shares of the Company before the date of grant was HK$0.199, 35% exercisable 1 year from grant date until 21 November 2031, 35% exercisable 2 years from grant date until 21 November 2031 and 30% exercisable 3 years from grant date until 21 November 2031 with exercise price HK$0.182.

As at 31 December 2022, the Company had 171,492,259 share options not yet issued under the share option scheme adopted on 9 October 2020, which represented approximately 2.84% of the Company's shares as at 31 December 2022. The remaining life of the share option scheme adopted on 9 October 2020 was about 7.8 years as at 31 December 2022.

DIRECTORS' INTERESTS IN SHARES

As at 31 December 2022, the interests and short positions of the Directors and Chief Executives in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) to be recorded in the register required to be kept under section 352 of the SFO; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in Listing Rules were as follows:

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

Directors (as at 31.12.2022)	Personal long position in shares (beneficial owner)	Personal long position in share options and convertible bonds (beneficial owner)	Aggregate long position in shares and underlying shares	Total interests in the issued share capital
Tang Guoqiang	169,800,000	7,780,000,000	7,949,800,000	131.88%
Shi Jianmin	70,000,000	300,000,000	370,000,000	6.14%
Zhang Weihua	500,000,000	1,020,000,000	1,520,000,000	25.22%
Hu Xiaoping	–	400,000	400,000	0.01%

Note: As at 31 December 2022, among 69,800,000 out of the 7,949,800,000 in the aggregate long position in shares and underlying shares of Mr. Tang Guoqiang was held by Coherent Gallery International Limited which was wholly owned by Mr. Tang Guoqiang. As at 31 December 2022, China Mass Enterprises Limited is indirectly owned by Mr. Zhang Weihua through Jiangsu Kang Tai Holdings Group Limited which held a total amount of 500,000,000 shares of the Company and an amount of HK$110,160,000 convertible bonds of the Company which can be converted into 1,020,000,000 shares of the Company.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2022, so far as is known to any Director or Chief Executive of the Company, no person (not being a director or a Chief Executive of the Company) had an interest or short positions in the shares or underlying shares of the Company which are required to be notified to the Company and the Stock Exchange under Divisions 2 and 3 of Part XV of the SFO and recorded in the register required to be kept under section 336 of the SFO, and who were directly or indirectly deemed to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company.

INTEREST OF OTHER PERSONS IN THE COMPANY

Interest in the shares or underlying shares of the Company

As at 31 December 2022, so far as is known to any Director or Chief Executive of the Company and save as disclosed above, no person had an interest or short positions in the shares or underlying shares of the Company which are required to be notified to the Company and the Stock Exchange under Divisions 2 and 3 of Part XV of the SFO and recorded in the register required to be kept under section 336 of the SFO, and who were directly or indirectly deemed to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company.

Outstanding Convertible Securities

As at 31 December 2022, the outstanding convertible securities (the "Convertible Securities 1") that issued on 13 November 2014 can convert into 1,002,675,000 shares (the "Shares") of the Company, the outstanding convertible securities (the "Convertible Securities 2") that issued on 31 January 2019 can convert into 320,000,000 Shares, the outstanding convertible securities (the "Convertible Securities 3") that issued on 15 March 2019 can convert into 950,000,000 Shares and the outstanding convertible securities (the "Convertible Securities 4") that issued on 30 November 2021 can convert into 7,700,000,000 Shares. Assuming all outstanding convertibles securities converted into shares as at 31 December 2022, set out below is the shareholding structure of the Company before and after such conversion:

As at 31/12/2022	No. of shares before conversion of outstanding convertible securities	% of holdings	No. of shares from conversion of outstanding convertible securities	No. of shares after conversion of outstanding convertible securities	% of holdings
Directors					
Mr. Tang Guoqiang	169,800,000	2.82	7,780,000,000	7,949,800,000	49.68
Mr. Shi Jianmin	70,000,000	1.16	–	70,000,000	0.44
Mr. Zhang Weihua	500,000,000	8.29	1,020,000,000	1,520,000,000	9.50
Others					
Public	5,288,242,599	87.73	1,172,675,000	6,460,917,599	40.38
Total	6,028,042,599	100.00	9,972,675,000	16,000,717,599	100.00

The diluted gain per shares for the year ended 31 December 2022 assuming all outstanding convertible securities being converted was RMB0.0126 which is calculated by dividing the profit attribute to the shareholders of the Company by the total number of Shares after all outstanding convertible securities being converted.

Base on the cash and cash equivalent as at 31 December 2022 and the cash flow from the operation of the Company, the Company has its ability to meet its redemption obligations under Convertible Securities 2 and Convertible Securities 3 but not Convertible Securities 1 and Convertible Securities 4. The maturity dates of Convertible Securities 1, Convertible Securities 2, Convertible Securities 3 and Convertible Securities 4 are 12 November 2024, 30 January 2024, 14 March 2024 and 29 November 2026 respectively.

Based on the implied internal rate of returns and other relevant parameters of Convertible Securities 1, Convertible Securities 2, Convertible Securities 3 and Convertible Securities 4, the share prices at which it would be equally financially advantageous for the securities holders to convert or redeem for the end of year 2022 to 2025 were as follows:

Convertible Securities

Date	31-12-2023 (Share price HK$)	31-12-2024 (Share price HK$)	31-12-2025 (Share price HK$)
Convertible Securities 1	0.318	–	–
Convertible Securities 2	0.182	–	–
Convertible Securities 3	0.175	–	–
Convertible Securities 4	0.139	0.146	0.154

SUFFICIENCY OF PUBLIC FLOAT

Based on the public information available to and within the knowledge of the Directors, it is confirmed that there is sufficient public float of more than 25% of the Company's issued shares at 30 March 2023.

DIRECTORS' INTEREST IN COMPETING BUSINESS

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

DIRECTORS' INTERESTS IN CONTRACTS

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

MANAGEMENT CONTRACTS

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

AUDIT COMMITTEE

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

Report of the Directors

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 2022.

The audit committee is in agreement with the Management with respect to the Group's ability to continue as a going concern, and in particular the actions and measures had been implemented by the management of the Group. The audit committee's views are based on a strict review of the management of the Group's actions and measures, current operating situation and future development of the Group's plants, and the cash flow position of the Group in 2022, and also the discussions with the Management and the Auditor. With the Group's profitability and financial position had continuously improved in 2022, the audit committee is of the view that the Management should continue the actions and measures.

PURCHASE, SALE OR REDEMPTION OF SHARES

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

CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2022, the five largest customers accounted for approximately 34.0% of the Group's total turnover and the five largest suppliers of the Group accounted for approximately 88.3% of the Group's total purchases. The largest customer of the Group accounted for approximately 15.1% of the Group's total turnover and the largest supplier accounted for approximately 47.1% of the Group's total purchases.

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

CORPORATE GOVERNANCE

A report on the corporate governance practices adopted by the Company is set out on pages 45 to 51 of the annual report.

AUDITORS

ZHONGHUI ANDA CPA Limited was appointed as the auditor of the Group since 19 February 2016 and was re-appointed as the auditor of the Group on 31 May 2022.

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

On behalf of the Board,

Tang Guoqiang
Chairman

30 March 2023

SCOPE AND REPORTING PERIOD

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

The Group is principally engaged in the research and development, manufacture, marketing and distribution of chemical fertilizers and chemical products. This ESG report covers the Group's overall performance in two subject areas, namely, Environmental and Social of the Dazhou Ko Yo Chemical Industrial Co., Limited ("Dazhou") and Guangan Ko Yo Chemical Industry Co., Limited & Guangan Lotusan Natural Gas Chemicals Co., Limited ("Guangan") in Sichuan Province, Mainland China from 1 January 2022 to 31 December 2022 (the "Reporting Period"), unless otherwise stated. The principal activities of the above-mentioned operations are the manufacturing and sale of chemical fertilizers and chemical products, which collectively accounted for 98.2% of the Group's total revenue during the Reporting Period.

There were no major operational changes in the scope of this report compared with that for the period from 1 January 2021 to 31 December 2021 (the "Last Reporting Period").

BOARD STATEMENT

As an enterprise with public and social responsibility, the Group ensures strict compliance with any applicable laws, regulations, guidelines, and standards related to safety, environment, and occupational health and safety. The Group attaches great importance to the co-development of social and environmental efficiency and strives to become an environment-friendly enterprise. Apart from focusing on the business development, the Group will continue to maintain a sustainable operation and create more job opportunities to contribute to the local economy, while making investments to alleviate local rural poverty issue. The Group is committed to promote economic and infrastructure development.

The Group acknowledge the importance of continuous product supply and market stability on brand building. As such, the Group attaches great importance to long-term production by strengthening the communication and coordination with the upstream natural gas industry. At the same time, the Group focuses on production and equipment management. Special meetings have been held to study the optimization of production and equipment operations, monitor the production equipment efficiency, and conduct a more comprehensive quality monitoring. In 2023, the DMF/NMP project will also be put into operation which will accelerate the Group's development.

Currently, the Company and its subsidiaries have obtained ISO14001, ISO50001 and ISO90001 certifications for environmental management, energy management and quality management, respectively. To continuously improve its sustainability performance, the Group regularly evaluates the impact of its daily operations on the environment, society and stakeholders, and takes corresponding measures in a timely manner to continuously optimize communication with stakeholders for ensuring their participation in identifying, evaluating and managing material ESG topics.

GOVERNANCE STRUCTURE

The board of directors of the Company (the "Board") acknowledges that it has overall responsibility for the Group's ESG strategy. The Group actively integrates environmental and social issues into its corporate governance structure by organizing management review on an annual basis. During annual meetings, ESG topics and performance are reviewed and evaluated by the Board.

Environmental, Social and Governance Report

In addition, the Board is also responsible for overseeing the risk management, which includes risks related to ESG issues, by regularly conducting risk assessment based on the national laws, regulations, and standards and the Group's operation. The Group has established relevant risk management systems to prevent and minimise the risks that may hinder the achievement of the business objectives.

SUSTAINABILITY APPROACH AND STRATEGY

The Board acknowledges the importance of sustainability topics to the Group's operation and strives to integrate ESG concept into the business strategies. The Group strictly abides by any laws and regulations relevant to safety, environment, and occupational health and safety. In addition, the Group takes notice of all legal and regulatory updates and ensures that it is fully prepared to comply with more stringent regulations.

The Board identified the ESG material topics relating to the Group and determined the priority of these issues by conducting online survey for the stakeholder materiality assessment with the assistance of third-party consultant. The Board was involved in the materiality assessment along with other stakeholders to select important issues to Group considered by both internal and external stakeholders for targeted management and disclosure.

The Board believed that by integrating ESG concepts into business strategies the Group's mission and visions can be continued. The Group has set several sustainability-related targets, including targets on waste reduction and air emission reduction during the Reporting period. Target setting not only measures the Group's performances and improvement progresses, but it also forms part of the Group's business operation that facilitates business growth and creates long-term values for its stakeholders. Meanwhile, the Group has also been actively improving the equipment's' performance by regularly upgrading the model to reduce energy consumption and air emissions. The progress of implementing ESG-related targets is closely reviewed by the Group through various means such as meetings, inspections, and assessments etc.

AWARDS AND CERTIFICATES

The Group's performance has been recognized through awards and certificates.

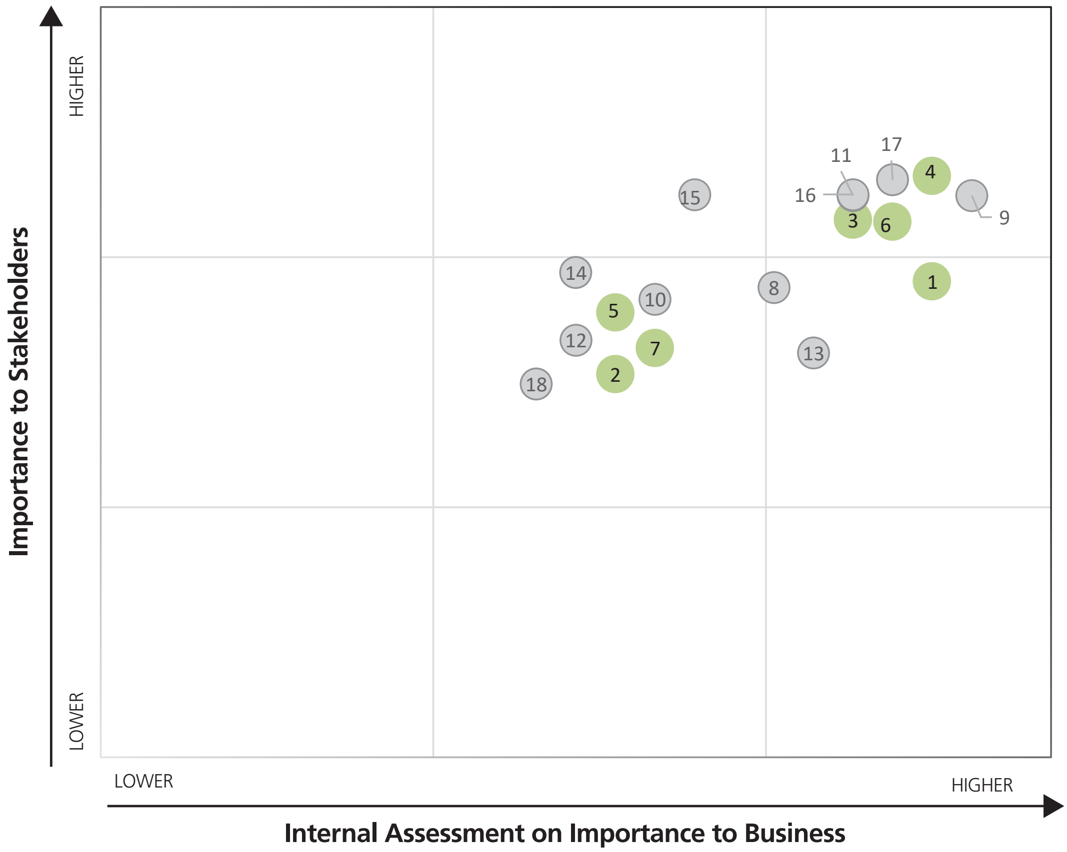
Awards	Issuing authority
13th Five-Year Plan Period Nitrogen Fertilizer and Methanol Industry Energy Saving and Emission Reduction Advanced Unit	China Nitrogen Fertilizer Industry Association
National May 1st Labor Award (Guang'an City)	All-China Federation of Trade Unions
National advanced unit of open and democratic management of factory affairs (Guang'an City)	All-China Federation of Trade Unions

Certifications	Reviewed in
ISO 9001:2015 Quality management System	2022
ISO 14001:2015 Environmental Management System	2022
ISO 50001:2018 Energy Management System	2022

STAKEHOLDER ENGAGEMENT AND MATERIALITY

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

Materiality of Different Topics from Stakeholder Engagement



A	Environmental	B	Social
1	Energy	8	Employment
2	Water	9	Occupational Health and Safety
3	Air Emission	10	Development and Training
4	Waste and Effluent	11	Labor Standards
5	Other Raw Materials Consumption	12	Supplier Management
6	Environmental Protection Measures	13	Intellectual Property
7	Climate Change	14	Data Protection
		15	Customer Service
		16	Product/Service Quality
		17	Anti-corruption
		18	Community Investment

Environmental, Social and Governance Report

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

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

From the perspectives of stakeholders, a majority of the material ESG issues fall under the social issues. The above aspects were strictly managed through the Group's policies and guidelines. Management of the aspects has been described in separate sections below. The Group will continue to maintain close communication with stakeholders to understand their expectations and perspectives on the Group's ESG approach.

