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)

2015

ANNUAL REPORT

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Corporate Information

DIRECTORS

Executive Directors

Mr. Li Weiruo
Mr. Yuan Bai
Ms. Chi Chuan
Ms. Man Au Vivian
Mr. Li Shengdi
Mr. Li Feng
Mr. Li Ciping

Non-executive Director

Mr. Zhang Fubo

Independent non-executive Directors

Mr. Hu Xiaoping
Mr. Woo Che-wor, Alex
Mr. Qian Laizhong
Mr. Sun Tongchuan

COMPANY SECRETARY

Mr. Chung Tin Ming, HKICPA, FCCA

QUALIFIED ACCOUNTANT

Mr. Chung Tin Ming, HKICPA, FCCA

AUDIT COMMITTEE

Mr. Hu Xiaoping
Mr. Woo Che-wor, Alex
Mr. Qian Laizhong
Mr. Sun Tongchuan

AUTHORIZED REPRESENTATIVES

Mr. Li Weiruo
Ms. Man Au Vivian

COMPLIANCE OFFICER

Ms. Chi Chuan

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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255–257 Gloucester Road
Causeway Bay, Hong Kong

SHARE REGISTRAR

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

AUDITOR

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

PRINCIPAL BANKERS

China Construction Bank Corporation
— Dazhou Branch

Ping An Bank
— Chengdu City Wan Fu Branch

Bank of Dalian
— Chengdu Branch

China Mingsheng Banking Corp.
— Chengdu Branch

Huaxia Bank Co., Ltd.
— Chengdu Tianfu Branch

China Merchants Bank
— Chengdu Longhu Branch

Gui Yang Bank
— Chengdu Branch

STOCK CODE

827

WEBSITE

www.koyochem.com

Highlights

— For the year ended 31st December 2015, the loss attributable to shareholders was approximately RMB106 million, which represents an decrease in loss of RMB384 million as compared to a loss of RMB490 million in year 2014.

— Basic loss per share was approximately RMB0.0270 for the year ended 31st December 2015.

— For the year ended 31st December 2015, sale turnover was approximately RMB1,928 million, which represents an increase of approximately 40.7% as compared to year 2014.

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

			% change compare with year 2014	
Type	**Sales amount** (million RMB)	**Sales quantities** (tonnes)	**Sales amount**	**Sales quantities**
BB & compound fertilizers	74	55,264	(7.5)	(2.5)
Urea	496	295,175	(20.6)	(23.4)
Ammonia	167	82,637	(10.7)	(8.1)
Methanol	277	148,068	123.4	153.6

— The Directors do not recommend the payment of any final dividend for the year ended 31st December 2015.

Chairman's Statement

TO SHAREHOLDERS

It's my honour to report to you the results of Ko Yo Chemical (Group) Limited (the "Company") together with its subsidiaries (collectively, the "Group") for the year ended 31st December 2015. I wish to express sincere appreciation on behalf of the Board of Directors to all shareholders and friends from all sectors of the society who concern for the development of the Group.

In 2015, the economic growth of China continued to slow down. The problem of overcapacity of the chemicals and chemical fertilizer industries in China has not yet been improved while the costs of raw materials remained high. Both sale volumes and selling prices of products dropped to a level that the selling prices were significantly lower than the costs of raw materials. According to the announcement of the National Bureau of Statistics of China, the PPI has dropped for a continuous period of 48 months, resulting in substantial pressure on operation. Therefore, the Group failed to realize its operational objective for the year.

For the year ended 31st December 2015, the audited loss attributable to shareholders of the Group amounted to approximately RMB106 million. Basic loss per share amounted to approximately RMB0.0270 (2014: basic loss per share of RMB0.2973). The Group's turnover amounted to approximately RMB1,928 million, representing an increase of 40.7% as compared to RMB1,370 million for 2014. The Group's sales volume (excluding trading) amounted to approximately 581,000 tonnes, representing a decrease of approximately 0.7% as compared to 585,000 tonnes of last year.

During the period of review, the ammonia and urea synthesis facilities of Dazhou Plant of the Group maintained stable operation. The unit energy consumption of ammonia synthesis facilities of Dazhou Plant in the first half of the year decreased by 15kg standard coals on average, a new record low. The methanol and purge gas facilities of Guangan Plant reached their designed production capacity within a relatively short period. Sales revenue from OEM and trading business increased by 15% as compared to last year in line with business growth. However, product costs further increased due to high natural gas price and the restoration of VAT of 13% on urea effective from 1st September 2015. In order to minimize the losses, the Company mitigated the market risk by temporary suspension of production, resulting in a serious low utilization of Dazhou Plant and Guangan Plant. In addition, the market and demand for all the downstream market were weak and both sale volumes and selling prices of products fell when international crude oil price plunged and excessive supply in the industry and other unfavourable economic factors remained. The selling prices of liquid ammonia, urea and methanol for the year decreased by approximately RMB450 per tonne, RMB250 per tonne and RMB800 per tonne respectively, resulting in a significant decrease in the operating results of the Company with substantial losses, which fell short of the operation targets.

During the period of review, due to the unfavourable economic conditions, prolonged weak chemical fertilizer and chemicals markets and delayed funding arrangement, the Group slowed down the progress of new projects. Installation of facilities of new projects was yet to complete except the Polyphenylene Sulfide Project.

1. Facilities Installation of Polyphenylene Sulfide Project Completed at the End of December 2015 to the production

Installation of facilities of the fiber polyphenylene sulfide project of the Group with 3,000 tonnes annual production capacity completed on 31st December 2015. The facilities are under trial run. Normal production of qualified polyphenylene sulfide products had commenced in late January 2016. The polyphenylene sulfide products of such project is higher grade fiber polyphenylene sulfide mainly used as raw materials for the production of filter-bags environmental protection usages in thermal power plants, cement factory, metallurgy and incineration plants. It can effectively solve the problem of PM2.5 emission for part of the industrial equipment. This product is currently mainly imported. Our Company used multi-vulcanization (多水硫化法) in the production of high grade fiber polyphenylene sulfide is a proprietary technique in China. It filled the empty space of that area in China and has certain competition advantage in such industries of the world. The polyphenylene sulfide project will be the profit growth point of the Company and widen the future development of the Company. The Group have secured contracts for most of 3,000 tonnes products.

2. Facilities Installation of the Project of Kiln Process for Producing Phosphoric Acid Pending Completion

The project of kiln process for producing phosphoric acid has not yet completed because the administrative approval process was not completed until late June in 2015 and the funding was not obtained in time. At present, technical drawings of major facilities, including rotary kilns, chain plate dryers and kiln cleaners, and construction floor plans have been submitted for registration. The tendering or procurement of major production lines and ancillary equipment had been completed. Construction of access roads, foundation and structural steel frames of certain buildings were completed.

3. **Suspension of the 2nd Phase of the Project of Urea and Melamine in Dazhou**

Due to high raw materials costs and suppressed selling prices of urea and melamine, the Group has suspended the construction of the project. Administrative approval of the project has been completed and construction of such project will resume when market conditions improve.

Based on the results of the Group for the year under review, the Board does not recommend to distribute any final dividend for the year ended 31st December 2015. For the year ended 31st December 2015, the Group had not declared any dividend (2014: no dividend).

PROSPECT

Industry Review

Under the general economic condition in China, demands of the entire production chain of agricultural industry has been weak. Although the exports of China remained high, the profit margin of exports was minimal. Export trading was restricted by demand and could not absorb excess production capacity. The ex-factory prices in most areas of China saw record lows. In 2015, prices of urea decreased in general.

According to the latest information of the National Bureau of Statistics, in 2015, the output of nitrogen fertilizers of China amounted to 49.4 million tonnes, representing an increase of 6.3% as compared with last year. Although the increase was lower than that of phosphorous fertilizers and potassium fertilizers, the output reduction in 2014 was reversed. The production of urea amounted to 34.5 million tonnes, representing an increase of 7.6% as compared with the corresponding period of last year. The production of synthetic ammonia (actual quantity) amounted to 57.9 million tonnes, representing an increase of 1.84% as compared with the corresponding period of 2014. In 2015, China exported 13.7 million tonnes of urea in aggregate, representing an increase of 0.7% as compared with 13.6 million tonnes of 2014. The total export of urea from China amounted to US$3,927 million, representing a decrease of 2.02% as compared with the corresponding period of last year. According to the National Bureau of Statistics, the market price of prilled urea in China dropped to a low level of RMB1,474.9 per ton. Comparing with the production performance of urea producers in 2014 and 2015, the average annual utilization of production facilities of urea enterprises was over 70% in 2015.