STAKEHOLDERS' FEEDBACK

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

A. ENVIRONMENTAL PROTECTION

Emission Management

As a responsible corporate citizen, the Group has been stepping up efforts to enhance its sustainability performance across all business operations. The Group adopts an environmental management system and strictly complies with the national and local laws and regulations relating to environmental protection and pollution control, including, but not limited to the following:

— Air Pollution Prevention and Control Law of the PRC

— Atmospheric Pollution Prevention and Control Law of the PRC

— Environmental Protection Law of the PRC

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

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

— Law of the PRC on Environmental Impact Assessment

— Soil Pollution Prevention and Control Law of the PRC

— Water Pollution Prevention and Control Law of the PRC

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

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

Air Emissions

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

Air Emissions	2022	2021
NOx (kg)	7,361.15	11,536
SOx (kg)	36.02	28.65
PM (kg)	24.00	33.92

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Greenhouse Gas Emissions

The Group's operation contributed to 287,983.35 tonnes of carbon dioxide equivalent ("tCO_2e") (carbon dioxide, methane, nitrous oxide and hydrofluorocarbons) emission, with an intensity of 9.48 tonnes/m^2 of total production area and 0.23 tonnes/ton of total chemical products produced. Emission from purchased electricity became the highest among other GHG sources during the Reporting Period, followed by the emission from on-site natural gas combustion (scope 1).

Scope of Greenhouse gas emissions	Emission sources		2022 (in tCO_2e)	2021 (in tCO_2e)
Scope 1 Direct emissions	Combustion of fuels in stationary sources	Natural gas	128,104.44	148,741.77
		LPG	2.32	–
		Diesel	–	1.67
	Combustion of fuels in mobiles sources	Diesel	32.81	56.11
		Petrol	45.96	63.65
Scope 2 Indirect emissions	Purchased electricity		156,840.76	169,113.55
Scope 3 Other indirect emissions	Paper waste disposed at landfills		7.21	4.46
	Electricity used for processing fresh water by third parties		2,883.08	2,963
	Electricity used for processing sewage by third parties		47.55	28.3
	Business air travel by employees		19.22	7.37
Total			287,983.35	320,979.88
Intensity (tCO_2e/m^2 of total production area)			9.48	10.56

Note 1: Emission factors were referred to Appendix 27 of the Main Board Listing Rules and their referred documentation as set out by Hong Kong Exchanges and Clearing Limited, unless stated otherwise.

Note 2: Emission for the combustion of natural gas and LPG in stationary source was calculated with emission factors from Greenhouse Gas Protocol Calculation Tool — GHG Emissions from Stationary Combustion (Chinese fuel).

Note 3: The emission from natural gas consumption was calculated in scope 1 emissions and thereby removed from scope 2 emissions. The number of indirect emission data, total GHG emissions, and intensity in 2021 were restated.

Note 4: Combined margin emission factor of 0.5810 tCO_2/MWh and 0.6101 tCO_2/MWh were used for purchased electricity in China in 2022 and 2021, respectively.

Note 5: Scope 3 GHG emissions were calculated based on available emission factors referred to Appendix 27 to the Listing Rules and their referred documentation.

The GHG emissions from the combustion of natural gas reduced by 13.9% during the Reporting Period due to the reduced natural gas consumption in Guangan facility. Guangan region was subject to a natural gas withdrawal limit due to a natural gas shortage in Sichuan province. The daily limit for natural gas consumption was reduced from 1.96 million m^3 to 1.75 million m^3 during the Reporting Period. Meanwhile, Sichuan province experienced extreme hot weather during summer 2022. As part of the "let electricity goes to people, let gas goes to people" policy, Guangan facility actively reduced its natural gas consumption during the Reporting Period. Hence, the total GHG emission had a reduction of 10.3% in 2022, compared to 2021.

Emission Reduction Target Review

Emission of the Group mainly comes from the combustion of fuels and electricity consumption during the production of chemical fertilizers. To manage its carbon footprint, the Group actively improves its energy efficiency to minimize the carbon emission. Since 2021, the group has set a 10-year target of reducing total carbon emissions by 19,300 tCO_2e. To achieve this, a high-pressure boiler and low nitrogen converting burner has been installed to enhance energy efficiency and reduce pollution. The Group is purchasing new vehicles which will meet the "National VI" standards for emissions and rent new energy conserving vehicles for staff for their daily commute.

Facilities	Emission target	Measures taken	2021 baseline	2022
Guangan	Reduce total emission by 1930 tCO_2e per year over next 10 years, total reduction of 19,300 tCO_2e over next 10 years	Installed a high-pressure boiler water pump, replacing turbine oil pump with motor pump, replacing circulating pump with energy-saving pump to enhance energy efficiency. Newly installed equipment will start to operate in 2023 and it is estimated to reduce 13000 tCO_2e emission per year.	169,009 tCO_2e	158,770 tCO_2e
Dazhou	Reduce total emission by 5100 tCO_2e per year, total reduction of 51000 tCO_2e over next 10 years	Improved circulating water pump and decarbonizing hydraulic turbine performance reduced a total emission of 18600 tCO_2e in 2022.	151,971 tCO_2e	129,213 tCO_2e

The Group's continuous efforts have resulted in significant reductions of greenhouse gas emissions at both the Guangan and Dazhou facilities. During the Reporting Period, Guangan successfully reduced a total of 10,239 tonnes of GHG emissions, surpassing its annual target of reducing 1,930 tCO_2e. Similarly, Dazhou reduced a total of 22,758 tonnes of GHG emissions during the Reporting Period and has successfully achieved its yearly target.

Guangan and Dazhou remain committed to achieving their 10-year target of reducing 19,300 tCO_2e and 51,000 tCO_2e by 2031, respectively. The accomplishment of the yearly targets have demonstrated the Group's unwavering commitment to sustainability and its determination to make a positive contribution to the global effort to address climate change.

Waste management

Hazardous Waste

A total of 470.51 tonnes (2021:236.82 tonnes) of hazardous waste was generated from the Group's production, representing an intensity of 15.48 kg/m^2 of total production area and 0.37 kg/ton of total chemical products produced, during the Reporting Period. The hazardous waste production has increased by 98.7%, which is caused by the replacement of chemical catalyst every two years. The hazardous wastes generated by the Group's business activities mainly consists of waste chemical catalyst, waste chemical solutions, sludge, and waste oil. Hazardous waste is collected by qualified waste management companies for recycling or proper treatment.

Non-hazardous Waste

A total of 179.08 tonnes (2021: 110.10 tonnes) of non-hazardous waste was generated, with an intensity of 5.89 kg/m^2 of total production area and 0.14 kg/ton of total chemical products produced, during the Reporting Period. The Group noticed a 62.6% rise in non-hazardous waste production, which was caused by the increase in production volume and the growth in employee numbers. More packaging materials were use during the manufacturing process, while increasing workforce generated more domestic waste. Aside from packaging waste and domestic waste, the non-hazardous waste generated by the Group's production also consisted of paper waste, and industrial waste such as waste packaging materials and other types of waste that cannot be recycled during the maintenance process. Non-hazardous waste is collected by a recycling company.

Wastes Handling and Reduction Initiatives

The Group properly manages and disposes of all waste produced in its operation. During the Reporting Period, all hazardous waste, mainly waste chemical solutions and waste oil from production, was collected and repurposed by qualified parties. Priorities are given to waste handling companies that recycle the wastes. Non-hazardous waste was collected and incinerated by qualified waste companies. The Group gradually adopts a paperless office culture to further reduce the environmental impact caused from office operation. Initiatives such as recycling and reusing paper and office waste, sorting waste into distinct categories, and introducing reusable materials in the Group's canteen are all being implemented. The Group will continue to its effort to reduce waste in its operation by encouraging staff to make use of public transport wherever possible and encourage double sided printing to reduce paper waste.

As part of its ongoing commitment to sustainability, the group has established a goal to reduce 3% of its total waste production by 2023, in comparison to the 2022 baseline. By setting up this target, the Group is motivated to take action to reduce its environmental impact and promote a more sustainable future.

Responsible use of Resources

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

Energy Management

Natural gas was mainly consumed for manufacturing process and canteen operation of the Group. During the Reporting Period, small amount of LPG was also used as the gas supply source for the stove in canteen. Energy efficient production lines and equipment were used to reduce energy consumption while maintaining the quantity and quality of production.

Energy Consumption Sources	2022 Consumption (in corresponding unit)	2022 (in "MWh")	2021[1] (in "MWh")
Electricity	269,949,680 kWh	269,949.68	277,189.88
Natural Gas	67,898,423 m^3	671,138.19	721,769.60
Petrol	17,280 litre	112.81	212.06
Diesel	12,197 litre	121.95	213.12
LPG	731 kg	10.19	–
TOTAL		**941,332.82**	**999,384.66**

Note 1: The unit for 2021 energy consumption has been changed to MWh for easier comparison.

The Group's business operations resulted in a total energy consumption of 941,332.82 MWh from the use of diesel, petrol, natural gas, LPG, and electricity, with an overall energy intensity of 30.97 MWh/m^2 and 0.75 MWh/ton of total products produced. During this Reporting Period, the Group achieved a 5.81% decrease in energy consumption per ton of total product produced compared to 2021, demonstrating its commitment to enhancing energy efficiency and conserving resources.

Energy Use Efficiency Initiatives

The Group endeavours to conserve energy and promote the rational use of energy resources. The Group targets to reduce energy consumption through various means, such as installing new model of production equipment with advanced technology and improving the energy performance of existing production facilities. The Group strives to reduce the use of resources while maintaining the quantity and quality of production.

The company has initiated technological upgrades and new projects at its Dazhou and Guangan plants, which is anticipated to result in a rise in the Group's electricity usage in 2023. As a result, the Group has not yet formulated a long-term energy conservation objective. Following the completion of the renovation projects, the Group will establish an energy efficiency target to ensure optimal energy use.

Water Consumption

The Group sourced water for industrial use from municipal water supply systems. During the Reporting Period, there was no issue with sourcing water. The total water consumption for the Group was 6,736,162 m^3, with an overall intensity of 221.64 m^3/m^2 of total production area and 5.33 m^3/ton of total chemical products produced.

Wastewater

A total amount of 226,413 m^3 of wastewater was discharged from the Group, representing an intensity of 4.66 m^3/m^2 of total production area and 0.12 m^3/ton of total chemical products produced, during the Reporting Period. The Group is equipped with on-site wastewater treatment facilities at all operation sites with treatment processes such as grit removal, chemical sedimentation, and aeration. Wastewater is treated to meet the Discharge Standard of Water Pollutants for Ammonia Industry before it is discharged into the public sewage system. An automatic sampler for water monitoring has been introduced to further safeguard the water quality of the wastewater discharge.

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

Parameters	Discharge Limits	Average Detected Value (Guangan)	Average Detected Value (Dazhou)
Chemical Oxygen Demand	200mg/L	13.751mg/L	32.09mg/L
Total Suspended Solid	100mg/L	1.3mg/L	13.67mg/L
Ammonia Nitrogen	50mg/L	0.306mg/L	7.75mg/L
Oil and grease	3mg/L	0.12mg/L	–
pH	6–9	7.427	7.6

Since 2021, the Group has been actively implementing the "Reclaimed Water Reuse" project with the goal of reducing water consumption. Specifically, the Group has set a target of reducing water consumption by 50,000 m^3 annually and a 10-year target of reducing consumption by 500,000 m^3, compared to the 2021 baseline. In 2022, the Group successfully reduced its total water usage by 369,349 m^3, indicating that it achieved its yearly target. The Group remains committed to achieving its 10-year target and plans to increase the use of recycled water and improve its overall water use efficiency moving forward. By implementing these measures, the Group is demonstrating its dedication to sustainability and its commitment to reducing its environmental impact.

Water Use Efficiency Initiatives

The Group reuses wastewater as much as possible to minimize the amount of wastewater discharged and the replenishment of fresh water for manufacturing process. The Group has adopted the "Reclaimed Water Reuse" initiative in Guangan and Dazhou facility to further reduce water consumption. In 2022, the Group has improved the wastewater treatment facilities and the recycled water quality in Guangan by installing sodium hypochlorite dosing device to sterilize the reclaimed water. It has reduced 55,800 tons of water consumption in Guangan facility.

Meanwhile, the Group has improved the industrial water pipe network and the firefighting pipe network in Dazhou facility in 2022 and is preparing for the implementation of "Reclaimed Water Reuse" plan in the future. It is estimated to reduce 63,218 m^3 of water usage per year.

Packaging Material

The major packaging material used by the Group are packaging bags for containing fertilizer. During the Reporting Period, 1,465.39 tonnes of packaging materials were used for the production and product packaging, representing an intensity of 0.05 tonnes/m^2 of total production area and 1.23 kg/ton of total chemical products produced. All packaging materials contained no hazardous materials.

Due to the Group's business nature, significant amount of packaging materials was used during its operation. To minimize its impact on the environment and conserve resources, all packaging bags used in Dazhou were made of renewable materials. The Group ensures that all waste packaging materials are collected and properly handled by a certified recycling company.