In 2015, the production capacity of methanol in China amounted to 69.8 million tonnes, representing an increase of 1.68% as compared with the corresponding period of last year, while the output amounted to approximately 40.1 million tonnes, representing an increase of 8.3% as compared with the corresponding period of last year. The total import of methanol in 2015 was 5.5 million tonnes, representing an increase of 27.8% as compared with the corresponding period of last year, while the total export of methanol was 0.16 million tonnes, representing a decrease of 78.26% as compared with the corresponding period of last year. The total nominal consumption of methanol was approximately 45.5 million tonnes, representing an increase of 10.96% as compared with the corresponding period of last year. Methanol-to-olefins/aromatics has become the largest downstream of methanol in China, with consumption of methanol amounting to approximately 16 million tonnes during the year, accounting for approximately 39% of methanol consumption during the year. Methanol fuel consumed approximately 6.5 million tonnes of methanol during the year, accounting for approximately 15% of methanol consumption. The annual growth rate of both demands reached over 18%. On the contrary, the demands for formaldehyde, acetic acid, DME, MTBE and DMF saw a shrinking trend, with the annual growth rates declining by 7% to 20%. According to the National Bureau of Statistics, the market price of methanol in China dropped to a low level of RMB1,601.6 per ton at the end of 2015 and the average utilization of production facilities of methanol enterprises was 62.56%. In general, due to the combined effects of the reduction in additional methanol devices, the slower growth rate of production capacity, shrinking import and low price and weak demand of oil, proportion of methanol demand from downstream industries further decreased, and imbalance between supply and demand of olefin intensified significantly. Affected by both upstream and downstream industries, the overall methanol market in China was sluggish.

Chairman's Statement

OBJECTIVES AND STRATEGIES

Central government document No. 1 of 2016 in respect of the "three rural" issues will be released soon on the basis of the "Certain Opinions of the Central Committee of the Communist Party and the State Council Regarding the Development of New Concepts to Accelerate Agricultural Modernization and Realize Comprehensive Targets (Discussion Draft) (中共中央、國務院關於落實發展新理念加快農業現化化實現全面小康目標的若干意見(討論稿))" issued by the State Rural Area Conference (中央農村工作會議) published in the end of 2015. Obviously, No. 1 Document will focus on agricultural modernization, which has been a project of the central government for four consecutive years.

In 2016, methanol-to-olefin projects with annual production capacity of 3.5 million tonnes will put into operation and the downstream demand may increase. Under the new circumstances of the "Thirteen Five-Year Plan", the methanol industry may have a chance to reform and upgrade. The growth of methanol market will largely depends on the consumption of new downstream industries. In future, the market for the use of methanol as fuels (such as methanol gasoline and marine fuels and methanol boilers, etc.) will be larger and the development of methanol-fuelled battery vehicles will bring new business opportunities and further stimulate the consumption of methanol. The consumption pattern of methanol may have positive change.

Under the pressure of public concern about smog, the government promulgated the new and more stringent "Environmental Protection Law" in 2015. In the seminar regarding solving excess production capacity and other difficulties of steel and coal industries in January 2016, Li Keqiang suggested that the excess production capacity shall be solved in two ways. The addition of production capacity shall be strictly controlled. Total production capacity shall be subject to a "ceiling" and no new projects shall be approved beyond the ceiling. On the other hand, obsolete production capacity shall be eliminated. In pursuit of environmental protection and under the policies of economic reform to eliminate excess capacity, natural gas chemicals, of which natural gas is one of the major sources of green energy, will have new growth opportunities.

Under the sluggish economic situation and difficulties of chemical fertilizers and chemicals industries, the Group will overcome the challenges by the following strategies and measures.

1. The existing businesses shall be maintained and optimized. By improving technologies, enhancing management, reducing the consumption of raw materials and energy and taking advantage of our advanced production facilities, the competitiveness of products of Dazhou Plant and Guangan Plant will be strengthened. In addition, the Group will put more efforts in the development of new applications of methanol and seek opportunities of merger and acquisition and reorganization in the domestic market.

As to the production:

We will effectively coordinate the procurement and distribution of production materials, such as water, electricity and gas, especially the negotiation and signing of natural gas annual supply agreement, in order to secure a stable supply of natural gas at the most favourable prices so as to facilitate the cost-effective, long-term and high-loading operation of Dazhou Plant and Guangan Plant. We will flexibly and effectively determine and adjust our operation decisions according to the general economic conditions. We will also strengthen the safety and operation management of our production to ensure the optimal economic operation of our production facilities and to maximize the general profitability. For the operation of our production facilities, we will enhance the maintenance and inspection of equipment to ensure their safe, stable and long-term operation. Guangan Plant will further optimize the production processes of methanol and purge gas ammonia synthesis facilities and further reduce the overall unit energy consumption. The Group will strengthen our management to prevent the occurrence of any safety and environmental incidents.

As to the market:

We will enhance the collection and compilation of market information as well as market forecast so as to establish our pricing system and to promptly formulate effective marketing strategies. We will also maximize product sales by improving our product mix and enhancing the competitiveness and scale of our products. We will put more efforts in promotion on quality of our products and improve after-sale services in order to establish the reputation of compliance as a major international enterprise and improve the premium of Ko Yo brand. In addition to consolidating the major markets in Dazhou, Sichuan and surrounding areas, we will explore more key customers in other areas in Sichuan to increase our sales. We will also adjust and optimize the marketing strategies of automobile methanol and liquid ammonia and enhance our competitiveness and market share in the core automobile market. On the basis of the expanded trading and OEM businesses in 2015, we will continue to increase the proportion of trading business in order to further increase our profit margins and profitability.

As to management:

We will strengthen the cost-oriented management by promoting the awareness of costs and risks, so as to maximize our profit margins. We will further streamline the management of Guangan Plant to optimize its organization structure. In pursuit of the philosophy of "increasing income, minimizing cost and maximizing efficiency", we will further reduce the headcount and streamline and refine our management workflow so as to improve the overall management standard and efficiency and implement a modern approach of management.

2. Development of new technologies, production processes and materials for healthy growth of the Group

   Multi-vulcanization (多水硫化法) used in our polyphenylene sulfide project is a proprietary technique developed by our scientists to improve and refine domestic polyphenylene sulfide with the characteristics of high reaction efficiency and solution recovery but low energy consumption. The polyphenylene sulfide products of such production facilities is fiber polyphenylene sulfide mainly used as raw materials for the production of filter-bags environmental protection usages in thermal power plants, cement factory, metallurgy and incineration plants. This product is currently mainly imported. Fiber polyphenylene sulfide can filter particles of size as small as PM2.5. As mentioned above, such project will be the first polyphenylene sulfide production facilities in China and will be our new growth driver and a significant step in the development of new materials and technologies. Installing of facilities for the first phase of such project with an annual production capacity of 3,000 tonnes was completed and trial run is underway. Normal operation had commenced in late January 2016 and produced polyphenylene sulfide products. We had received orders for over 4,000 tonnes of products. After selection, the Group have entered into contracts for most of 3,000 tonnes products, representing the total annual production capacity. We will achieve our targeted standard and output by optimizing the production workflow. In addition, we will maintain good relationship with our customers to increase our market share to make a good preparation for the sales of products of the second phase of such project.

   Currently, we are implementing the new technology project of kiln process for producing phosphoric acid, which is another new growth point of the Company. Phosphoric acid is an important chemical material for producing chemicals including high-efficiency phosphate compound fertilizers, detergents and supplementary animal feeds. This project applies the energy-saving, environmentally-friendly, clean and highly efficient technology of JCKPA kiln process for producing phosphoric acid, which involves 12 new patents of the world registered exclusively in the PRC. This technology solves the problems of the traditional production technology of phosphoric acid, including serious environmental pollution, the use of high-grade phosphoric acid, and high energy consumption and production cost. It is a revolutionary production technology of phosphoric acid in the 21st century, providing strong support to the sustainable development of the phosphoric acid-based chemical industry in the PRC as well as the whole world. This technology has been included to the Outlines of the PRC's Policies on the General Uses of Resources and Technologies (《中國資源綜合利用技術政策大綱》), the Thirteenth-Five Year Plan for Technologies of the PRC (《國家十三•五科技規劃》) and the Thirteenth-Five Year Plan for the Use of Resources of the PRC (《資源綜合利用十三•五規劃》). Currently, a number of domestic and overseas companies are interested in such technology. In particular, representatives from Iran had made on-site visits and held negotiations with the Group. In 2016, the Group will seek financing for such project to complete the installation of facilities of this 50,000 tonnes 85% industrial phosphoric acid project by the forth quarter.

   With the completion of new projects and the extensive and close cooperation with Tsinghua University, Ko Yo Group will gradually reduce its reliance on natural gas and diversify its products to promote a sound development and transform from a traditional chemicals manufacturer to an integrated modern chemicals enterprise so as to turn crisis into opportunities.

3. We shall capture new opportunities brought by government policy of "One Belt and One Road" and seek overseas development opportunities by taking advantage of the financing platform of a listed company and the sound relationship with banks.