The Environment and Natural Resources

Significant Impacts of Activities on the Environment

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

The Group is also aware of the environmental impacts brought by the leakage of chemical solutions when it happens. To avoid chemical spills, the Guangan facility has implemented several preventive measures to monitor and control the storage and usage of chemical substances. For instance, storage tanks were built to collect the materials and wastes discharged from sampling, overflow, accidents, and maintenance. Airtight equipment and pipe fittings were used to prevent the formation of bubbles and leaks. As part of its efforts, the Group has also strengthened its monitoring of production lines and conducted on-site leak detection regularly. Any leakage found will be repaired and eliminated immediately in order to prevent damage to the environment.

Climate Change

Significant climate-related issues on the company

Intensifying global warming is causing unprecedented challenges to businesses, from disrupted supply chains to labour challenges, it affects the financial stability and long-term development of business. An early assessment of the potential climate-related risk helps the Group to develop a more comprehensive policy to mitigate the impacts brought by climate change. Based on the Task Force on Climate-related Financial Disclosure ("TCFD") recommendation, climate-related risks are divided into two major categories: physical risks and transition risks. The Group has identified several climate-related risks that have implications on its business, which include acute physical risk, chronic physical risk, legal and policy, technology, and reputation risk. To access their implication on the business value chain, the Group has evaluated the likelihood and severity of the climate-related risks and determined their risk level.

Climate risk type	Time horizon	Implication on business	Risk level
Physical Risk			
Acute physical risk	Short term	Increased severity and frequency of extreme weather affects daily operation and disrupt supply chain. Reduced revenue and increased maintenance cost.	High
Chronic physical risk	Medium to long term	Rising temperature increase energy use and equipment maintenance cost.	High
Transition risk			
Technology risk	Long term	Increased operation cost from substitution of existing equipment and services.	Medium
Legal and policy risk	Long term	Increased operation cost from increased GHG emission pricing	Low
Reputation risk	Long term	Reduced revenue from decreased demand for services	Low

Amongst the identified risk, the Group is more susceptible to chronic and acute physical risks. Extreme weather events such as prolonged drought, typhoons, and rainstorms, can cause electricity shortage and reduce the water availability, which disrupt production, transportation, and ultimately sales revenue. The Group is considering formulating an extreme weather policy in the future to manage the climate risks and minimize their financial implication on the business.

B. SOCIAL

1. Employment and Labour Practices

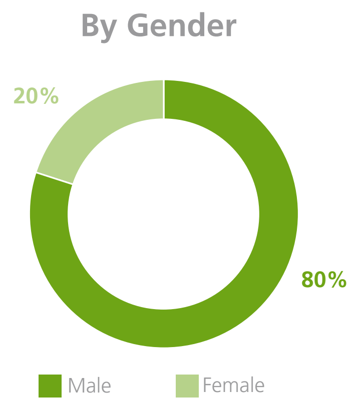
The Group adheres to the Labour Law of the PRC, the Labour Contract Law of the PRC, and the Social Insurance Law of the PRC. The Group has established policies to regulate compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination,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

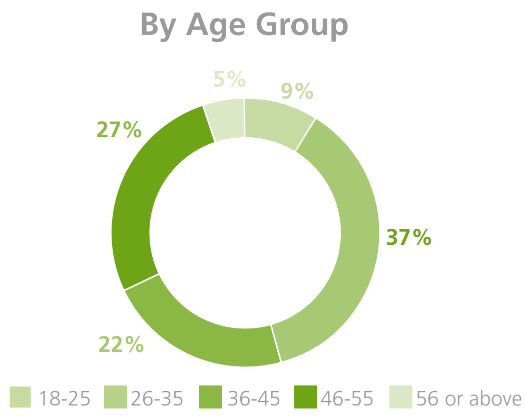
Employment

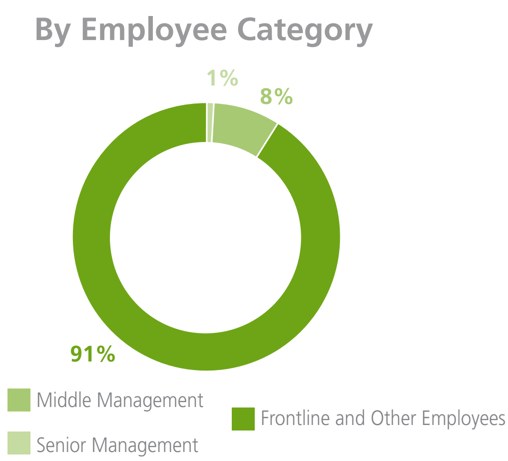
The Group had a total number of 555 employees in the two chemical plants as of 31 December 2022. All of them were full time employees from the PRC.

Environmental, Social and Governance Report

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

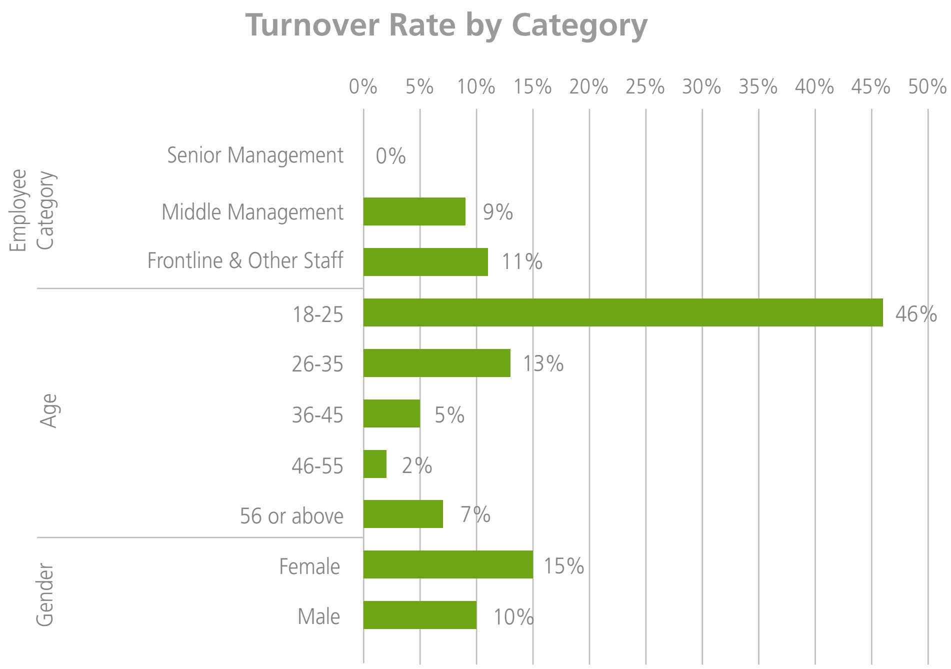






Turnover

During the Reporting Period, a total number of 59 full-time employees from the PRC left the Group, representing an annual turnover rate of 10.6%. The employee turnover rate by gender, age group and employee category in the Reporting Period are as follows:



Compensation and Benefits Package

The Group believes that employees are important assets, upon which the Group can develop further. Therefore, the Group continuously optimizes the management of employees' remuneration and benefits, and ensures the remuneration is in line with the market rate to attract and retain top employees. Employees are entitled to basic social insurance in Mainland China. It continues to follow the principle of "to adapt current market, to reflect talent, to give incentive". To retain talent, the Group alerts current employees of any position opening before posting the role externally. The remuneration structure is "merit-based" and set objectively based on the employee's position and performance. Employees are awarded with a year-end bonus based on their annual review results.

Appraisal System

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

Equal Opportunity

The principles of equal opportunities are applied in all employment policies, including recruitment, training, career development and employee promotion. The Group promotes fair competition and prohibits discrimination or harassment against any employees on the basis of gender, ethnic background, religion, colour, sexual orientation, age, marital status, family status, retirement, disability, and pregnancy. Though without formal policies, the Group firmly adopts "equal opportunity" principles during the recruitment, evaluation, and promotion processes. The Group also supports the employment of the disabled persons by offering posts to the disadvantaged groups.

Staff Communication

The Group believes that workplace communication is of paramount importance to enhance the effectiveness of operations and production. The Group organizes an annual meeting, team building activities, and staff forum to improve communication and build stronger bonds between employees. These communication channels and activities improve teamwork and enhance working efficiency. A trade union has been formed to better reflect the opinions of employees.

Covid-19 Arrangement

The Group understands that it plays a critical role in supporting employees' living. No employees were laid off during the pandemic. The Group actively cooperates with the government. Salaries were paid as usual during quarantine period, while no employees were laid off due to the pandemic.

Employee Health and Safety

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

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

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

- The Group provides an annual body check to all its employees to evaluate the employee's physical condition. If possible, the Group will explore and arrange other posts for the employee;

- The Group has installed a central air conditioning system in the workplace, and makes sure that all ventilation systems are properly operated and maintained for better temperature regulation;

- The Group is also concerned about employee's safety during summer outdoor work. To prevent heat-related illness, the Group provides workers with cooling items such as water, popsicles, red bean soup, etc;

- All employees are informed of the potential occupational health hazards and are provided with personal protective equipment such as safety helmet, safety shoes, ear protectors, etc;

- The Group systematically identifies and closely monitors any occupational hazards in the workplace; and

- The Group provides regular trainings and fire drills to make sure the employees are familiar with fire safety and fire escape methods in office buildings.

Response to Covid-19

The Group is highly conscious of the potential health and safety impacts of Covid-19 to its employees. To prevent the spread of the pandemic and secure employees' health and safety, the Group has adopted these management measures during the COVID-19 outbreak, such as body temperature measurement before entering the facilities, replacing physical meeting with online meeting, lunch period arrangement, health code tracking, etc.

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

As a result of effective health and safety management, the Group achieved zero lost days during the past 3 years, including the Reporting Period.

Occupational Health and Safety Data					
	2022[1]	**2021**	**2020**	**2019**	**2018**
Work related fatality	0	0	0	0	0
Work injury cases ≥3 days	0	0	0	1	0
Work injury cases <3 days	0	0	0	0	0
Lost days due to work injury	0	0	0	97	0

[1] One fatality case was reported in Guangan facility due to cerebrovascular disease. The cause of death is determined to be non-work related and it is not regarded as work-related death case.

Development and Training

The Group provides continuous training and development programmes for its employees to enhance their expertise and problem-solving skills. At the end of each year, the Group collects training needs from departments and positions to design and implement appropriate training programmes. For new hires, mentorship will be provided to support their internal training and assessments. Training and development programmes, including but not limited to on-job training, drill and practice, and seminars are arranged and held by internal and outside professionals. Training topics included management level training such as improvement of personnel and financial management skills; professional skills training and occupational health and safety training for all employees.

During the Reporting Period, the Group provided a total of 416 training hours to employees. The details of staff training for 2022 are as follows:

	% of employees trained	Average training hours per employee
By employee category		
Senior management	100%	28.89
Middle Management	91%	24.53
Frontline & other staff	100%	18.40
By gender		
Male	100%	10.08
Female	97%	55.72

Labour Standards

The Group strives to protect the rights and interests of employees, and strictly prohibits the use of child labor and forced labor. The Group strictly complies with the Provisions on the Prohibition of Using Child Labor and other laws and regulations relating to the labour standards in the PRC. The Human Resources Department conducts background checks on every new employee during the recruitment process to ensure job applicants are of the legal working age. If a violation is discovered, the Group will immediately terminate the employment of the concerned persons and take necessary disciplinary action against anyone who violates any applicable laws and regulations. The Group may report any violations to legal entities of the operating regions, such as the Labor and Social Security Bureau of the PRC.

The Group also ensure its compliance with any applicable labour laws in Mainland China, including but not limited to the Labour Law of the PRC and the Labour Contract Law of the PRC regarding the collective contracts on wage, occupational disease prevention and protection of female employees. Any over-time must be previously approved by the Group and will be entitled to over-time remuneration. During the Reporting Period, there were no material non-compliance relating to children or forced labour.

Environmental, Social and Governance Report

2. Operating Practice

Supply Chain Management

The Group understands that proper supply chain management has a positive influence on the Group, the society, and the environment. The supply chain management system enables the Group to monitor and evaluate the supplier's capabilities in providing qualified products. It conducts surveys and evaluations on the qualifications of suppliers and their product quality on an annual basis, ensuring that they continue to meet the Group's standards. The Group also conduct site visit to the suppliers to access their environmental and social performance. Qualified suppliers are updated and kept on the list for selection. Any suppliers who fail to meet the evaluation and standards for their performance twice are eliminated from the qualified supplier list.

It is the Group's policy to prioritize the selection of energy-efficient appliances and fair-trade products during the procurement process, and the Group proactively requests suppliers' commitment to comply with relevant environmental and social standards during this process. The Group also supports the use of environmentally preferable products. When purchasing packaging bags for containing fertilizers, the Group selects suppliers that offers products made of renewable materials.

During the Reporting Period, the Group engaged a total no. of 655 suppliers from Mainland China for the distribution and sales services, and the supply of raw materials, tools and equipment, chemical supplements, and personal protective gears.

Product Responsibility

The Group is committed to offering products and services with high standards of safety, quality and reliability. The Group strictly abides by the Product Quality Law of the PRC, and other relevant laws and regulations regarding product quality. No material non-compliance cases regarding health and safety, advertising, labelling and privacy matters relating to products and services provided as required by related laws and regulations were recorded during the Reporting Period.

The quality control and quality assurance procedures remain in force and the Group continues to follow the Quality Assurance Policy. In the case of a product quality problem, the Quality Control Department will evaluate the safety, effectiveness of the equipment and integrate this information into an "adverse event" report. The "adverse event" report will then be passed upwards to the senior management. The production equipment of Dazhou has been updated with an emergency plan for treating unexpected accidents. In case the service is interrupted, the agricultural sales companies will be notified immediately to respond to any external sales request in time.

During the Reporting Period, the Group received 4 complaints relating to product quality and customer experience. All complaints were investigated thoroughly and were resolved through communication with the clients. No product recalls were needed. In the event of product recall due to safety and health reasons, the Group will communicate with clients concerning the reasons for the recall and determine the most appropriate and viable solutions in response to the product recall cases. The Group is committed to making improvements to enhance not only product quality but also the customer experience.

Intellectual Property Rights

The Group is committed to protecting the intellectual property rights of our products and production methods and respecting the intellectual property rights of other parties. The intellectual rights practices are based on the Group's Intellectual Rights Management Policy. Any infringements will be thoroughly investigated by senior management, and legal action will be taken where necessary. The Group has set up an intellectual property right clause in the employee contract, established relevant policies during the process of employee's termination, and provided intellectual property training to selected employees. During the year, there were no reported cases of infringement of intellectual property rights, patents or trademarks.

Consumer Data Protection

The Group endeavours to protect the personal data of its customers. All employees have signed the confidentiality agreement which prohibited them from accessing or disclosing customer's personal data without authorization. To improve data security, the Group installed firewall and anti-virus software on its data servers. Internal encryption system is used for data transmission, preventing interception of unauthorized users. In addition to the data system, the Group has set up an archive at its facilities in Guangan and Dazhou to store and protect its customer information. Employees are not allowed to access the information without permission. A borrow-and-return registration process has been implemented to ensure all data transfers are recorded by the Group. In the event of data leakage, penalties will be imposed in accordance with the Group's system. Serious cases will be sent to the judicial authorities. During the year, the Group complied with all relevant laws and regulations relating to information security that has significant impact on the Company, including but not limited to the Data Security Law of the PRC and the Advertising Law of the PRC.

Anti-corruption

The Group strictly regulates the discipline and professional conduct of its employees to prevent any potential bribery, extortion, fraud, money laundering and gambling. During the Reporting Period, the Group was in compliance with relevant laws and regulations related to bribery, extortion, fraud and money laundering, including but not limited to the Criminal Law of the PRC, Anti-Unfair Competition Law of the PRC, and the Interpretation of the Supreme People's Court and the Supreme Procuratorate on Several Issues Concerning the Application of Law in the handling of Criminal Cases of Graft and Bribery. There was no concluded legal case regarding corrupt practices brought against the Group or its employees, and no noted cases of non-compliance with the applicable laws and regulations relating to money laundering or corruption during the Reporting Period.

The Group's management system clearly stated that any personnel who abuse powers for corruption, bribes, and/or bribery, will be transferred to judicial office for further investigation. The Group's Internal Audit Department continues to supervise and conduct regular checks on the Procurement Department in terms of contracts, suppliers' quotation, and payment status. A whistleblowing hotline is set for reporting any suspicions case of misconduct.

During the Reporting Period, a total of 555 employees attended the anti-corruption training regarding anti-corruption laws and business ethics, with an average training hour of 4.65 hours per employee. The Group also ensures all directors are of high awareness on relevant anti-corruption laws and regulations. In the upcoming reporting year, the Group intends to provide anti-corruption training for directors to improve their understanding of business integrity and promote a culture of ethical business practices.

Community Investment

The Group has not formulated policies regarding community engagement. Nevertheless, it attaches great importance to the responsibility to work in partnership with the local communities. During the Reporting Period, the Group actively participated in community projects and engaging in volunteering services. The table below listed the events and donations by the Group.

Activities in the reporting period	Beneficiary/Collaborators/ Partner organizations	Detailed resources input
Guangan		
Care for left-behind elderly	Gongqiao village	RMB18,000
Fertilizer donation	Xinlu Village, Hu'an Town	4 tonnes of urea
Epidemic prevention and control	Linshui Red Cross	RMB1,000,000
Care for frontline staff	The Third Brigade of Traffic Police of Guang'an City, Xinqiao Street, Xinqiao Health Center, Xinqiao Police Station	RMB40,000
Voluntary meals distribution at quarantine sites	Guang'an Economic Development Zone	RMB31,000
Dazhou		
Support for the villages revitalization work	Yudai Xiang, Wanyuan City	5 air conditioners, RMB70,000
Urea donation	Poverty households	31.25 tonnes of urea, RMB70,000

Corporate Governance Practices

The board of directors ("Board") believes that by adopting high standard of corporate governance practices can improve the transparency and accountability of the Company, and instill confidence of shareholders and the public in the Group. Throughout the year under review, the Board adopted the Code on Corporate Governance Practices (the "Corporate Governance Code") as set out in Appendix 14 of the Listing Rules, except for the disclosable transactions mentioned in the announcement dated 6 September 2022 which the Company failed to comply with Chapter 14 of the Listing Rule to report the disclosable transactions at the material time, the Company has complied with the Corporate Governance Code.

THE BOARD OF DIRECTORS

Board composition

The Board of directors currently comprises six directors of which three are Executive Directors and three are Independent Non-Executive Directors as at 31 December 2022. The detail is as follow:

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

Independent Non-Executive Directors
Mr. Xu Congcai
Mr. Le Yiren
Mr. Hu Xiaoping (resign on 1 January 2023)
Ms. Lu Yi (assign on 1 January 2023)

The Independent Non-Executive Directors represented over one-third of the Board during the year 2022. Among the three Independent Non-Executive Directors, at least one has appropriate professional qualifications or accounting or related financial management expertise which satisfies the requirement under the rule 3.10(1) and (2) of the Listing Rules. An annual confirmation of the independence of each Independent Non-Executive Director had been received in accordance with each and every guideline set out in rule 3.13 of the Listing Rules. All Independent Non-Executive Directors are identified as such in all corporate communications that disclose the names of the directors. There is no family or other material relationship among members of the Board. The Board has adopted a Board Diversity Policy that appointment to the Board should be based on merit that compliments and expands the skills and experience of the Board as a whole, and after due regard to factors which include but not limited to gender, age, educational background, professional experience, skills and knowledge, and any other factors that the Board may consider relevant and applicable from time to time towards achieving a diverse Board. The Board shall review the structure, size and composition of the Board from time to time. Five directors are male and one director is female as at 1 January 2023.

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

Corporate Governance Practices

Board meeting

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

In the financial year ended 31 December 2022, 8 board meetings and 2 shareholders' meeting were held and the attendance record for the meetings by each director is as follow:

Attendants	Number of board meetings attended/total	Board meetings attendance percentage	Number of shareholders' meetings attended/total	Shareholders' meetings Attended percentage
Executive Directors				
Mr. Tang Guoqiang	8/8	100%	2/2	100%
Mr. Shi Jianmin	8/8	100%	2/2	100%
Mr. Zhang Weihua	8/8	100%	2/2	100%
Independent Non-Executive Directors				
Mr. Xu Congcai	8/8	100%	2/2	100%
Mr. Le Yiren	8/8	100%	2/2	100%
Mr. Hu Xiaoping (resign on 1 January 2023)	8/8	100%	2/2	100%
Ms. Lu Yi (assign on 1 January 2023)	N/A	N/A	N/A	N/A

Chairman and Chief executive officer

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

DIRECTORS' TRAINING

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

COMPANY SECRETARY'S TRAINING

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

SHAREHOLDERS' RIGHTS

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

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

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

Procedures for propose a person for election as a Director

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

Corporate Governance Practices

Shareholder communication Policy

Information of the Company shall be communicated to Shareholders and the investment community mainly through the Company's financial reports (interim and annual reports), announcements, circulars and other corporate publications made available on the website of the Company at www.koyochem.com and on the website of HKExnews of The Stock Exchange of Hong Kong Limited (the "SEHK") at www.hkexnews.hk, and the direct communication platform in the annual general meeting held every year and any other general meetings that may be convened as required. Shareholders and investors may at any time send their enquiries and concerns to the Board in writing through the Company Secretary. Details of contact and shareholder communication policy are available on the Company's website at www.koyochem.com. The shareholder communication policy will be monitored and reviewed on a regular basis, and, if necessary, changes will be made to ensure that Shareholders' needs are best served.

DIRECTORS' SECURITIES TRANSACTION

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

REMUNERATION OF DIRECTORS

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

Attendants	Number of meetings attended/Total	Attendance percentage
Independent Non-Executive Directors		
Mr. Hu Xiaoping *(Chairman)*	1/1	100%
Mr. Xu Congcai	1/1	100%
Mr. Le Yiren	1/1	100%
Ms. Lu Yi (appointed on 1 January 2023)	N/A	N/A

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

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

NOMINATION OF DIRECTORS

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

Attendants	Number of meetings attended/total	Attendance percentage
Independent Non-Executive Directors		
Mr. Xu Congcai *(Chairman)*	1/1	100%
Mr. Hu Xiaoping	1/1	100%
Mr. Le Yiren	1/1	100%
Ms. Lu Yi (appoint on 1 January 2023)	N/A	N/A

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

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

TERM OF APPOINTMENT AND RE-ELECTION

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

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

AUDIT COMMITTEE

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

Attendants	Number of meetings attended/total	Attendance percentage
Independent Non-Executive Directors		
Mr. Le Yiren *(Chairman)*	4/4	100%
Mr. Hu Xiaoping	4/4	100%
Mr. Xu Congcai	4/4	100%
Ms. Lu Yi (appointed on 1 January 2023)	N/A	N/A

Corporate Governance Practices

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

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

The Audit Committee is responsible for reviewing the accounting principles and practices adopted by the Group, recommending the Board on the Group's internal control and risk management system, and ensuring the Group's financial statements present a true and fair view of the Group's financial position. The Audit Committee had reviewed with management the accounting principles and practices and discussed internal controls and financial reporting matters including a review of the audited financial statements of the Company and Group for the year ended 31 December 2022.

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

GOING CONCERN AND MITIGATION MEASURES

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

A number of measures have been undertaken to improve the Group's liquidity and financial position since 2020 and the Group's financial position was continuously improved. The Group's profit was approximately RMB202 million in 2022 and the net cash inflow from operating activities before working capital changes and profit tax and interest payment was approximately RMB823 million in 2022. The net current liabilities of the Group had been decreased from approximately RMB1,304 million to RMB1,158 million if neglect the effect on the acquisition of Jiangsu Bluestar Green Material Co., Limited.

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

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

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

3) The Group will continue to take active measures as stated in the headlines under the Chairman's Statement "The Group will continue stabilising and optimising existing businesses and focus on benefits to promote fine management to achieve a safe, eco-friendly and long-term stable operation" to control the administrative and production costs.

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

INDEPENDENT EXTERNAL AUDITORS

In 2022, the total remuneration charged by to the independent external auditors amounted to approximately RMB2.3 million, which approximately RMB1.6 million was for the audit services and approximately RMB0.7 million was for other services provided by the independent external auditors. The audit fees have been approved by the Audit Committee and the Board.

The statement of the independent external auditors of the Company about their reporting responsibilities on the consolidated financial statements is set out on pages 52 and 55 of this annual report.

The audit committee has resolved the re-appointment of ZHONGHUI ANDA CPA Limited for the financial year 2023. This resolution has been approved by the Board and is subject to final approval by the shareholders at the forthcoming annual general meeting.

INTERNAL CONTROL

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

Independent Auditor's Report

中汇
ZHONGHUI

TO THE SHAREHOLDERS OF KO YO CHEMICAL (GROUP) LIMITED

(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Ko Yo Chemical (Group) Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 56 to 123, which comprise the consolidated statement of financial position as at 31 December 2022, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw attention to note 2 to the consolidated financial statements which mentions that as at 31 December 2022, the Group had net current liabilities of approximately RMB2,318,569,000, despite the Group had a net operating cash inflow of approximately RMB715,302,000 during the year. 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. Our opinion is not modified in respect of this matter.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Property, plant and equipment

Refer to note 16 to the consolidated financial statements.

The Group tested the amount of property, plant and equipment for impairment. This impairment test is significant to our audit because the balance of property, plant and equipment of approximately RMB3,254,943,000 as at 31 December 2022 is material to the consolidated financial statements. In addition, the Group's impairment test involves application of judgement and is based on assumptions and estimates.

Our audit procedures included, among others:

— Assessing the identification of the related cash generating units;

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

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

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

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

— Checking input data to supporting evidence.

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

Mining right

Refer to notes 19 and 21 to the consolidated financial statements.

The Group tested the amount of mining right for impairment. This impairment test is significant to our audit because the balance of mining right of approximately RMB334,306,000 as at 31 December 2022 is material to the consolidated financial statements. In addition, the Group's impairment test involves application of judgement and is based on assumptions and estimates.

Our audit procedures included, among others:

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

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

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

— Checking arithmetical accuracy of the valuation model; and

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

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

OTHER INFORMATION IN THE ANNUAL REPORT

The directors are responsible for the other information. The other information comprises all the information in the Company's annual report, but does not include the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

Hong Kong, 30 March 2023

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
Revenue	7	3,205,226	3,066,543
Cost of sales		(2,411,956)	(2,253,366)
Gross profit		793,270	813,177
Distribution costs		(45,643)	(26,599)
Administrative expenses		(149,597)	(115,783)
Other income — net	9	5,871	140,333
Other expenses	10	(3,174)	(193,626)
Operating profit		600,727	617,502
Finance income	11	5,492	5,314
Finance expenses	11	(250,395)	(162,440)
Profit before tax		355,824	460,376
Income tax expense	12	(154,780)	(81,158)
Profit and total comprehensive income for the year	13	201,044	379,218
Attributable to:			
Equity holders of the Company		201,563	379,235
Non-controlling interests		(519)	(17)
		201,044	379,218
Earnings per share attributable to the equity holders of the Company during the year (expressed in RMB per share)			
— Basic	15	0.0344	0.0683
— Diluted	15	0.0190	0.0490

Consolidated Statement of Financial Position

As at 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	16	3,254,943	1,857,363
Investment properties	17	10,571	10,925
Right-of-use assets	18	251,796	104,668
Mining right	19	334,306	334,306
Other intangible assets	20	73,596	–
Prepayments	24	869,935	635,228
Deferred income tax assets	32	15,791	38,658
		4,810,938	2,981,148
Current assets			
Inventories	23	241,330	112,041
Trade and other receivables	24	177,482	531,010
Time deposits	25	–	20,000
Restricted bank balances	25	864	250
Pledged bank deposits	25	390,850	–
Cash and cash equivalents	26	224,058	393,259
		1,034,584	1,056,560
Total assets		5,845,522	4,037,708
EQUITY			
Equity attributable to owners of the Company			
Share capital	27	520,569	491,449
Reserves	29	538,470	330,622
		1,059,039	822,071
Non-controlling interests		1,087	1,517
Total equity		1,060,126	823,588