Chairman's Statement

APPRECIATION

Looking back to the past year, amid the unprecedented difficulties in natural gas based chemical industries, substantially all manufacturers faced difficulties in their operations and recorded significant losses. Some manufacturers were even forced to close down. Under the leadership of our management and the dedication of our staff, we carried out our production operation by closely monitoring costs and minimizing operational risks and losses. In this year, supported by the government forecasts regarding the economic rebound in the second half of this year and the promising prospects for the long term, and benefitted from the implementation of various measures to adjust structure and stabilize growth and the promulgation of the new and more stringent "Environmental Protection Law", we are of the view that the natural gas based basic chemical industry will also bottom out and enter a new development cycle with new opportunities. In addition, following the completion and operation of the new technological projects invested by the Company, they will become new profit growth points of the Company, which will create significant economic benefits and enhance the core competitive strengths of the Company, laying solid foundation for the sustainable and stable development of the Company. We firmly believe that the current tough days will not last long. As the general economy continues to improve, together with the efforts of all members of the Company, the future outlook of the Company will be bright.

I would like to take this opportunity to express my sincere appreciation on behalf of all fellow members of the Board to all shareholders, our clients, the management and the staff. Thank you for your undeviated full support. We will strive to bring more benefits and returns to our shareholders and the society.

Li Weiruo
Chairman

30th March 2016

Business Review

FINANCIAL PERFORMANCE

Results

For the year ended 31st December 2015, the Group remained focused on manufacture and distribution of chemical fertilizers and chemical products, including BB Fertilizers and complex fertilizers, urea and ammonia.

During the year under review, the Group recorded turnover of approximately RMB1,928 million, an increase of 40.7% as compared to last year. The loss attributable to shareholders of the Company amounted to approximately RMB106 million, representing a decrease a loss of approximately RMB384 million as compared to last year. Basic loss per share amounted to approximately RMB0.0270.

Cost and profit margin

Cost of sales of the Group amounted to approximately RMB1,956 million, representing an increase of 44.0% as compared to the figure in 2014. The major reasons of increase in cost of sales were due to the increase in trading portion.

Gross profit margin of the Group decreased approximately from 0.9% in 2014 to -1.4% in 2015. The decrease in the gross profit margin was due to the decrease in selling price of products.

During the year under review, distribution costs decreased approximately by 44.9% as compared with last year. The ratio of the distribution costs over sales was 2.0% in 2015 which was 3.0% lower than those in 2014.

In comparison with last year, there was a decrease in administrative expenses of the Group by approximately 51.8% from RMB218.4 million in 2014 to RMB105.2 million in 2015. The decrease in administrative expenses is mainly due to there was a loss on convertible bonds amounted to RMB117 million in 2014.

Other income increase from a loss of RMB173 million in 2014 to a gain of RMB217 million in 2015. It was mainly due to fair value changes on derivative financial assets. Details are set out in Note 9 to consolidated financial statement. Other expenses amounted to RMB113 million in 2015 (2014: Nil). Details are set out in Note 10 to consolidated financial statement.

The Group's income tax benefit in 2015 amounted to approximately RMB43.1 million. Details of tax schemes are set out in Note 12 to consolidated financial statements.

Dividends

Considering the Group's result during the year under review, the Directors do not recommend the payment of any final dividend for the year ended 31st December 2015. The Group has not declared any dividend for the year ended 31st December 2015 (2014: Nil).

PRODUCTS

Sales of the Group's products for the year 2014 and 2015 are as follows:

	Turnover in year 2015		Turnover in year 2014		**Percentage Change in turnover**
	RMB'000	**Composite %**	RMB'000	Composite %	%
BB & compound fertilizers	**74,000**	**3.8**	80,000	5.8	(7.5)
Urea	**496,000**	**25.7**	625,000	45.6	(20.6)
Ammonia	**167,000**	**8.7**	187,000	13.6	(10.7)
Methenol	**277,000**	**14.4**	124,000	9.1	123.4
Others	**914,000**	**47.4**	354,000	25.9	158.2

During the year under review, due to the Dazhou plant was not in full production the turnover of urea and ammonia in year 2015 was decreased as compared with those in year 2014.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31st December 2015, the Group had net current liabilities of approximately RMB1,408,091,000. Current assets as at 31st December 2015 comprised cash and bank deposits of approximately RMB59,782,000, pledged bank deposits of approximately RMB505,055,000, inventories of approximately RMB78,487,000, trade receivables of approximately RMB13,442,000 and prepayments and other current assets of approximately RMB695,090,000. Current liabilities as at 31st December 2015 comprised short-term borrowings of approximately RMB1,588,225,000, short-term portion for long-term borrowings of approximately RMB281,680,000, trade and notes payables of approximately RMB171,903,000, advances from customers of approximately RMB147,895,000 and accrued charges and other payables of approximately RMB570,244,000. Details of the Group's adoption of going concern basis in preparing the consolidated financial statements is set out in Note 2 to the consolidated financial statements.

CAPITAL COMMITMENTS

As at 31st December 2015, the Group had outstanding capital commitments of approximately RMB197,348,000. Details of the Group's capital commitments are set out in Note 37 to the consolidated financial statements.

FINANCIAL RESOURCES

As at 31st December 2015, the Group had cash and bank deposits of approximately RMB59,782,000 and pledged bank deposits of approximately RMB505,055,000. The Company intends to finance the Group's future operations, capital expenditure and other capital requirements with the existing bank balances and the capital market.

As at 31st December 2015, the total borrowings and notes payable balances of the Group amounted to RMB2,629,700,000.

GEARING RATIO

The Group's gearing ratios were approximately 54% and 48% as at 31st December 2015 and 31st December 2014 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 29 to the consolidated financial statements.

CONTINGENT LIABILITIES

The Group had no significant contingent liabilities as at 31st December 2015.

MATERIAL ACQUISITION/DISPOSAL

There was no material acquisition or disposal in the year 2015 which would have been required to be disclosed under the Rules Governing the Listing of Securities ("Listing Rules") on Stock Exchange.

SEGMENTAL INFORMATION

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

DETAILS OF FUTURE PLANS FOR MATERIAL INVESTMENT OR CAPITAL ASSETS

Other than the phase II of the Dazhou plant, the Guangan plant, the phosphoric acid plant and the polyphenlyene sulfide plant as stated in the circular dated 22nd September 2014, the Directors do not have any future plans for material investment.

EXPOSURE ON EXCHANGE RATE FLUCTUATION

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

CHARGES ON THE GROUP'S ASSETS

As at 31st December 2015, no land use rights (2014: RMB12,004,000), property, plant and machinery with a total net book value of approximately RMB1,181,796,000 (2014: RMB908,107,000), investment properties with a total net book value of approximately RMB12,636,000 (2014: Nil), mining right with a total net book value of approximately RMB297,091,000 (2014: Nil) and bank deposits approximately RMB505,055,000 (2014: RMB689,603,000) were pledged as collateral for the Group's borrowings and notes payable.

DIVIDEND

The Directors do not recommend the payment of any final dividend for the year ended 31st December 2015.

NUMBER OF EMPLOYEES

As at 31st December 2015, the Group had 925 (2014: 797) employees, comprising 8 (2014: 8) in management, 161 (2014: 132) in finance and administration, 698 (2014: 602) in production and 58 (2014: 55) in sales and marketing, 919 (2014: 791) of these employees were located in the PRC and 6 (2014: 6) were located in Hong Kong.

Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Li Weiruo, aged 62, is the Chairman of the Board and the founder of the Group. He graduated from Sichuan Institute of Finance and Economics with a certificate in economics in 1985. Mr. Li has over 20 years' experience in corporate management in the PRC. He was awarded a certificate for "Chief Economists of Large-to-Medium Sized Enterprises in the PRC" after completing "The Study Course for Chief Economists of Large-to-Medium Sized Enterprises" commissioned by the State Economics Commission at the Southwest University of Finance and Economics in 1986. He is one of the authors of "Modern Corporate Management" which was published by the Sichuan Education Publisher. Mr. Li was the former Vice-director of China Nonferrous Metal Corporation in Chengdu. Mr. Li moved to Hong Kong in 1994 and became a permanent resident of Hong Kong in 2001. He was appointed as a member of the Chinese People's Political Consultative Conference of Sichuan Province in 2003. Mr. Li was appointed as the vice chairman of the China Association for Quality Inspection in August 2005. In May 2006, Mr. Li was awarded the "Outstanding Entrepreneur of Privately-owned Petroleum and Chemical Enterprises in China 2006" by the China Petroleum and Chemical Industry Association. In September 2007, Mr. Li received the "Asia 10 Brand Innovative Personality Award" by the Asia Brand Ceremony Organizing Committee. In December 2008, he was accredited the award of "World Economy Top 10 Outstanding Chinese Entrepreneurs" by the "2008 Asia Pacific Annual Chinese-Economy Council for Investment & Financing". Mr. Li is responsible for the overall management, strategic planning and business development of the Group.

Mr. Yuan Bai, aged 57, is an Executive Director of the Group. He is responsible for the capital management and the phosphate mine operation of the Group. Mr. Yuan graduated from Northeast Institute of Technology with a bachelor degree in engineering in 1982 and obtained a certificate as Senior Engineer in 1992. Mr. Yuan studied economy management in Tsinghua University from September 1995 to March 1996. Prior to joining the Group in August 1999, Mr. Yuan was the Deputy General Manager of Chongqing Sanjiu Industrial Co., Ltd., which focused on the manufacture and trading of non-ferrous metal. Mr. Yuan was elected as a people's delegate of the first session of the People's Congress of Chongqing in 1997.

Ms. Chi Chuan, aged 60, is an Executive Director and the Compliance Officer of the Group. She graduated from Sichuan Normal College with a bachelor degree in science in 1982. Ms. Chi has over 20 years' experience in finance and accounting. Prior to joining the Group in July 1999, Ms. Chi was the finance manager of Leshan Economic and Trade General Company, a trading company in the PRC. Ms. Chi is primarily responsible for the financial management of the Group since she joined the Group in July 1999.

Ms. Man Au Vivian, aged 52, is an Executive Director of the Group. She is responsible for general administration outside mainland China of the Group. Ms. Man graduated from the University of International Business and Economics with a bachelor degree in economics in 1986. Ms. Man has over 15 years' experience in international trade. She formerly worked for China National Light Industrial Products Import and Export Corporation of MOFTEC. She joined the Group in January 1997.

Mr. Li Shengdi, aged 63, is an Executive Director of the Group. He is responsible for the construction and administrations of the Group's new projects in Dazhou and Guangan. Mr. Li graduated from Chinese Communist Party School and North China University of Technology studying industrial enterprise management with a degree majoring economics and was entitled as an economist. Prior to joining the Group, he was the deputy manager of China Nonferrous Huludao Zinc Corporation, from 1983 to 1993, general manager of Hainan Hui Yuantang Medicine Co., Ltd. from 1996 to 1999 and general manager of Shanghai Haos Water Rectified Co., Ltd., a Sino-US joint venture from 2000 to 2002. Mr. Li joined the Group in October 2002 and was appointed as a Director of the Company on 29th April 2004.

Mr. Li Feng, aged 50, is an Executive Director and the Chief Executive Officer of the Group, the Chief Engineering Officer, and the Director of the Techniques Committee. He is mainly responsible for general administration, and production and operation management of the Group. He graduated from Sichuan University in 2006 with a MBA degree. Mr. Li joined Koyo Group in 2014. Before joining Koyo Group, he was the director and standing deputy manager of Sichuan Chemical Industry Holding (Group) Co., Ltd.

Mr. Li Ciping, aged 51, is an Executive Director of the Group, the managing vice president of the Group and the general manager of Sichuan Ko Yo Agruchem Co., Ltd. He is principally responsible for the sales and marketing of the Group's products. 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.

Directors and Senior Management

NON-EXECUTIVE DIRECTOR

Mr. Zhang Fubo, aged 53, an economist, graduated from East China Normal University in 2004 with a doctoral degree in international economics. Prior to joining the Group, Mr. Zhang served at Guotai Securities Company Limited where he held various positions including general manager of agency for share transfer centre, director of brokerage business and assistant to the president. He is also currently serving as an independent non-executive director of Tibet Urban Development and Investment Company Limited and Shanghai Shenhua Holdings Company Limited. He joined the Ko Yo Group on 16 May 2015.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Hu Xiaoping, aged 65, is an Independent Non-Executive Director. He obtained a bachelor degree in Economics from Sichuan Institute of Finance and Economics in 1982 and a master degree in Economics from Southwest University of Finance and Economics in 1987. Mr. Hu is currently a professor of the Southwest University of Finance and Economics. Mr. Hu has been involved in various research projects at both the provincial and state level and has published numerous articles in financial and economics publications in the PRC. He was appointed as an Independent Non- Executive Director in June 2003.

Mr. Woo Che-wor, Alex, aged 63, is an Independent Non-Executive Director. Mr. Woo has been the Chairman and Chief Executive Director of STI Certified Products Inc., a private company in California, U.S.A. since February 1988. From January 1976 to December 1988, Mr. Woo was the corporate treasurer of Fairchild Semiconductor Corporation, a multi-national semiconductor company with its headquarters in California, U.S.A.. Mr. Woo is qualified as Certified Management Accountant from Chartered Institute of Management Accountants of England and obtained an M.B.A. from San Jose State University of the U.S.A. in 1987. He was appointed as an Independent Non-Executive Director in June 2003.

Mr. Qian Laizhong, aged 73, is an Independent Non-Executive Director. Mr. Qian graduated from Sichuan Fine Arts Institute in 1968. Over the past 20 years, Mr. Qian actively participated in cultural and economical researches and publishes in Sichuan province, the PRC. Currently, Mr. Qian is a member of Sichuan Provincial Committee of Chinese Peoples Political Consultative Conference. He was appointed as an Independent Non-Executive Director on 16th August 2004.

Mr. Sun Tongchuan, aged 75, is an Independent Non-Executive Director. He was graduated from Northwestern Polytechnic University, majoring in aircraft design. Mr. Sun is the chairman of Sichuan Province High-tech Industrialization Association at present. Before joining the Company, Mr. Sun was a member of Standing Committee of CPC Sichuan Provincial Party Committee, the Municipal Party Secretary of Chongqing and the Vice Chairman of Sichuan Committee of Chinese People's Political Consultative Conference. He was appointed as an Independent Non-Executive Director of the Company on 1st November 2013.

SENIOR MANAGEMENT

Mr. Chung Tin Ming, aged 45, 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. Jiao Kangdi, aged 64, the vice president of the Group and the director for the Department of Engineering Construction. He is mainly responsible for the engineering construction of new projects. Mr. Jiao is responsible for managing and coordinating the Group's large-scale chemical engineering projects. He graduated from Sichuan University of Science and Engineering in 1980, and further studied Economics at Sichuan Professional College of Finance & Economics in 1983. In 1989, Mr. Jiao was given the name "Excellent Entrepreneur" by the People's Government of Zigong City; he became a Senior Engineer in 1993; in 2000, he was given the name "Labour Model" by the Human Resources Department of China National Light Industry Department. Mr. Jiao joined the Group in 2005, before joining the Group, he was the president of Zi Gong Tongming Lighting Appliances Co., Ltd., and has outstanding ability in cost control and corporate management experiences.

Mr. Chang Chongde, aged 52, is the vice president of the Group. He is principally responsible for the purchasing and supply of raw material required by the production process in the Group. He graduated from Southwestern University of Finance and Economics in 1984, majoring in Industrial Organization. Mr. Chang joined Koyo Group in 1999. Before joining the Group, he was the officer of Planning and Construction Office of Chemical Industrial Company under Sichuan Province Chemical Industrial Hall.

Ms. Shu Jing, aged 45, is the vice president of the Group, who is mainly responsible for the Group's legal & administrative Affairs. She obtained a master degree in laws from Peking University in 2003. Ms. Shu joined Koyo Group in 2009, before joining the Group, she was the assistant to the general manager of Tibet Rhodiola Pharmaceutical Holding Co.

Mr. Wen Jinfu, aged 54, 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. Yang Lin, aged 54, is the special assistant to the Chairman of the Board of the Group and the Head of the Investment and Development Department. He is mainly responsible for the investment development and investors' relations outside of the PRC. He graduated from Thames Valley University in 2001 with a MBA degree. Mr. Yang Lin joined Koyo Group in 2002. Prior joining the Group, he served as the general manager of Sinotrans South Africa Branch.

Report of the Directors

The Directors have the pleasure of presenting their report together with the audited financial statements of the Company and its subsidiaries for the year ended 31st December 2015.

GENERAL INFORMATION

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

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

PRINCIPAL ACTIVITIES

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

RESULTS AND APPROPRIATIONS

Details of the Group's profits for the year ended 31st December 2015 are set out in the consolidated statement of profit or loss and other comprehensive income.

The Directors do not recommend the payment of any final dividend for the year ended 31st December 2015 (2014: Nil).

SHARE CAPITAL

Details of movements in share capital of the Company are set out in Note 29 to the consolidated financial statements.

RESERVES

Movements in the reserves of the Group and of the Company during the year are set out in Note 31 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31st December 2015 amounted to approximately RMB1,394,713,000 (2014: RMB1,317,487,000).

RIGHTS OF DIRECTORS AND EMPLOYEES TO ACQUIRE SHARES OR DEBENTURES

A summary of the principle terms and conditions of the share option scheme is set out in the circular of the Company dated 29th August 2008.