Consolidated Statement of Financial Position

As at 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	*30*	**494,908**	–
Convertible bonds	*31*	**810,623**	771,869
Deferred income tax liabilities	*32*	**115,743**	80,867
Trade and other payables	*33*	**6,080**	–
Lease liabilities	*35*	**4,889**	926
		1,432,243	853,662
Current liabilities			
Trade and other payables	*33*	**737,708**	411,005
Contract liabilities	*34*	**119,831**	117,322
Due to a related company	*36*	**660,863**	–
Provision for tax		**9,423**	46,939
Borrowings	*30*	**1,822,377**	1,783,709
Lease liabilities	*35*	**2,951**	1,483
		3,353,153	2,360,458
Total liabilities		**4,785,396**	3,214,120
Total equity and liabilities		**5,845,522**	4,037,708
Net current liabilities		**(2,318,569)**	(1,303,898)
Total assets less current liabilities		**2,492,369**	1,677,250

The consolidated financial statements on pages 56 to 123 were approved and authorised for issue by Board of Directors on 30 March 2023 and are signed on behalf of the Board by:

Director

Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2022

	Attributable to equity holders of the Company											
	Share capital	Share premium	Merger reserve	Share options reserve	Convertible bonds reserve	Reserve fund	Enterprise expansion fund	Accumulated loss	Transaction with non-controlling interests	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2021	474,879	1,519,172	(22,041)	35,790	401,754	45,273	1,131	(2,435,466)	(3,509)	16,983	1,534	18,517
Total comprehensive income for the year	–	–	–	–	–	–	–	379,235	–	379,235	(17)	379,218
Issuance of convertible bonds	–	–	–	–	407,071	–	–	–	–	407,071	–	407,071
Share-based payments	–	–	–	344	–	–	–	–	–	344	–	344
Issue of shares:												
— Conversion of bonds	16,570	9,604	–	–	(7,736)	–	–	–	–	18,438	–	18,438
At 31 December 2021	491,449	1,528,776	(22,041)	36,134	801,089	45,273	1,131	(2,056,231)	(3,509)	822,071	1,517	823,588
At 1 January 2022	**491,449**	**1,528,776**	**(22,041)**	**36,134**	**801,089**	**45,273**	**1,131**	**(2,056,231)**	**(3,509)**	**822,071**	**1,517**	**823,588**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**201,563**	**–**	**201,563**	**(519)**	**201,044**
Share-based payments	**–**	**–**	**–**	**3,174**	**–**	**–**	**–**	**–**	**–**	**3,174**	**–**	**3,174**
Issue of shares:												
— Conversion of bonds	**29,120**	**19,243**	**–**	**–**	**(16,132)**	**–**	**–**	**–**	**–**	**32,231**	**–**	**32,231**
Acquisition of a subsidiary	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**89**	**89**
At 31 December 2022	**520,569**	**1,548,019**	**(22,041)**	**39,308**	**784,957**	**45,273**	**1,131**	**(1,854,668)**	**(3,509)**	**1,059,039**	**1,087**	**1,060,126**

Consolidated Statement of Cash Flows

For the year ended 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
Cash flows from operating activities			
Profit before tax		355,824	460,376
Adjustments for:			
Lease interest expenses		348	166
Depreciation of property, plant and equipment		212,390	206,988
Depreciation of investment properties		354	1,844
Depreciation of right-of-use assets		6,500	4,711
Amortisation of other intangible assets		994	108
Gain on borrowing restructuring		(5,495)	–
Loss/(gain) on disposal of property, plant and equipment		4,150	(34,395)
Gain on disposal of investment properties		–	(78,660)
Gain on disposal of right-of-use assets		–	(1,600)
Share-based payment		3,174	193,626
Interest revenue		(5,492)	(3,414)
Interest expense		248,166	162,274
Exchange loss/(gain)		2,229	(1,900)
Reversal of impairment loss on mining right		–	(16,306)
Operating cash flows before working capital changes		823,142	893,818
Changes in inventories		(79,437)	(39,574)
Changes in trade and other receivables		225,669	(271,888)
Changes in trade and other payables		43,416	(16,337)
Changes in contract liabilities		2,509	(42,581)
Cash generated from operations		1,015,299	523,438
Lease interests expenses paid		(348)	(166)
Income tax paid		(139,356)	(314)
Interest paid		(160,293)	(87,662)
Net cash generated from operating activities		715,302	435,296

Consolidated Statement of Cash Flows

For the year ended 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
Cash flows from investing activities			
Purchases of property, plant and equipment and payments for construction-in-progress		**(774,132)**	(663,452)
Proceeds from disposal of property, plant and equipment		**737**	432
Acquisition of a subsidiary	*40(c)*	**(24,534)**	–
Decrease/(increase) in time deposits		**20,000**	(20,000)
(Increase)/decrease in restricted bank balances		**(614)**	168
(Increase)/decrease in pledged bank deposits		**(384,750)**	29,175
Interest received		**5,492**	3,414
Net cash used in investing activities		**(1,157,801)**	(650,263)
Cash flows from financing activities			
Advance from a related company	*40(a)*	**48,769**	–
Issuance of convertible bonds		**–**	680,000
Proceeds from borrowings		**444,995**	156,500
Repayment of borrowings		**(218,093)**	(240,648)
Repayment of lease liabilities		**(2,897)**	(1,995)
Net cash generated from financing activities		**272,774**	593,857
Net (decrease)/increase in cash and cash equivalents		**(169,725)**	378,890
Cash and cash equivalents at beginning of year		**393,259**	14,539
Exchange gain/(loss)		**524**	(170)
Cash and cash equivalents at end of year		**224,058**	393,259
Analysis of cash and cash equivalents			
Bank and cash balances		**224,058**	393,259

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

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

As at 31 December 2022, the Group had net current liabilities of approximately RMB2,318,569,000, despite the Group had a net operating cash inflow of approximately RMB715,302,000 during the year. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

The Group had total comprehensive income of approximately RMB201,044,000 for the year ended 31 December 2022. The directors of the Company have reviewed the Group's cash flow projections, which cover a period of twelve months from 31 December 2022. They have assessed the appropriateness of adopting the going concern basis for the preparation of these consolidated financial statements for the year ended 31 December 2022 in light of the Group's plans and measures described below to improve its cash flows:

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

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

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

In the opinion of the directors of the Company, in light of the above, the Group will have sufficient financial resources to finance its operations and fulfil its financial obligations as and when required in the coming twelve months from 31 December 2022. Accordingly, the directors of the Company are satisfied that it is appropriate to prepare these consolidated financial statements on a going concern basis.

2. GOING CONCERN BASIS *(Continued)*

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

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

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are relevant to its operations and effective for its accounting year beginning on 1 January 2022. 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 of the Company to exercise its judgements in the process of applying the accounting policies. The areas involving critical judgements and areas where assumptions and estimates are significant to these consolidated financial statements, are disclosed in note 5 to the consolidated financial statements.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combination and goodwill *(Continued)*

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 non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment

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

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

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

— Buildings	35 years
— Plant and machinery	5-14 years
— Motor vehicles	4-10 years
— Office equipment and others	3-7 years

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

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

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

Investment properties

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Mining rights

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

Leases

The Group as lessee

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

Land use rights	40-50 years
Land and buildings	2-5 years

The Group as lessor

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

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.

Proprietary technology

Proprietary technology is stated at cost less accumulated amortisation and impairment losses. Amortisation is calculated on a straight-line basis over their estimated useful lives of 20 years.

Inventories

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Recognition and derecognition of financial instruments

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

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

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

Financial assets

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

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

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

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

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

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

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Loss allowances for expected credit losses *(Continued)*

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

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

Cash and cash equivalents

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

Financial liabilities and equity instruments

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

Convertible bonds

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

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

Financial guarantee contract liabilities

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

— the loss allowance; and

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Borrowings

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

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

Trade and other payables

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

Equity instruments

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

Share-based payment transactions

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

(a) Share options

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

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

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payment transactions *(Continued)*

(a) Share options *(Continued)*

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

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

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

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

The equity component is not remeasured subsequent to initial recognition.

Revenue from contracts with customers

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Interest revenue

Interest revenue is recognised using the effective interest method.

Other income

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

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Borrowing costs *(Continued)*

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

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

Government grants

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

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

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

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

Taxation

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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

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

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

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

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

PRC land appreciation tax ("LAT")

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

Related parties

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

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

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

   (ii) has significant influence over the Group; or

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties *(Continued)*

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

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

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

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

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

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

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

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

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

Impairment of assets

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

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

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of assets *(Continued)*

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

Provisions and contingent liabilities

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

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

Events after the reporting period

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

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Critical judgements in applying accounting policies

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

Going concern basis

These consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the Group's ability to generate adequate financing cash inflows through successful renewal of its current bank loans upon expiry, obtaining additional bank borrowing, and securing other sources of financing; and generate adequate operating cash inflows. Details are explained in note 2 to consolidated financial statements.

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

Key sources of estimation uncertainty

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

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

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

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

(b) Impairment of mining right and goodwill

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

(c) Income taxes

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

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

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

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

As at 31 December 2022, if interest rates on floating rate borrowings had been increased/decreased by 20 basis points with all other variables held constant, post-tax profit for the year would have been decreased/increased by approximately RMB2,019,000 (2021: nil), 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.

6. FINANCIAL RISK MANAGEMENT *(Continued)*

(c) Credit risk *(Continued)*

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

— internal credit rating;

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

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

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

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

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

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

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

6. FINANCIAL RISK MANAGEMENT *(Continued)*

(d) Liquidity risk

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

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

	Less than 1 year RMB'000	**Between 1 and 2 years** RMB'000	**Between 2 and 5 years** RMB'000
At 31 December 2022			
Trade and other payables	**724,996**	**6,080**	**–**
Due to a related company	**660,863**	**–**	**–**
Borrowings	**1,824,695**	**101,315**	**395,985**
Convertible bonds	**–**	**373,268**	**680,000**
Interest payment on borrowings and convertible bonds	**117,024**	**81,264**	**123,687**
Financial guarantee contracts issued — maximum amount guaranteed	**184,510**	**–**	**–**
At 31 December 2021			
Trade and other payables	393,316	–	–
Borrowings	1,783,709	–	–
Convertible bonds	–	–	1,092,894
Interest payment on borrowings and convertible bonds	153,402	59,919	132,406

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

The Group has been investing in the construction of new production lines and a significant amount of the financing was obtained from borrowings. As a result, the Group had net current liabilities of approximately RMB2,319 million as at 31 December 2022 (2021: approximately RMB1,304 million).

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

6. FINANCIAL RISK MANAGEMENT *(Continued)*

(e) Categories of financial instruments

	2022 RMB'000	2021 RMB'000
Financial assets:		
Financial assets at amortised cost (including cash and cash equivalents)	657,170	869,489
Financial liabilities:		
Financial liabilities at amortised cost	4,519,847	2,948,894

(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 2022 and 2021, all revenue is derived from the PRC.

Major products	2022 RMB'000	2021 RMB'000
BB & compound fertilizers	–	3,833
Urea	1,009,200	961,593
Ammonia	1,226,887	1,111,062
Methanol	911,990	990,055
Others-trading	57,149	–
	3,205,226	3,066,543

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7. REVENUE *(Continued)*

Disaggregation of revenue from contracts with customers *(Continued)*

Timing of revenue recognition

For the years ended 31 December 2022 and 2021, all revenue is recognised at a point of time.

Sale of chemical products and chemical fertilizers

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

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

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

8. SEGMENT INFORMATION

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

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

Geographical information

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

Revenue from major customers

	2022	2021
Customer A	**15.11%**	14.11%

9. OTHER INCOME — NET

	2022 RMB'000	2021 RMB'000
Rental income	209	3,923
Depreciation related to rental income	(354)	(1,844)
Rental income, net	(145)	2,079
Subsidy income	2,643	4,674
Reversal of impairment loss on mining right	–	16,306
(Loss)/gain on disposal of property, plant and equipment	(4,150)	34,395
Gain on disposal of investment properties	–	78,660
Gain on disposal of right-of-use assets	–	1,600
Gain on borrowing restructuring	5,495	–
Others, net	2,028	2,619
	5,871	140,333

10. OTHER EXPENSES

	2022 RMB'000	2021 RMB'000
Share-based payment arising from issue of convertible bonds	–	193,282
Share-based payment arising from issue of share option	3,174	344
	3,174	193,626

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11. FINANCE EXPENSES — NET

	2022 RMB'000	2021 RMB'000
Finance income:		
Exchange gain	–	(1,900)
Interest revenue	(5,492)	(3,414)
	(5,492)	(5,314)
Finance expenses:		
— leases interests expenses	348	166
Interest expense:		
— borrowings	122,501	101,533
— convertible bonds	127,726	60,741
Less: capitalisation in construction-in-progress	(2,409)	–
	248,166	162,440
Exchange loss	2,229	–
	250,395	162,440
Finance expenses — net	244,903	157,126

12. INCOME TAX EXPENSE

No provision for profits tax in the Cayman Islands, British Virgin Islands or Hong Kong has been made, as the Group had no assessable profit arising in or derived from those jurisdictions during the years ended 31 December 2022 and 2021.

The applicable income tax rate of other subsidiaries located in Mainland China in 2022 and 2021 is 25%.

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

	2022 RMB'000	2021 RMB'000
PRC Corporate Income Tax for Mainland China	131,984	15,957
LAT for Mainland China	–	34,498
Deferred income tax	22,796	30,703
	154,780	81,158

The taxation on the Group's profit before income tax differs from the theoretical amount that would arise using the taxation rate of 25% (2021: 25%). The difference is analysed as follows:

	2022 RMB'000	2021 RMB'000
Profit before tax	355,824	460,376
Tax calculated at a taxation rate of 25% (2021: 25%)	88,956	115,094
Tax rate difference	12,066	23,061
LAT	–	34,498
Income tax effect of LAT of 25%	–	(8,624)
Expenses not deductible for tax purposes	32,483	44,304
Utilisation of tax losses not previously recognised	–	(131,752)
Tax losses previously recognised and reversed	13,978	–
Tax losses for which no deferred income tax was recognised	8,678	5,061
Income not subject to tax	(1,381)	(484)
Income tax expense	154,780	81,158

12. INCOME TAX EXPENSE *(Continued)*

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

13. PROFIT FOR THE YEAR

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

	2022	2021
	RMB'000	RMB'000
Cost of inventories sold	**2,411,956**	2,253,366
Depreciation of property, plant and equipment	**212,390**	206,988
Depreciation of investment properties	**354**	1,844
Depreciation of right-of-use assets	**6,500**	4,711
Directors' emoluments *(note 14)*		
— As directors	**1,031**	996
— For management	**6,000**	10,000
Amortisation of other intangible assets	**994**	108
Auditors' remuneration		
— Audit services	**1,596**	1,494
— Non-audit services	**665**	274
Loss/(gain) on disposal of property, plant and equipment	**4,150**	(34,395)
Reversal of impairment loss on mining right	**–**	(16,306)
Gain on disposal of investment properties	**–**	(78,660)
Gain on disposal of right-of-use assets	**–**	(1,600)
Share-based payment arising from issue of convertible bonds	**–**	193,282
Staff costs including directors' emoluments		
Salaries, bonus and allowances	**90,663**	82,012
Retirement benefits scheme contributions	**5,444**	3,813
Share-based payment arising from issue of share option	**3,174**	344
	99,281	86,169

Cost of inventories sold includes staff costs, depreciation of property, plant and equipment and expenses related to short-term lease of approximately RMB248,805,000 (2021: approximately RMB242,677,000) which are included in the amounts disclosed separately above.

14. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The remuneration of every director for the years ended 31 December 2022 and 2021 is set out below:

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

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

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

(a) Directors' emoluments *(Continued)*

Notes:

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

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

(iii) Mr. Le Yiren was appointed as an independent non-executive director on 1 July 2021.

(iv) Mr. Shi Lei was resigned as an independent non-executive director on 1 July 2021.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include one (2021: two) directors whose emoluments are reflected in the analysis presented above. The emoluments of the remaining four (2021: three) individuals are set out below:

	2022 RMB'000	2021 RMB'000
Salaries and other benefits	3,781	2,196
Retirement benefit scheme contributions	123	70
Share-based payments expense	682	56
	4,586	2,322

The emoluments fell within the following bands:

	Number of individuals	
	2022	2021
Nil to HK$1,000,000	–	2
HK$1,000,001 to HK$1,500,000	3	1
HK$1,500,001 to HK$2,000,000	1	–
	4	3

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

15. EARNINGS PER SHARE

Basic

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

Diluted

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

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

	2022 RMB'000	2021 RMB'000
Earnings		
Earnings for the purpose of calculating basic earnings per share	201,563	379,235
Finance costs saving on conversion of convertible bonds outstanding	85,779	60,741
Earnings for the purpose of calculating diluted earnings per share	287,342	439,976

	2022 '000	2021 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	5,855,440	5,549,960
Effect of dilutive potential ordinary shares arising from share options outstanding	126,492	–
Effect of dilutive potential ordinary shares arising from convertible bonds outstanding	9,142,603	3,425,826
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	15,124,535	8,975,786

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16. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Office equipment and others RMB'000	Construction-in-progress RMB'000	Total RMB'000
Cost						
At 1 January 2021	912,044	2,484,134	7,679	24,104	411,694	3,839,655
Additions	1,975	8,487	1,180	1,584	48,150	61,376
Disposals	(31,994)	(1,346)	(3,825)	(115)	–	(37,280)
Transferred upon completion	–	1,093	–	–	(1,093)	–
At 31 December 2021	**882,025**	**2,492,368**	**5,034**	**25,573**	**458,751**	**3,863,751**
Additions	**2,141**	**3,343**	**1,818**	**1,026**	**606,308**	**614,636**
Disposals	**(246)**	**(32,939)**	**(192)**	**(46)**	**–**	**(33,423)**
Transferred upon completion	**11,739**	**17,294**	**–**	**–**	**(29,033)**	**–**
Acquisition of a subsidiary *(note 40(c))*	**–**	**24**	**163**	**83**	**999,951**	**1,000,221**
At 31 December 2022	**895,659**	**2,480,090**	**6,823**	**26,636**	**2,035,977**	**5,445,185**
Accumulated depreciation and impairment loss						
At 1 January 2021	(130,368)	(1,282,254)	(5,434)	(24,104)	(377,673)	(1,819,833)
Depreciation	(13,222)	(192,917)	(363)	(486)	–	(206,988)
Disposals	16,432	971	2,900	130	–	20,433
At 31 December 2021	**(127,158)**	**(1,474,200)**	**(2,897)**	**(24,460)**	**(377,673)**	**(2,006,388)**
Depreciation	**(12,480)**	**(198,279)**	**(1,196)**	**(435)**	**–**	**(212,390)**
Disposals	**71**	**28,286**	**163**	**16**	**–**	**28,536**
At 31 December 2022	**(139,567)**	**(1,644,193)**	**(3,930)**	**(24,879)**	**(377,673)**	**(2,190,242)**
Net book amount						
At 31 December 2022	**756,092**	**835,897**	**2,893**	**1,757**	**1,658,304**	**3,254,943**
At 31 December 2021	754,867	1,018,168	2,137	1,113	81,078	1,857,363

All the Group's buildings are located in Mainland China. As at 31 December 2022, property, plant and equipment with a total net book value of approximately RMB1,610,908,000 (2021: approximately RMB1,729,038,000) were pledged as collateral for the Group's bank borrowings.

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

As at 31 December 2022, property, plant and equipment with a total net book value of approximately RMB368,449,000 (2021: RMB1,527,742,000) were frozen by the court. Please refer to note 42 to consolidated financial statements for details.

For the year ended 31 December 2022, borrowing costs of approximately RMB2,409,000 (2021: nil) have been capitalised in the construction-in-progress.

17. INVESTMENT PROPERTIES

	2022	2021
	RMB'000	RMB'000
Cost		
As at 1 January	**14,032**	73,052
Disposal	**–**	(59,020)
As at 31 December	**14,032**	14,032
Accumulated depreciation and impairment loss		
As at 1 January	**(3,107)**	(17,202)
Charge for the year	**(354)**	(1,844)
Disposal	**–**	15,939
As at 31 December	**(3,461)**	(3,107)
Net book value		
As at 31 December	**10,571**	10,925
Fair value as at 31 December	**14,028**	13,503

All the Group's investment properties are located in Mainland China. As at 31 December 2022, investment properties with a total net book value of approximately RMB5,984,000 (2021: approximately RMB10,925,000) were pledged as collateral for the Group's bank borrowings.

The fair values of the investment properties as at 31 December 2022 were estimated on the open market basic value by reference to market evidence of recent transaction for similar properties by management.

17. INVESTMENT PROPERTIES *(Continued)*

The rental income arising from investment properties for the year 2022 of approximately RMB209,000 (2021: approximately RMB3,923,000) and depreciation charges are included in other income.

As at 31 December 2022, the Group had no unprovided contractual obligations for future repairs and maintenance (2021: Nil).

18. LEASES AND RIGHT-OF-USE ASSETS

Disclosures of lease-related items:

	2022 RMB'000	2021 RMB'000
At 31 December:		
Right-of-use assets		
— Land use rights	244,154	102,332
— Land and buildings	7,642	2,336
	251,796	104,668
The maturity analysis, based on undiscounted cash flows, of the Group's lease liabilities is as follows:		
— Less than 1 year	3,229	1,560
— In the second to fifth years, inclusive	5,121	945
	8,350	2,505
Year ended 31 December:		
Depreciation charge of right-of-use assets		
— Land use rights	3,478	2,681
— Land and buildings	3,022	2,030
	6,500	4,711
Lease interest expenses	348	166
Expenses related to short-term leases	302	244
Total cash outflow for leases	3,547	2,405
Right-of-use assets increased due to acquisition of a subsidiary	145,300	–
Additions to right-of-use assets	8,328	–

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

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

As at 31 December 2022, land use rights with a net book value of approximately RMB244,154,000 (2021: RMB102,332,000) were pledged as collateral for the Group's borrowings.

As at 31 December 2022, land use rights with a net book value of approximately RMB51,656,000 (2021: RMB102,332,000) were frozen by the court. Please refer to note 42 to consolidated financial statements for details.

19. MINING RIGHT

The mining right represents the right to conduct mining activities in a phosphate mine located in Sichuan, Mainland China, which has a remaining legal life of 17 years, expiring in 2039.

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

As at 31 December 2022, mining right with a net book value of approximately RMB334,306,000 (2021: approximately RMB334,306,000) were pledged as collateral for the Group's bank borrowings.

As at 31 December 2022, mining right with a net book value of approximately RMB334,306,000 (2021: RMB334,306,000) were frozen by the court. Please refer to note 42 to consolidated financial statements for details.

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20. OTHER INTANGIBLE ASSETS

	Goodwill	Construction permits	Proprietary technology	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Cost				
At 1 January 2021	8,900	2,700	–	11,600
Written off	–	(2,700)	–	(2,700)
At 31 December 2021 and At 1 January 2022	**8,900**	**–**	**–**	**8,900**
Acquisition of a subsidiary	**26,199**	**–**	**48,391**	**74,590**
At 31 December 2022	**35,099**	**–**	**48,391**	**83,490**
Accumulated amortisation and impairment loss				
At 1 January 2021	(8,900)	(2,592)	–	(11,492)
Amortisation charge	–	(108)	–	(108)
Written off	–	2,700	–	2,700
At 31 December 2021	**(8,900)**	**–**	**–**	**(8,900)**
Amortisation charge	**–**	**–**	**(994)**	**(994)**
At 31 December 2022	**(8,900)**	**–**	**(994)**	**(9,894)**
Net book amount				
At 31 December 2022	**26,199**	**–**	**47,397**	**73,596**
At 31 December 2021	–	–	–	–

Construction permits represent the permissions granted by the government for the construction of GuangAn Project. Amortisation charge of nil (2021: approximately RMB108,000) is included in administrative expenses.

21. IMPAIRMENT OF GOODWILL AND MINING RIGHT

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

Management determined gross margin based on past market prices of the phosphoric acid which are produced from phosphate ore and management's estimation of exploitation and production costs. The discount rate used is post-tax and reflects specific risks relating to the relevant CGU. Expected mining period of the phosphate mine is determined based on extractable reserve of the phosphate mine and the Group's production capacity. The legal life of mining right can be extended upon maturity to enable the Group to conduct mining activities in the expected mining period. No reversal of impairment losses (2021:RMB16,306,000) was provided on mining right for the year ended 31 December 2022.

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

	2022	2021
Phosphoric acid		
Growth rate	3%	3%
Discount rate (post-tax discount rate applied to the cash flow projections)	16.65%	16.99%
Years of cash flows projection	33 years	33 years

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

Management determined gross margin based on past market prices of the phosphoric acid and management's estimation of production costs. The growth rates are based on long-term average economic growth rate of the geographical area in which the businesses of the CGUs operate. The discount rate used is pre-tax and reflects specific risks relating to the relevant CGU. The value-in-use as at 31 December 2022 is derived based on management's cash flow projections for 20 years.

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

	2022	2021
Propylene oxide		
Growth rate	4%	N/A
Discount rate (pre-tax discount rate applied to the cash flow projections)	14.67%	N/A
Years of cash flows projection	20 years	N/A

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22. SUBSIDIARIES

Particulars of the Company's major subsidiaries as at 31 December 2022 and 2021 are set out below:

Name *(Note i)*	Place of incorporation/ establishment	Principal activities and place of operation	Particulars of issued and paid-up/registered share capital	Interest held 2022	Interest held 2021
Held directly:					
Ko Yo Ecological Agrotech (BVI) Limited ("Ko Yo BVI")	the British Virgin Islands ("BVI")	Investment holding, Hong Kong	100 ordinary shares of USD1 each	100%	100%
Bright Bridge Investments Limited	BVI	Investment holding, Hong Kong	1 ordinary share of USD1 each	100%	100%
Ko Yo Hong Kong New Material Company Limited ("Hong Kong New Material")	Hong Kong	Investment holding, Hong Kong	HK$2 ordinary shares	100%	100%
Held indirectly:					
Ko Yo Development Company Limited ("Ko Yo Hong Kong")	Hong Kong	Investment holding, Hong Kong	3,000,000 non-voting deferred shares and HK$10 ordinary shares	100%	100%
Dazhou Ko Yo Chemical Industry Co., Ltd. ("Dazhou Ko Yo Chemical") *(Note ii, iii and v)*	Mainland China	Manufacture and sale of chemical products, Mainland China	RMB420,000,000	100%	100%
Sichuan Chengyuan Chemical Industry Co., Ltd. ("Sichuan Cuyo") *(Note ii, iii and v)*	Mainland China	Exploration and exploitation of a phosphorous mine, Mainland China	RMB8,000,000	100%	100%
Sichuan Ko Yo Agrochem Co., Ltd. ("Ko Yo Agrochem") *(Note ii and iii)*	Mainland China	Sale of chemical products and chemical fertilisers, Mainland China	RMB87,000,000	100%	100%
Guangan Ko Yo Chemical Industry Co., Ltd. ("Ko Yo GuangAn") *(Note ii, iii and v)*	Mainland China	Manufacture and sale of chemical products, Mainland China	RMB227,000,000	100%	100%
Guangan Lotusan Natural Gas Chemical Co., Ltd. ("Ko Yo Lotusan") *(Note ii and iv)*	Mainland China	Manufacture and sale of chemical products, Mainland China	RMB160,000,000	100%	100%

22. SUBSIDIARIES *(Continued)*

Name *(Note i)*	Place of incorporation/ establishment	Principal activities and place of operation	Particulars of issued and paid-up/registered share capital	Interest held 2022	Interest held 2021
Guangan Ko Yo New Material Co., Ltd. ("Guangan New Material") *(Note ii and iii)*	Mainland China	Manufacture and sale of engineering plastics, Mainland China	RMB64,000,000	100%	100%
Guangan Trading and Commerce Co., Ltd. *(Note iii)*	Mainland China	Sale of chemical products, Mainland China	RMB50,000,000	100%	100%
Guangan Wan Yuen Chemical Co., Ltd. *(Note iv)*	Mainland China	Manufacture and sale of chemical products, Mainland China	RMB60,000,000	100%	100%
SiChuan Ko Yo GaoXin Material Co., Ltd. *(Note iii)*	Mainland China	Manufacturing of chemical products, Mainland China	RMB100,000,000	100%	100%
Dazhou New Material Co., Ltd. *(Note iv)*	Mainland China	Manufacture and sale of chemical products, Mainland China	RMB60,000,000	100%	100%
Dazhou Fengjie Trading Co., Ltd. *(Note iv)*	Mainland China	Manufacture and sale of chemical products, Mainland China	RMB30,000,000	100%	N/A
Jiangsu Bluestar Green Material Co., Ltd. *(Note iv)*	Mainland China	Manufacture and sale of chemical products, Mainland China	RMB30,000,000	90%	N/A

Notes:

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

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

iii. These subsidiaries are foreign owned enterprises established in the PRC.