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 92.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in fixed assets of the Group during the year are set out in Note 17 to the consolidated financial statements.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The Directors who held office during the year ended 31st December 2015 and up to the date of this report are:

Executive Directors

Mr. Li Weiruo
Mr. Yuan Bai
Ms. Chi Chuan
Ms. Man Au Vivian
Mr. Li Shengdi
Mr. Li Feng
Mr. Li Ciping

Non-Executive Director

Mr. Zhang Fubo (Appointed on 16 May 2015)

Independent Non-Executive Directors

Mr. Hu Xiaoping
Mr. Woo Che-wor, Alex
Mr. Qian Laizhong
Mr. Sun Tongchuan

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. Yuan Bai and Mr. Zhang Fubo will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

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

The Independent Non-Executive Directors of the Company are appointed with specific terms inside the letter of appointment for initial fixed terms of two years. Pursuant to A.4.3 of the Corporate Governance Code (the "Corporate Governance Code") set out in Appendix 14 of the Listing Rules, any further appointment of an Independent Non-Executive Director in excess of nine years should subject to a separate resolution to be approved by shareholders. Mr. Hu Xiaoping and Mr. Woo Che-wor, Alex were appointed as Independent Non-Executive Directors in June 2003 and will severe on the Board for more than eleven years in June 2016. Therefore, Mr. Hu Xiaoping and Mr. Woo Che-wor should retire and re-election at the forthcoming annual general meeting.

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

On 10th June 2003, the Company adopted a share option scheme and amended at an extraordinary general meeting on 28th July 2004 (the "GEM Share Option Scheme"). The GEM Share Option Scheme was terminated on 25th August 2008. A new share option scheme (the "Existing Share Option Scheme") was adopted on 18th September 2008. A summary of the principle terms and conditions of the GEM Share Option Scheme is set out under the section headed "Share Option Scheme" in Appendix IV of the prospectus of the Company dated 30th June 2003. The amendments of the GEM Share Option Scheme are explained in the announcement and circular of the Company dated 12th July 2004. The details of the Existing Share Option Scheme can be found in the circular of the Company dated 29th August 2008. Details of the share option schemes of the Company are set out in Note 30 to the consolidated financial statement.

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

GEM Share Option Scheme

The Board may, subject to and in accordance with the provisions of the GEM Share Option Scheme, grant options to any full-time or part-time employees, consultants or directors (including executive directors, non-executive directors) of the Group (collectively "Eligible Participants").

The Board shall not grant options to any Eligible Participant if the acceptance of those options would result in the total number of Shares (the "Relevant Shares") issued and to be issued to that participant on exercise of his options during any 12-month period up to the offer date (the "Relevant Period") exceeding 1% of the total number of Shares then in issue, unless a shareholders' approval is obtained in a general meeting. 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 Relevant Shares in excess of 0.1% of the Shares in issue in the Relevant Period and having an aggregate value (based on the closing price of the Shares at the date of each grant) in excess of HK$5 million, are subject to shareholders' approval in advance in a general meeting.

Upon acceptance of an option to subscribe for Shares granted pursuant to the Scheme, the Eligible Participant shall pay HK$10.00 to the Company by way of consideration for the grant. The option will be offered for acceptance for a period of 21 days from the date on which the option is granted.

The GEM Share Option Scheme was terminated on 25 August 2008. Therefore, as at 31 December 2015, no shares option was available for issue under the GEM Share Option Scheme.

Existing Share Option Scheme

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

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

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

As the date of approval of the Annual Report, the Company had 82,408,000 share options outstanding under the Existing Share Option Scheme, which represented approximately 2.03% of the Company's shares in issue as at that date. The remaining life of the Existing Share Option Scheme was about 2.7 years.

During the year ended 31st December 2015, 6,520,000 share options were exercised and the weighted average closing price of the Company's share immediately before the dates of which the options were exercised was approximately HK$1.98. Details of option outstanding and movements are disclosed in the following table:

Number of share options

	Held at 1 January 2015 ('000)	Grant during period ('000)	Exercised during period ('000)	Forfeited during period ('000)	Held at 31 December 2015 ('000)	*Share Options A ('000)	*Share Options B ('000)	*Share Options C ('000)	*Share Options D ('000)	*Share Options E ('000)	*Share Options F ('000)	*Share Options G ('000)
Directors												
Li Weiruo	–	–	–	–	**–**	–	–	–	–	–	–	–
Yuan Bai	3,400	–	–	–	**3,400**	–	400	–	800	–	2,200	–
Chi Chuan	3,800	–	–	–	**3,800**	–	–	–	–	–	3,800	–
Man Au Vivian	800	–	(800)	–	**–**	–	–	–	–	–	–	–
Li Shengdi	–	–	–	–	**–**	–	–	–	–	–	–	–
Li Ciping	1,600	–	–	–	**1,600**	–	–	–	1,600	–	–	–
Zhang Fubo	–	–	–	–	**–**	–	–	–	–	–	–	–
Woo Che-wor Alex	1,200	–	–	–	**1,200**	–	–	–	–	800	400	–
Hu Xiaoping	1,200	–	–	–	**1,200**	–	–	–	–	800	400	–
Qian Laizhong	1,220	–	(1,220)	–	**–**	–	–	–	–	–	–	–
Sun Tongchuan	1,200	–	(1,200)	–	**–**	–	–	–	–	–	–	–
Employees	11,400	–	(3,300)	–	**8,100**	1,800	–	800	2,300	–	3,200	–
Total	25,820	–	(6,520)	–	**19,300**	1,800	400	800	4,700	1,600	10,000	–

* Share Options A: Grant at 11th April 2006, exercisable from grant date until 10th April 2016 with exercise price HK$0.750.

Share Options B: Grant at 16th May 2006, exercisable from grant date until 10th April 2016 with exercise price HK$0.750, where 420,000 share options B were exercised during the year 2015.

Share Options C: Grant at 10th September 2007, exercisable from grant date until 9th September 2017 with exercise price HK$0.580.

Share Options D: Grant at 14th January 2010, exercisable from grant date until 13th January 2020 with exercise price HK$1.150, where 1,000,000 share options D were exercised during the year 2015.

Share Options E: Grant at 23rd November 2010, exercisable from grant date until 22nd November 2020 with exercise price HK$1.100, where 800,000 share options E were exercised during the year 2015.

Share Options F: Grant at 28th March 2013, exercisable from grant date until 27th March 2023 with exercise price HK$0.595, where 3,100,000 share options F were exercised during the year 2015.

Share Options G: Grant at 15th November 2013, exercisable from grant date until 14th November 2023 with exercise price HK$0.48, where 1,200,000 share options G were exercised during the year 2015.

DIRECTORS' INTERESTS IN SHARES

As at 31st December 2015, the interests and short positions of the Directors and Chief Executives in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) to be recorded in the register required to be kept under section 352 of the SFO; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in Listing Rules were as follows:

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

Directors	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
Li Weiruo	586,188,000	154,400,000	740,588,000	18.52%
Yuan Bai	71,292,800	3,400,000	74,692,800	1.87%
Chi Chuan	12,300,000	3,800,000	16,100,000	0.40%
Li Shengdi	4,000,000	–	4,000,000	0.10%
Li Ciping	800,000	1,600,000	2,400,000	0.06%
Zhang Fubo	5,000,000	–	5,000,000	0.13%
Hu Xiaoping	–	1,200,000	1,200,000	0.03%
Woo Che-wor, Alex	–	1,200,000	1,200,000	0.03%
Sun Tongchuan	1,200,000	–	1,200,000	0.03%

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

Name of Director	Name of company	Number of non-voting deferred shares	Capacity	Type of interest	Approximate interests in holding
Li Weiruo	Ko Yo Development Co., Ltd ("Ko Yo Hong Kong") *(Note)*	2,100,000	Beneficial Owner	Personal	70%
Yuan Bai	Ko Yo Hong Kong	420,000	Beneficial Owner	Personal	14%
Chi Chuan	Ko Yo Hong Kong	120,000	Beneficial Owner	Personal	4%
Man Au Vivian	Ko Yo Hong Kong	60,000	Beneficial Owner	Personal	2%

Note: a wholly-owned subsidiary of the Company

DIRECTORS' INTERESTS IN SHARES *(Continued)*

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

Number of Director	Name of company	Number of non-voting deferred shares	Capacity	Type of interest	Approximate interests in holding of such class
Li Weiruo	Ko Yo Hong Kong	2,100,000	Beneficial Owner	Personal	70%
Yuan Bai	Ko Yo Hong Kong	420,000	Beneficial Owner	Personal	14%
Chi Chuan	Ko Yo Hong Kong	120,000	Beneficial Owner	Personal	4%
Man Au Vivian	Ko Yo Hong Kong	60,000	Beneficial Owner	Personal	2%

SUBSTANTIAL SHAREHOLDERS

As at 31st December 2015, so far as is known to any Director or Chief Executive of the Company, the following person (not being a director or a Chief Executive of the Company) had an interest or short positions in the shares or underlying shares of the Company which are required to be notified to the Company and the Stock Exchange under Divisions 2 and 3 of Part XV of the SFO and recorded in the register required to be kept under section 336 of the SFO, and who were directly or indirectly deemed to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company.