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

v. At as 31 December 2022, 100% equity interest of Dazhou Ko Yo Chemical, Sichuan Cuyo, Ko Yo GuangAn and Guangan Ko Yo Phos-chemical Technology Co., Ltd. (2021: Dazhou Ko Yo Chemical, Sichuan Cuyo, Ko Yo Agrochem, Ko Yo GuangAn and Guangan Ko Yo Phos-chemical Technology Co., Ltd.) were frozen by the court. Please refer to note 42 to consolidated financial statements for details.

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23. INVENTORIES

	2022 RMB'000	2021 RMB'000
Raw materials	**177,438**	71,077
Finished goods	**63,892**	40,964
	241,330	112,041

There is no inventory written down as at 31 December 2022 (2021: Nil).

24. TRADE AND OTHER RECEIVABLES

	2022 RMB'000	2021 RMB'000
Trade receivables *(Note a)*	**9,280**	1,891
Note receivables *(Note b)*	**6,780**	35,087
Loan receivables (Note c)	**–**	240,000
Proceeds from disposal of properties withhold by the court *(Note 40(b) and 42)*	**–**	158,615
Prepayments for raw materials	**82,239**	61,664
Prepayments for property, plant and equipment	**150,182**	99,428
Prepayment for construction cost	**719,753**	535,800
Prepayment for hazardous chemical disposal fee	**15,150**	–
Other tax receivables	**38,695**	13,366
Due from employees	**7,855**	8,332
Others	**17,483**	12,055
	1,047,417	1,166,238
Analysis as:		
— Non-current assets	**869,935**	635,228
— Current assets	**177,482**	531,010
	1,047,417	1,166,238

As at 31 December 2022 and 2021, the fair value of trade and other receivables of the Group approximated to their carrying amounts.

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

24. TRADE AND OTHER RECEIVABLES *(Continued)*

Notes:

(a) Trade receivables

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

	2022 RMB'000	2021 RMB'000
0-90 days	9,280	1,891

There is no movement of loss allowance for trade receivables for the years ended 31 December 2022 and 2021.

The Group's credit risk is primarily attributable to its trade receivables. In order to minimise credit risk, the directors of the Company have delegated a team to be responsible for the determination of credit limits, credit approvals and other monitoring procedures. In addition, the directors of the Company review the recoverable amount of each individual trade debt regularly to ensure that adequate impairment losses are recognised for irrecoverable debts. In this regard, the directors 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 2022			
Weighted average expected loss rate	0%	0%	
Receivable amount (RMB'000)	9,280	–	9,280
Loss allowance (RMB'000)	–	–	–
At 31 December 2021			
Weighted average expected loss rate	0%	0%	
Receivable amount (RMB'000)	1,891	–	1,891
Loss allowance (RMB'000)	–	–	–

(b) Note receivables

As at 31 December 2022, note receivables of nil (2021: RMB660,000) were pledged as security for certain borrowings.

(c) Loan receivables

As at 31 December 2021, the loan receivables bearing interest ranging from 7% to 9% per annum. All of the loans were repaid during 2022.

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

The time deposits are denominated in RMB. The effective interest rates are nil (2021: 2.00%).

The restricted bank balances carry interest at market rate of 0.35% p.a. and can only be applied to settle compensation from litigation loss cases. Please refer to note 42 to consolidated financial statements for details.

The pledged deposits are denominated in RMB and pledged for certain borrowings. The effective interest rates on pledged bank deposits are ranged from 1.45%-1.65% (2021: nil).

26. CASH AND CASH EQUIVALENTS

The effective interest rate on cash at bank at 31 December 2022 is ranged from 0.25%-1.90% (2021: 0.35%).

As at 31 December 2022, the bank and cash balances of the Group denominated in RMB amounted to RMB220,143,000 (2021: RMB385,949,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations.

27. SHARE CAPITAL

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

	Number of shares		Share capital	
	2022	2021	**2022**	2021
	'000	'000	**HKD'000**	HKD'000
Authorised (Ordinary share of HK$0.10 each):				
At the beginning and the end of the year	**20,000,000**	20,000,000	**2,000,000**	2,000,000

Ordinary shares, issued and fully paid:

	Number of shares		Share capital	
	2022	2021	**2022**	2021
	'000	'000	**RMB'000**	RMB'000
At the beginning of the year	**5,688,043**	5,488,043	**491,449**	474,879
Issue of shares:				
— Conversion of bonds *(Note a)*	**340,000**	200,000	**29,120**	16,570
At the end of the year	**6,028,043**	5,688,043	**520,569**	491,449

27. SHARE CAPITAL *(Continued)*

(a) Conversion of bonds

During the year ended 31 December 2022, the convertible bonds holders exercised certain convertible bonds to subscribe 40,000,000 and 300,000,000 (2021: 200,000,000) ordinary shares at an exercise price of HKD0.108 and HKD0.141 (2021:HKD0.141) per share, respectively.

Capital management

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

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

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

The gearing ratio as at 31 December were as follows:

	2022 RMB'000	2021 RMB'000
Borrowings	2,317,285	1,783,709
Convertible bonds	810,623	771,869
Total borrowings	3,127,908	2,555,578
Less:		
Cash and cash equivalents	(224,058)	(393,259)
Time deposits	–	(20,000)
Pledged bank deposits	(390,850)	–
Net debt	2,513,000	2,142,319
Total equity	1,060,126	823,588
Total capital	3,573,126	2,965,907
Gearing ratio	70%	72%

The decrease (2021: decrease) in the gearing ratio resulted mainly from the profit for the year (2021: profit for the year and issuance of convertible bonds).

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28. SHARE-BASED PAYMENT

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

Share Option Schemes

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

Date of grant	28 March 2013	22 June 2016	23 October 2020	22 November 2021	Total Number of Share Options	Weighted average exercise price (HKD)
Exercise price (HKD per option)	0.595	0.151	0.141	0.182		
Remaining life	0.24 year	3.47 year	7.81 year	8.9 year		
Granted to	4 executive directors and 2 independent directors and 21 employees	1 executive director and 3 employees	1 executive director	135 employees		
1 January 2021	4,200,000	1,500,000	300,000,000	–	305,700,000	0.1473
Granted	–	–	–	77,312,000	77,312,000	0.1820
31 December 2021 and 2022	4,200,000	1,500,000	300,000,000	77,312,000	383,012,000	0.1543

In 2022, the estimated fair value of the options granted was nil (2021: HKD6,477,000 (RMB5,295,000)). For the year ended 31 December 2022, the Group recognised share-based payments of HKD3,696,000 (RMB3,174,000) (2021: HKD419,000 (RMB344,000)) in profit or loss and the corresponding amount has been credited to share option reserve.

29. RESERVES

(a) Group

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

(b) Company

	Share premium RMB'000	Contributed surplus RMB'000	Share option reserve RMB'000	Convertible bonds reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2021	1,519,172	37,162	35,790	401,754	(2,451,774)	(457,896)
Total comprehensive income for the year	–	–	–	–	379,235	379,235
Issuance of convertible bonds	–	–	–	407,071	–	407,071
Share-based payments	–	–	344	–	–	344
Issue of shares:						
— Conversion of bonds	9,604	–	–	(7,736)	–	1,868
At 31 December 2021	1,528,776	37,162	36,134	801,089	(2,072,539)	330,622
At 1 January 2022	**1,528,776**	**37,162**	**36,134**	**801,089**	**(2,072,539)**	**330,622**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**201,563**	**201,563**
Share-based payments	**–**	**–**	**3,174**	**–**	**–**	**3,174**
Issue of shares:						
— Conversion of bonds	**19,243**	**–**	**–**	**(16,132)**	**–**	**3,111**
At 31 December 2022	**1,548,019**	**37,162**	**39,308**	**784,957**	**(1,870,976)**	**538,470**

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29. RESERVES *(Continued)*

(c) Nature and purpose of reserves

(i) Merger reserve

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

(ii) Reserve fund

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

(iii) Contributed surplus

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

30. BORROWINGS

	2022 RMB'000	2021 RMB'000
The borrowings are repayable as follows:		
On demand or within one year	**1,822,377**	1,783,709
In the second year	**99,683**	–
In the third to fifth years, inclusive	**395,225**	–
	2,317,285	1,783,709
Less: Amount due for settlement within 12 months (shown under current liabilities)	**(1,822,377)**	(1,783,709)
Amount due for settlement after 12 months	**494,908**	–

30. BORROWINGS *(Continued)*

The borrowings are:

— secured by the Group's note receivables of nil (2021: RMB660,000), pledged bank deposits of RMB390,850,000 (2021: nil), property, plant and equipment with a total net book value of RMB1,610,908,000 (2021: RMB1,729,038,000), investment properties with a total net book value of RMB5,984,000 (2021: RMB10,925,000), mining right with a total net book value of RMB334,306,000 (2021: RMB334,306,000), right-of-use assets with total net book value of RMB244,154,000 (2021: RMB102,332,000), 100% equity interest in Dazhou Ko Yo Chemical, Sichuan Cuyo, Guangan New Material, Ko Yo GuangAn, Ko Yo Lotusan and Ko Yo Argochem (2021: 100% equity interest in Dazhou Ko Yo Chemical, Sichuan Cuyo, Guangan New Material, Ko Yo GuangAn, Ko Yo Lotusan and Ko Yo Argochem).

— guaranteed by related companies;

— personal guarantee provided by a director and his spouse;

— guaranteed by an independent third party;

— secured by certain properties owned by related companies; and

— secured by certain properties owned by a director.

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

	2022 RMB'000	2021 RMB'000
At floating rate in RMB	1,009,291	–
At fixed rates in RMB	1,307,994	1,783,709

The borrowings were issued at interest rates which range from 3.30% to 8.70% (2021: 4.35% to 8.70%) per annum. The fair value of borrowings approximate to their carrying amounts. The borrowings arranged at fixed interest rates and expose the Group to fair value interest rate risk. For other borrowings are arranged at floating rates and expose the Group to cash flow interest rate risk.

The borrowings include note payables of RMB414,750,000 (2021: RMB627,000) which are repayable within one year and secured by pledged bank deposits of RMB390,750,000 (2021: secured by note receivables of RMB660,000).

31. CONVERTIBLE BONDS

	2022 RMB'000	2021 RMB'000
Liability component		
Convertible bonds 1	**194,167**	170,189
Convertible bonds 2	**27,618**	28,509
Convertible bonds 3	**80,931**	74,434
Convertible bonds 4	**–**	26,975
Convertible bonds 5	**507,907**	471,762
	810,623	771,869

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 2021	150,982	218,947	369,929
Interest expense accrued	37,175	–	37,175
Interest expense charged to accrued expense	(17,968)	–	(17,968)
At 31 December 2021	170,189	218,947	389,136
At 1 January 2022	**170,189**	**218,947**	**389,136**
Interest expense accrued	**41,946**	**–**	**41,946**
Interest expense charged to accrued expense	**(17,968)**	**–**	**(17,968)**
At 31 December 2022	**194,167**	**218,947**	**413,114**

The principal amount of the convertible bonds as at 31 December 2022 is approximately RMB256,685,000 (2021: approximately RMB256,685,000).

31. CONVERTIBLE BONDS *(Continued)*

Convertible bonds 2

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

	Liability component RMB'000	Equity component RMB'000	Total RMB'000
At 1 January 2021	26,267	40,051	66,318
Interest expense accrued	3,564	–	3,564
Interest expense charged to accrued expense	(1,322)	–	(1,322)
At 31 December 2021	28,509	40,051	68,560
At 1 January 2022	**28,509**	**40,051**	**68,560**
Interest expense accrued	**3,487**	**–**	**3,487**
Interest expense charged to accrued expense	**(1,285)**	**–**	**(1,285)**
Converted during the year	**(3,093)**	**(4,450)**	**(7,543)**
At 31 December 2022	**27,618**	**35,601**	**63,219**

The principal amount of the convertible bonds as at 31 December 2022 is approximately RMB29,375,000 (2021: approximately RMB33,047,000).

31. CONVERTIBLE BONDS *(Continued)*

Convertible bonds 3

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

	Liability component RMB'000	**Equity component** RMB'000	**Total** RMB'000
At 1 January 2021	68,733	123,338	192,071
Interest expense accrued	9,190	–	9,190
Interest expense charged to accrued expense	(3,489)	–	(3,489)
At 31 December 2021	74,434	123,338	197,772
At 1 January 2022	**74,434**	**123,338**	**197,772**
Interest expense accrued	**9,985**	**–**	**9,985**
Interest expense charged to accrued expense	**(3,488)**	**–**	**(3,488)**
At 31 December 2022	**80,931**	**123,338**	**204,269**

The principal amount of the convertible bonds as at 31 December 2022 is approximately RMB87,208,000 (2021: approximately RMB87,208,000).

31. CONVERTIBLE BONDS *(Continued)*

Convertible bonds 4

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

	Liability component RMB'000	**Equity component** RMB'000	**Total** RMB'000
At 1 January 2021	41,950	19,418	61,368
Interest expense accrued	5,261	–	5,261
Interest expense charged to accrued expense	(1,798)	–	(1,798)
Converted during the year	(18,438)	(7,736)	(26,174)
At 31 December 2021	26,975	11,682	38,657
At 1 January 2022	**26,975**	**11,682**	**38,657**
Interest expense accrued	**2,163**	**–**	**2,163**
Interest expense charged to accrued expense	**–**	**–**	**–**
Converted during the year	**(29,138)**	**(11,682)**	**(40,820)**
At 31 December 2022	**–**	**–**	**–**

The principal amount of the convertible bonds as at 31 December 2022 is nil (2021: RMB35,954,000).