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

Name	Capacity	Number of shares	Approximate shareholding percentage
Cheng Kin Ming	Interest of corporation controlled	800,000,000	20.01%

Note: As at 31st December 2015, Asia Pacific Resources Development Investment Limited which is wholly owned by Cheng Kin Ming held a total amount of HK$320,440,000 convertible bonds of the Company which can be converted into 1,001,375,000 shares of the Company.

INTEREST OF OTHER PERSONS IN THE COMPANY

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

As at 31st December 2015, so far as is known to any Director or Chief Executive of the Company and save as disclosed above, no person had an interest or short positions in the shares or underlying shares of the Company which are required to be notified to the Company and the Stock Exchange under Divisions 2 and 3 of Part XV of the SFO and recorded in the register required to be kept under section 336 of the SFO, and who were directly or indirectly deemed to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company.

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

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

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

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

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

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 30th March 2016.

DIRECTORS' INTEREST IN COMPETING BUSINESS

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

DIRECTORS' INTERESTS IN CONTRACTS

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

MANAGEMENT CONTRACTS

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

AUDIT COMMITTEE

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

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 31st December 2015.

PURCHASE, SALE OR REDEMPTION OF SHARES

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

CUSTOMERS AND SUPPLIERS

For the year ended 31st December 2015, the five largest customers accounted for approximately 29.6% of the Group's total turnover and the five largest suppliers of the Group accounted for approximately 79.2% of the Group's total purchases. The largest customer of the Group accounted for approximately 8% of the Group's total turnover and the largest supplier accounted for approximately 33.0% 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.

SUBSEQUENT EVENTS

Details of subsequent events of the Company are set out in Note 41 to the consolidated financial statements.

CORPORATE GOVERNANCE

A report on the corporate governance practices adopted by the Company is set out on pages 27 to 32 of the annual report.

AUDITORS

At the extraordinary general meeting held on 19 February 2016, a special resolution was passed for the resignation of PricewaterhouseCoopers as auditors of the Company. The reason for the resignation of PricewaterhouseCoopers as auditors of the Company was due to a disagreement between the Board and PricewaterhouseCoopers on the increase in the audit fees for the financial year ended 31 December 2015.

PricewaterhouseCoopers was re-appointed as the auditor of the Group on 13 May 2013 and 9 May 2014 for conducting the audit works of the Group for the years ended 31 December 2013 and 2014, respectively, and they resigned as the auditor of the Group on 27 January 2016.

ZHONGHUI ANDA CPA Limited was appointed as the auditor of the Group on 19 February 2016 for conducting the audit works of the Group for the Reporting Period.

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,

Li Weiruo
Chairman

30th March 2016

Corporate Social Responsibility Report

As an enterprise with social and public responsibilities, the Company has always been committed to strictly following and performing the laws, regulations and standards related to the safety, environment and occupational hygiene and health as imposed by the PRC and the jurisdiction where the Company is located. In accordance with the PRC laws and regulations, the Company revised and issued the Safety and Environmental Protection Plan of the Group and the Safety and Environmental Objectives for 2015, in order to enhance the management of safety and environmental protection. The Company also formulated the Management System of Safety, Environmental Protection and Occupational Health of Ko Yo Group and revised the relevant management system in 2015 to further specify the safety and environmental protection duties of the Group, its subsidiaries and personnel of all levels as well as the management requirements and procedures regarding safety and environmental protection under laws and regulations.

1. WORKING ENVIRONMENT

Safety, Environment and Occupational Hygiene Policy and Standard

The Company keeps an open-minded attitude towards the supervision of the governmental safety and environmental protection authority as well as that of the general public. In order to create a safe and comfortable working environment, the Company has provided its staff with daily working protective gear, such as overalls, safety shoes and helmets, anti-dust respirators and anti-noise earplugs, and marked safety instruction where necessary in accordance with the requirements of safety protection; in summer, we will dispatch high temperature and heat stroke prevention articles, medicines and perquisites to our staff. In addition, the Company will also arrange regular body examination for each of our staff to maintain their physical health.

2. ENVIRONMENTAL PROTECTION

Emission

The Company ensures emission in compliance with the prescribed standards of the state on the basis of obtainment of pollutant emission permit from the governmental regulatory authority. We mainly comply with the laws, such as the "Effluent Standards of Water Pollutants of Ammonia Industry (GB13458)" and the "Overall Emission Standards for Air Pollutants (GB16297)". The Company has installed online monitoring system for water and gas emission, which has been connected to the central monitoring system of the local environmental protection authority and can provide 24 hours service.

Table of main effluents and emission standards of Dazhou Plant:

Category of effluents	Standard of total emissions	Actual total emissions in 2014	Actual total emissions in 2015
Chemical Oxygen Demand (COD)	9.40 tons per annum	2.55 tons	1.13 tons
Ammonia and nitrogen (NH_3-N)	3.77 tons per annum	0.65 tons	0.35 tons
Carbon dioxide (CO_2)	–	20.0 million m^3	18.6 millions m^3
Dust and fumes	210.7 tons per annum	2.38 tons	1.62 tons

Dazhou Plant has been equipped with special environmental protection facilities, including wastewater and exhaust gas treatment devices. Its wastewater and exhaust gas have been emitted through industrial wastewater centralized treatment plants and high-level chimneys, respectively, in accordance to the standards. In order to reduce the emission of carbon dioxides, Dazhou Plant has recycled and exported carbon dioxides according to the production and market conditions. Construction of Phase 2 of Dazhou project has been speeded up and zero emission can be achieved after its completion and operation. No treatment of hazardous solid waste was made by Dazhou Plant during the year. The total expenses for safety and environmental protection for 2015 amounted to RMB2,503,500.

2. ENVIRONMENTAL PROTECTION *(Continued)*

Emission *(Continued)*

Table of main effluents and emission standards of Guangan Plant:

Category of effluents	Standard of total emissions	Actual total emissions in 2014	Actual total emissions in 2015
Chemical Oxygen Demand (COD)	8.75 tons per annum	0.64 tons	2.85 tons
Ammonia and nitrogen (NH_3-N)	0.87 tons per annum	0.23 tons	0.14 tons
Carbon dioxide (CO_2)	–	130 millions m^3	151 millions m^3
Dust and fumes	134.6 tons per annum	0.074 tons	0.043 tons

Guangan Plant has been equipped with an online monitoring system for water emission. Its wastewater and exhaust gas have been emitted through industrial wastewater centralized treatment plants and high-level chimneys, respectively, in accordance with the applicable standards. No treatment of hazardous solid waste was made by Guangan Plant during the year. The total expenses for safety and environmental protection for 2015 amounted to RMB2,500,300.

Energy Consumption

Table of Statistics of Energy Consumption in 2014 and 2015

No.	Name of energy	Unit	**2015 Dazhou plant**	2014 Dazhou plant	**2015 Guangan plant**	2014 Guangan plant
1	Natural gas	10^3 m^3	**245,327**	329,486	**170,290**	9,730
2	Electricity	10^4 kWh	**353**	443	**5,632**	2,882

All of the energy consumption indexes of Dazhou Plant decreased in 2015 compared with those in 2014, mainly attributable to the reduced energy consumption of devices as a result of annual repair and improvement, and the average reduction of integrated energy consumption of ammonia in the first half of 2015 by 15kg of standard coal over last year, marking a record low, as a result of further streamlined management and operations. Energy consumption of Guangan Plant increased due to the increase of working days by 2 months to 5 months in 2015 as compared to 2014.

3. QUALITY, ENVIRONMENT AND ENERGY MANAGEMENT

Dazhou Plant has obtained and followed ISO9001 quality system and ISO14001 environmental management system standards to maintain normal operation of its management systems. It conducts an annual internal review and passes external management assessment annually in order to ensure the ongoing appropriateness, sufficiency and effectiveness of the management system established by the Company. In 2015, under the guidance of the Company, Dazhou Plant cooperated with China Certification and Inspection Group Sichuan Co., Ltd to establish and organize internal review and external assessment of its energy management system. Such energy management system has successfully passed the external assessment and started operation. The operation of quality, environment and energy management systems has been integrated smoothly.

Guangan Plant is actively preparing for the establishment of quality, environment and energy management systems and relevant works is under progress.

4. SUPPLIERS, CLIENTS AND PRODUCT MANAGEMENT

Our major raw material is natural gas, which is mainly sourced from the main suppliers, namely Sinopec and PetroChina. We have obtained approval from National Development and Reform Commission of the consumption index of natural gas necessary for our production, and have ensured the supply of natural gas through contracts with Sinopec and PetroChina each year. In 2015, the international oil price dropped significantly, and the price spread between the natural gas price in China and international oil price was large. As such, the dominant advantage of Sinopec and PetroChina in the supply of natural gas decreased, and bargaining power of the Company became stronger. The Company will strive to carry out effective negotiation and execution of the natural gas supply contract for 2016 to secure the supply of natural gas at the most favourable price.

In respect of suppliers of raw and auxiliary materials, the Company conducts long-term assessment on qualified suppliers and selects the best suppliers for cooperation through both document review and on-site inspection.

In response to the market downturn in 2015, the Company has adopted suitable sales policy and carried out joint marketing and promotional activities with its clients in order to consolidate relationship with customers and supported sales performance. In addition, the Company holds national and regional sales meetings with its clients every year to discuss and exchange ideas on the future development of the Company. These efforts have been recognized by its clients.

The Company has set up a supervision and audit department to review its corporate account and operation through supervision on the relevant procedures so as to prevent corruption and fraud.

5. SOCIAL CONTRIBUTION

The Company donated certain amount of money to Oxfam and Affinity Services during the year 2015.

Corporate Governance Practices

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

THE BOARD OF DIRECTORS

Board composition

The Board of directors currently comprises twelve directors of which seven are Executive Directors, one is Non-Executive Directors and four are Independent Non-Executive Directors. The detail is as follow:

Executive Directors
Mr. Li Weiruo *(Chairman)*
Mr. Yuan Bai
Ms. Chi Chuan
Ms. Man Au Vivian
Mr. Li Shengdi
Mr. Li Feng
Mr. Li Ciping

Non-Executive Director
Mr. Zhang Fubo (Appointed on 16 May 2015)

Independent Non-Executive Directors
Mr. Hu Xiaoping
Mr. Woo Che-wor, Alex
Mr. Qian Laizhong
Mr. Sun Tongchuan

The Independent Non-Executive Directors represent over one-third of the Board. Among the four 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. Mr. Hu Xiaoping and Mr. Woo Che-wor Alex were appointed as Independent Non-Executive Directors in June 2003 and will severe on the Board for more than thirteen years in June 2016. Pursuant to A.4.3 of the Corporate Governance Code, any further appointment of an Independent Non-Executive Director in excess of nine years should subject to a separate resolution to be approved by shareholders. Therefore, Mr. Hu Xiaoping and Mr. Woo Che-wor Alex should retire and re-election at the forthcoming annual general meeting. All Independent Non-Executive Directors are identified as such in all corporate communications that disclose the names of the directors. There is no family or other material relationship among members of the Board.

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

Board meeting

The Board meets regularly and board meetings are held at least four times a year. The board meetings involved the active participation in persons or through other electronic means of communication. At least 14 days 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.

THE BOARD OF DIRECTORS *(Continued)*

Board meeting *(Continued)*

In the financial year ended 31st December 2015, 20 board meetings and 1 general meetings were held and the attendance record for the meetings by each director is as follow:

Attendants	Number of board meetings attended/total	Board meetings attendance percentage	Number of general meetings attended/total	General meetings attended percentage
Executive Directors				
Mr. Li Weiruo	20/20	100%	1/1	100%
Mr. Yuan Bai	20/20	100%	1/1	100%
Ms. Chi Chuan	20/20	100%	1/1	100%
Ms. Man Au Vivian	20/20	100%	1/1	100%
Mr. Li Shengdi	20/20	100%	1/1	100%
Mr. Li Feng	20/20	100%	1/1	100%
Mr. Li Ciping	20/20	100%	1/1	100%
Non-Executive Director				
Mr. Zhang fubo	2/6	33.3%	N/A	N/A
Independent Non-Executive Directors				
Mr. Hu Xiaoping	4/20	20.0%	1/1	100%
Mr. Woo Che-wor, Alex	4/20	20.0%	1/1	100%
Mr. Qian Laizhong	4/20	20.0%	1/1	100%
Mr. Sun Tongchuan	4/20	20.0%	1/1	100%

Chairman and Chief executive officer

The Chairman of the Group is Mr. Li Weiruo, primarily responsible for the management of the Board and ensuring the Board functions effectively, smoothly and following a good corporate governance practices. Mr. Li Weiruo, the Chairman and together with the other six 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. Li Weiruo is responsible for the development of the Group. Mr. Yuan Bai is responsible for the capital management of the Group and Mr. Li Shengdi is responsible for the construction and administrations of the Group's new projects in Dazhou and Guangan. Ms. Chi Chuan is responsible for the financial matters of the Group. Ms. Man Au Vivian is responsible for the affairs and administration of the office in Hong Kong. Mr. Li Ciping is responsible for the sales and marketing matters of the Group. Mr. Li Feng is the Chief Executive Officer of the Group.

DIRECTORS' TRAINING

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

COMPANY SECRETARY'S TRAINING

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

SHAREHOLDERS' RIGHTS

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

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

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

Procedures for propose a person for election as a Director

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

Procedures for directing shareholders' enquires to the Board

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

DIRECTORS' SECURITIES TRANSACTION

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

REMUNERATION OF DIRECTORS

Remuneration Committee was established in January 2005 and one 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. Qian Laizhong	1/1	100%
Executive Director		
Ms. Chi Chuan	1/1	100%

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

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

NOMINATION OF DIRECTORS

Nomination Committee was established in January 2005 and one 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. Qian Laizhong *(Chairman)*	1/1	100%
Mr. Woo Che-wor, Alex	1/1	100%
Executive Director		
Mr. Li Shengdi	1/1	100%

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

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

TERM OF APPOINTMENT AND RE-ELECTION

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

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

Pursuant to A.4.3 of the Corporate Governance Code, any further appointment of an Independent Non-Executive Director in excess of nine years should subject to a separate resolution to be approved by shareholders. Mr. Hu Xiaoping and Mr. Woo Che-wor Alex were appointed as Independent Non-Executive Director in June 2003 and will severe on the Board for more than thirteen years in June 2016. Therefore, Mr. Hu Xiaoping and Mr. Woo Che-wor Alex should retire and re-election at the forthcoming annual general meeting.

AUDIT COMMITTEE

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

Attendants	Number of meetings attended/total	Attendance percentage
Independent Non-Executive Directors		
Mr. Woo Che-wor, Alex *(Chairman)*	4/4	100%
Mr. Qian Laizhong	4/4	100%
Mr. Hu Xiaoping	4/4	100%
Mr. Sun Tongchuan (Appointed on 16 May 2015)	2/2	100%

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

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

The Audit Committee is responsible for reviewing the accounting principles and practices adopted by the Group, recommending the Board on the Group's internal control and risk management system, and ensuring the Group's financial statements present a true and fair view of the Group's financial position. The Audit Committee had reviewed with management the accounting principles and practices and discussed internal controls and financial reporting matters including a review of the audited financial statements of the Company and Group for the year ended 31st December 2015.

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

INDEPENDENT EXTERNAL AUDITORS

In 2015, the total remuneration charged by to the independent external auditors amounted to approximately RMB1.5 million, which was all for the audit services provided by the independent external auditors. The audit fees have been approved by the Audit Committee and the Board.

The statement of the independent external auditors of the Company about their reporting responsibilities on the consolidated financial statements is set out on pages 33 and 91 of this annual report.

The appointment of ZHONGHUI ANDA CPA Limited for the audit work of the Company for the financial year 2015 has been approved by the extra-ordinary general meeting on 19 February 2015. The audit committee has resolved the re-appointment of ZHONGHUI ANDA CPA Limited for the financial year 2016. 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)

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 35 to 91, which comprise the consolidated statement of financial position as at 31 December 2015, 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 a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants 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.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to 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. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2015, and of its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

EMPHASIS OF MATTER

We draw attention to Note 2 to the consolidated financial statements which states that the Group had a net operating cash outflows of approximately RMB2 million during the year ended 31 December 2015. As at 31 December 2015, the Group's current liabilities exceeded its current assets by approximately RMB1,408 million. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. Our opinion is not qualified in respect of this matter.