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31. CONVERTIBLE BONDS *(Continued)*

Convertible bonds 5

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

	Liability component RMB'000	**Equity component** RMB'000	**Total** RMB'000
Fair value of convertible bonds on grant date	466,211	407,071	873,282
Interest expense accrued	5,551	–	5,551
At 31 December 2021	471,762	407,071	878,833
At 1 January 2022	**471,762**	**407,071**	**878,833**
Interest expense accrued	**70,145**	**–**	**70,145**
Interest expense charged to accrued expense	**(34,000)**	**–**	**(34,000)**
At 31 December 2022	**507,907**	**407,071**	**914,978**

The principal amount of the convertible bonds as at 31 December 2022 is approximately RMB680,000,000 (2021: approximately RMB680,000,000).

32. DEFERRED INCOME TAX

There were no offsetting of deferred income tax assets and liabilities in 2022 and 2021.

	2022 RMB'000	2021 RMB'000
Deferred tax assets:		
— To be recovered after more than 12 months	**15,791**	38,658
— To be recovered within 12 months	**–**	–
	15,791	38,658
Deferred tax liabilities		
— To be settled after more than 12 months	**(115,743)**	(80,867)
— To be settled within 12 months	**–**	–
	(115,743)	(80,867)

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

Deferred income tax assets:

	Tax losses RMB'000
At 1 January 2021	65,284
Charged to profit or loss	(26,626)
At 31 December 2021	38,658
At 1 January 2022	**38,658**
Charged to profit or loss	**(22,867)**
At 31 December 2022	**15,791**

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32. DEFERRED INCOME TAX *(Continued)*

Deferred income tax liabilities:

	Mining right	Revaluation of acquisition of a subsidiary	Mining right
	RMB'000	RMB'000	RMB'000
At 1 January 2021	(76,790)	–	(76,790)
Charged to profit or loss	(4,077)	–	(4,077)
At 31 December 2021	(80,867)	–	(80,867)
At 1 January 2022	**(80,867)**	**–**	**(80,867)**
Acquisition of a subsidiary	**–**	**(34,947)**	**(34,947)**
Credited to profit or loss	**–**	**71**	**71**
At 31 December 2022	**(80,867)**	**(34,876)**	**(115,743)**

As at 31 December 2022, the Group had total unused tax losses of approximately RMB332,007,000 (2021: RMB245,974,000). No deferred tax asset has been recognised in respect of tax losses of certain subsidiaries of approximately RMB268,844,000 (2021: RMB91,344,000) due to the unpredictability of future profit streams of these subsidiaries. Deferred tax assets of approximately RMB15,791,000 (2021: RMB38,658,000) have been recognised in respect of the tax losses of certain subsidiaries of approximately RMB63,163,000 (2021: RMB154,630,000) as management considered it is probable that these subsidiaries can generate sufficient taxable profit to utilise the above tax losses. These tax losses will expire from year 2023 to 2027 (2021: 2022 to 2026).

33. TRADE AND OTHER PAYABLES

	2022	2021
	RMB'000	RMB'000
Trade payables *(Note a)*	**39,912**	27,671
Construction payable	**434,180**	114,539
Accrued expenses	**28,522**	59,035
Interest payables *(Note b)*	**142,394**	183,032
Other taxes payable	**12,712**	17,689
Proprietary technology cost payables	**69,000**	–
Others	**17,068**	9,039
	743,788	411,005

33. TRADE AND OTHER PAYABLES *(Continued)*

(a) Trade payables

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

	2022	2021
	RMB'000	RMB'000
Less than 1 year	**39,562**	27,460
Over 1 year	**350**	211
	39,912	27,671

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

(b) Interest payables

	2022	2021
	RMB'000	RMB'000
Analysis as:		
— Non-current assets	**6,080**	–
— Current assets	**136,314**	183,032
	142,394	183,032

34. CONTRACT LIABILITIES

	At 31 December		At 1 January
Disclosures of revenue-related items:	**2022**	2021	2021
	RMB'000	RMB'000	RMB'000
Contract liabilities	**119,831**	117,322	159,903

	At 31 December		At 1 January
	2022	2021	2021
	RMB'000	RMB'000	RMB'000
Contract receivables (included in trade receivables)	**9,280**	1,891	74

34. CONTRACT LIABILITIES *(Continued)*

	2022 RMB'000	2021 RMB'000
Revenue recognised in the year that was included in contract liabilities at beginning of year	**116,742**	159,455

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

	2022 RMB'000	2021 RMB'000
— 2022	**N/A**	117,322
— 2023	**119,831**	–
	119,831	117,322

Significant changes in contract liabilities during the year:

	2022 RMB'000	2021 RMB'000
Increase due to operations in the year	**119,251**	116,874
Transfer of contract liabilities to revenue	**(116,742)**	(159,455)

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

35. LEASE LIABILITIES

	2022 RMB'000	2021 RMB'000
Minimum lease payments		
Within one year	**3,229**	1,560
In the second to fifth years, inclusive	**5,121**	945
	8,350	2,505
Less: Future finance charges	**(510)**	(96)
Present value of lease obligations	**7,840**	2,409

35. LEASE LIABILITIES *(Continued)*

	2022 RMB'000	2021 RMB'000
Present value of minimum lease payments		
Within one year	**2,951**	1,483
In the second to fifth years, inclusive	**4,889**	926
	7,840	2,409
Less: Amount due for settlement within 12 months (shown under current liabilities)	**(2,951)**	(1,483)
Amount due for settlement after 12 months	**4,889**	926

At 31 December 2022, the average effective borrowing rate was 4.60% (2021: 4.75%). Interest rates are fixed at the contract dates and thus expose the Group to fair value interest rate risk.

36. DUE TO A RELATED COMPANY

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

37. COMMITMENTS

(a) Capital commitments

	2022 RMB'000	2021 RMB'000
Constructions-in-progress:		
Contracted but not provided for	**2,788,724**	2,717,240
Purchase consideration for a company	**–**	27,000
	2,788,724	2,744,240

37. COMMITMENTS *(Continued)*

(b) Operating leases rental receivables

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

	2022 RMB'000	2021 RMB'000
Not later than 1 year	185	147
More than one year but not exceeding five years	505	656
	690	803

38. RELATED-PARTY TRANSACTIONS

At 31 December 2022, borrowings of approximately RMB1,352,594,000 (2021: approximately RMB1,258,692,000) from Huaxia Bank, Bohai Bank, Bank of Dalian, Evergrowing Bank, Bank of Communications ("BOCOM"), Export-Import Bank of China ("EXIM Bank"), China Minsheng Bank ("Minsheng Bank"), Shanghai Pudong Development Bank ("SPD Bank"), Bank of Shanghai, China Industrial Bank ("CIB"), China Merchants Bank ("CMB"), Changzhou Jingliyuan Photovoltaic Technology Company, Guangan Jinxiang Small Loan Company Limited and China Bond Insurance Corporation (2021: Huaxia Bank, Bohai Bank, Bank of Dalian, Evergrowing Bank, BOCOM, EXIM Bank, Minsheng Bank, SPD Bank, Bank of Shanghai, CIB, CMB and Changzhou Jingliyuan Photovoltaic Technology Company) were guaranteed by the Company. In the opinion of the directors of the Company, the fair value of guarantee provided by the Company is insignificant to the Group. Such guarantee has not been accounted for by the Group.

39. KEY MANAGEMENT COMPENSATION (EXCLUDING DIRECTORS' EMOLUMENTS)

	2022 RMB'000	2021 RMB'000
Salaries and other benefits	3,557	2,805
Retirement benefit scheme contributions	123	86
Share-based payments expense	763	83
	4,443	2,974

40. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Changes in liabilities arising from financing activities

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

	Due to a related company	Lease liabilities	Convertible bonds	Borrowings	Total liabilities from financing activities
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2021	–	4,404	287,932	1,886,250	2,178,586
Changes in cash flows	–	(2,161)	680,000	(84,148)	593,691
Non-cash changes					
— classified as equity component	–	–	(213,789)	–	(213,789)
— converted during the year	–	–	(18,438)	–	(18,438)
— interest charged	–	166	60,741	–	60,907
— proceeds from disposal of properties withhold by the court and paid to banks	–	–	–	(19,020)	(19,020)
— issurance of note payables	–	–	–	627	627
— reallocation to interest payables including in other payables	–	–	(24,577)	–	(24,577)
At 31 December 2021 and 1 January 2022	**–**	**2,409**	**771,869**	**1,783,709**	**2,557,987**
Changes in cash flows	**48,769**	**(3,245)**	**–**	**226,902**	**272,426**
Non-cash changes					
— additions	**–**	**8,328**	**–**	**–**	**8,328**
— acquisition of a subsidiary	**612,094**	**–**	**–**	**311,545**	**923,639**
— converted during the year	**–**	**–**	**(32,231)**	**–**	**(32,231)**
— gain on borrowing restructuring	**–**	**–**	**–**	**(5,495)**	**(5,495)**
— interest capitalization	**–**	**–**	**–**	**62,898**	**62,898**
— interest charged	**–**	**348**	**127,726**	**785**	**128,859**
— proceeds from disposal of properties withhold by the court and paid to banks	**–**	**–**	**–**	**(107,809)**	**(107,809)**
— issurance of note payables	**–**	**–**	**–**	**44,750**	**44,750**
— reallocation to interest payables including in other payables	**–**	**–**	**(56,741)**	**–**	**(56,741)**
At 31 December 2022	**660,863**	**7,840**	**810,623**	**2,317,285**	**3,796,611**

40. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS *(Continued)*

(b) Non-cash transaction

For the year ended 31 December 2021, investment properties of approximately RMB43,081,000, property, plant and equipment of approximately RMB14,087,000 and land use rights of approximately RMB1,398,000 were auction by the court. Total gross proceeds of approximately RMB183,335,000, of which approximately RMB158,615,000 were held by the court. The remaining amount of approximately RMB24,720,000 after deducting direct cost of approximately RMB1,346,000 and LAT of approximately RMB4,354,000, the balance amount of approximately RMB19,020,000 were paid directly by the court to settle the Group's borrowings. Please refer to note 42 to the consolidated financial statements for details.

(c) Acquisition of a subsidiary

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

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

40. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS *(Continued)*

(c) Acquisition of a subsidiary *(Continued)*

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

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

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

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

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

	2022 RMB'000	2021 RMB'000
ASSETS		
Non-current assets		
Interests in subsidiaries	107,264	107,264
Loan to subsidiaries	2,005,736	1,681,126
	2,113,000	1,788,390
Current assets		
Other receivables	462	384
Cash and cash equivalents	22	23
	484	407
Total assets	2,113,484	1,788,797
EQUITY		
Capital and reserves attributable to equity holders of the Company		
Share capital	520,569	491,449
Reserves	538,470	330,622
Total equity	1,059,039	822,071
LIABILITIES		
Non-current liabilities		
Convertible bonds	810,623	771,869
Current liabilities		
Accruals and other payables	87,312	94,360
Financial guarantee liabilities	156,510	100,497
	243,822	194,857
Total liabilities	1,054,445	966,726
Total equity and liabilities	2,113,484	1,788,797
Net current liabilities	(243,338)	(194,450)
Total assets less current liabilities	1,869,662	1,593,940

42. LITIGATIONS

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

	2022 RMB'000	2021 RMB'000
Property, plant and equipment	**368,449**	1,527,742
Land use rights	**51,656**	102,332
Mining right	**334,306**	334,306
Restricted bank balances	**864**	250
	755,275	1,964,630

At as 31 December 2022, 100% equity interest of Dazhou Ko Yo Chemical, Sichuan Cuyo, Ko Yo GuangAn and Guangan Ko Yo Phos-chemical Technology Co., Ltd. (2021: Dazhou Ko Yo Chemical, Sichuan Cuyo, Ko Yo Agrochem, Ko Yo GuangAn and Guangan Ko Yo Phos-chemical Technology Co., Ltd.) were frozen by the court.

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

On 24 September 2019, Koyo Agrochem and Minsheng Bank entered into a supplemental loan agreement for the principal loan amount of RMB70,000,000, repayable on 28 August 2020 ("Agrochem Loan"). The Agrochem Loan was secured by a pledge of office premises located in Chengdu and guaranteed by a 2 number of guarantors. Due to the events as stated in the Announcement in relation to the Dazhou Loan (which was guaranteed by Koyo Agrochem), Minsheng Bank initiated legal action against Koyo Agrochem and a judgment was handed down by the Chengdu Intermediate Court on 14 December 2020 (the "Agrochem Judgment"). On 20 October 2021, the Chengdu Intermediate Court made enforcement action on auction of pledged properties held by the Group located on Chengdu (the "Pledged Properties B"). The Pledged Properties B were disposed of and gross proceeds of approximately RMB158,615,000 were used for settlement of Koyo Agrochem and Dazhou Ko Yo Chemical's bank borrowings. The loans were fully settled for the year ended 31 December 2022.

42. LITIGATIONS *(Continued)*

In March 2019, Guangan New Material and EXIM Bank entered into a supplemental agreement to the loan agreement dated 31 July 2015 in relation to the renewal of an aggregate principal loan amount of RMB90,000,0000 ("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 Group lodged an appeal against the New Material Judgment. On 30 June 2021, the High People's Court of Beijing* (北京市高級人民法院) dismissed the appeal upheld. On 19 August 2022, the Group reached a settlement agreement with EXIM bank.

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

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

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

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

43. CONTINGENT LIABILITIES

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

44. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements were approved and authorised for issue by the Board of Directors on 30 March 2023.

Five Year Financial Summary

The following table summarizes the audited results, assets and liabilities of the Group for the five years ended 31st December 2022.

	2022 RMB'000	2021 RMB'000	2020 RMB'000	2019 RMB'000	2018 RMB'000
Turnover	**3,205,226**	3,066,543	2,111,133	1,964,476	3,101,031
Profit/(Loss) before taxation	**355,824**	460,376	(222,439)	(712,242)	(347,685)
Taxation	**(154,780)**	(81,158)	(19,363)	(19,570)	(601)
Minority interest	**(519)**	(17)	(23)	(248)	(77)
Profit/(Loss) after taxation	**201,563**	379,235	(241,779)	(731,564)	(348,209)
Total assets	**5,845,522**	4,037,708	2,847,247	2,982,762	3,282,871
Total liabilities	**(4,785,396)**	(3,214,120)	(2,828,730)	(2,749,382)	(2,697,660)
Total equity	**1,060,126**	823,588	18,517	233,380	585,211