ZHONGHUI ANDA CPA Limited
Certified Public Accountants

Ng Ka Lok
Practising Certificate Number P06084

Hong Kong, 30 March 2016

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2015

	Notes	2015 RMB'000	2014 RMB'000
Revenue	8	**1,928,147**	1,369,590
Cost of sales		**(1,955,537)**	(1,357,771)
Gross (loss)/profit		**(27,390)**	11,819
Distribution costs		**(37,631)**	(68,268)
Administrative expenses		**(105,155)**	(218,399)
Other income/(loss) — net	9	**217,338**	(172,739)
Other expenses	10	**(112,581)**	–
Operating loss		**(65,419)**	(447,587)
Finance income	11	**19,976**	36,011
Finance expenses	11	**(103,924)**	(113,163)
Loss before tax		**(149,367)**	(524,739)
Income tax credit	12	**43,094**	34,050
Loss and total comprehensive loss for the year	13	**(106,273)**	(490,689)
Attributable to:			
Equity holders of the Company		**(105,646)**	(490,047)
Non-controlling interests		**(627)**	(642)
		(106,273)	(490,689)
Loss per share attributable to the equity holders of the Company during the year (expressed in RMB per share)			
— Basic	15	**(0.0270)**	(0.2973)
— Diluted	15	**(0.0270)**	(0.2973)

Consolidated Statement of Financial Position

As at 31 December 2015

	Notes	2015 RMB'000	2014 RMB'000
ASSETS			
Non-current assets			
Land use rights	*16*	**50,649**	51,838
Property, plant and equipment	*17*	**3,539,026**	2,992,283
Investment properties	*18*	**12,636**	13,145
Mining right	*19*	**297,091**	334,306
Other intangible assets	*20*	**9,366**	10,628
Deferred income tax assets	*35*	**73,607**	38,869
		3,982,375	3,441,069
Current assets			
Inventories	*23*	**78,487**	62,327
Trade and other receivables	*24*	**348,148**	435,820
Prepaid income tax, net		**3,562**	7,555
Derivative financial assets	*25*	**214,822**	–
Pledged bank deposits	*26*	**505,055**	689,603
Cash and cash equivalents	*27*	**59,782**	498,099
		1,209,856	1,693,404
Non-current assets held for sale	*28*	**142,000**	198,784
		1,351,856	1,892,188
Total assets		**5,334,231**	5,333,257
EQUITY			
Equity attributable to owners of the company			
Share capital	*29*	**342,822**	302,960
Reserves	*31*	**1,394,713**	1,450,264
		1,737,535	1,753,224
Non-controlling interest		**2,807**	3,434
Total equity		**1,740,342**	1,756,658

Consolidated Statement of Financial Position

As at 31 December 2015

	Notes	2015 RMB'000	2014 RMB'000
LIABILITIES			
Non-current liabilities			
Long-term borrowings	*32*	**634,960**	648,822
Convertible bonds	*33*	**124,835**	147,629
Deferred subsidy income	*34*	**2,584**	3,238
Deferred income tax liabilities	*35*	**71,563**	80,867
		833,942	880,556
Current liabilities			
Trade and other payables	*36*	**890,042**	690,430
Short-term borrowings	*32*	**1,588,225**	1,719,041
Current portion of long-term borrowings	*32*	**281,680**	286,572
		2,759,947	2,696,043
Total liabilities		**3,593,889**	3,576,599
Total equity and liabilities		**5,334,231**	5,333,257
Net current liabilities		**(1,408,091)**	(803,855)
Total assets less current liabilities		**2,574,284**	2,637,214

The consolidated financial statements on pages 35 to 91 were approved and authorised for issue by Board of Directors on 30 March 2016 and are signed on behalf of the Board by:

Li Weiruo
Director

Yuan Bai
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2015

	Attributable to equity holders of the Company											
	Share capital	Share premium	Merger reserve	Share-based compensation reserve – share options	Share-based compensation reserve – convertible bonds	Reserve fund	Enterprise expansion fund	Retained earnings/ (accumulated loss)	Transaction with non-controlling interests	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2014	138,618	550,133	(22,041)	22,202	–	45,273	1,131	337,316	(3,600)	1,069,032	3,267	1,072,299
Total comprehensive loss for the year	–	–	–	–	–	–	–	(490,047)	–	(490,047)	(642)	(490,689)
Issue of shares:												
— New Shares	63,368	124,791	–	–	–	–	–	–	–	188,159	–	188,159
— Employee share option scheme	2,535	14,660	–	–	–	–	–	–	–	17,195	–	17,195
— Exercise of warrant rights	17,119	296,887	–	–	–	–	–	–	–	314,006	–	314,006
— Conversion of bonds	81,320	227,691	–	–	(222,001)	–	–	–	–	87,010	–	87,010
Issuance of convertible bonds	–	–	–	–	567,778	–	–	–	–	567,778	–	567,778
Changes in ownership interests in a subsidiary without change of control	–	–	–	–	–	–	–	–	91	91	809	900
Balance at 31 December 2014	302,960	1,214,162	(22,041)	22,202	345,777	45,273	1,131	(152,731)	(3,509)	1,753,224	3,434	1,756,658
Balance at 1 January 2015	**302,960**	**1,214,162**	**(22,041)**	**22,202**	**345,777**	**45,273**	**1,131**	**(152,731)**	**(3,509)**	**1,753,224**	**3,434**	**1,756,658**
Total comprehensive loss for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(105,646)**	**–**	**(105,646)**	**(627)**	**(106,273)**
Issue of shares:												
— Employee share option scheme	**522**	**3,291**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**3,813**	**–**	**3,813**
— Conversion of bonds	**39,340**	**125,577**	**–**	**–**	**(111,682)**	**–**	**–**	**–**	**–**	**53,235**	**–**	**53,235**
Issuance of convertible bonds	**–**	**–**	**–**	**–**	**32,909**	**–**	**–**	**–**	**–**	**32,909**	**–**	**32,909**
Balance at 31 December 2015	**342,822**	**1,343,030**	**(22,041)**	**22,202**	**267,004**	**45,273**	**1,131**	**(258,377)**	**(3,509)**	**1,737,535**	**2,807**	**1,740,342**

Consolidated Statement of Cash Flows

For the year ended 31 December 2015

	2015 RMB'000	2014 RMB'000
Cash flows from operating activities		
Loss before tax	**(149,367)**	(524,739)
Adjustments for:		
Depreciation of property, plant and equipment	**82,762**	77,894
Depreciation of investment properties	**509**	509
Amortisation of land use rights	**1,189**	1,189
Amortisation of intangible assets	**270**	270
Loss on disposal of property, plant and equipment	**12**	4,292
Interest income	**(19,976)**	(36,011)
Interest expense	**101,231**	105,495
Exchange loss	**2,682**	5,738
Share-based payment	**18,544**	117,166
Impairment loss on non-current assets held for sale	**56,784**	–
Impairment loss on other receivables	**6,883**	–
Provision for impairment of trade receivables	**1,626**	–
Impairment loss on mining right	**37,215**	–
Impairment loss on property, plant and equipment	**9,081**	–
Impairment loss on goodwill	**992**	–
Fair value change of derivative financial assets	**(214,822)**	–
Fair value change of derivative financial liabilities	**–**	175,228
Operating cash flows before working capital changes	**(64,385)**	(72,969)
Increase in inventories	**(16,160)**	(19,068)
Decrease/(Increase) in trade and other receivables	**79,163**	(79,083)
Increase in trade and other payables	**90,805**	120,326
Decrease in deferred subsidy income	**(654)**	(654)
Cash generated from/(used in) operations	**88,769**	(51,448)
Interest paid	**(94,225)**	(168,140)
Income tax refund/(paid)	**3,045**	(351)
Net cash used in operating activities	**(2,411)**	(219,939)

Consolidated Statement of Cash Flows

For the year ended 31 December 2015

	2015 RMB'000	2014 RMB'000
Cash flows from investing activities		
Purchases of property, plant and equipment and payments for construction-in-progress	**(529,868)**	(283,557)
Proceeds from disposal of property, plant and equipment	**77**	16,128
Sales of interest in subsidiary	**–**	900
Interest received	**19,976**	40,178
Net cash used in investing activities	**(509,815)**	(226,351)
Cash flows from financing activities		
Exercise of share options	**3,813**	17,195
Issuance of convertible bonds	**37,800**	665,600
Decrease in pledged bank deposits	**184,548**	1,036,694
Issuance of New Shares, net of issue cost	**–**	188,159
Proceeds from borrowings	**3,272,487**	2,018,471
Repayments of borrowings	**(3,422,057)**	(3,096,580)
Net cash generated from financing activities	**76,591**	829,539
Net (decrease)/increase in cash and cash equivalents	**(435,635)**	383,249
Cash and cash equivalents at beginning of year	**498,099**	116,683
Exchange losses	**(2,682)**	(1,833)
Cash and cash equivalents at end of year	**59,782**	498,099

1. GENERAL INFORMATION

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

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

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

2. GOING CONCERN BASIS

The Group had a net operating cash outflows of approximately RMB2 million during the year ended 31 December 2015. As at 31 December 2015, the Group's current liabilities exceeded its current assets by approximately RMB1,408 million. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

In addition, the Group has contracted capital commitments of approximately RMB197 million as at 31 December 2015.

The directors of the Company have reviewed the Group's cash flow projections, which cover a period of twelve months from 31 December 2015. They have assessed the appropriateness of adopting the going concern basis for the preparation of these financial statements for the year ended 31 December 2015 in light of the Group's plans and measures described below to improve its cash flows:

(a) As at 31 December 2015, the Group's total borrowings amounted to approximately RMB2,630 million, of which approximately RMB1,870 million will be due within twelve months from 31 December 2015. As at that date, the Group's bank deposits pledged for short-term borrowings amounted to approximately RMB505 million. The Group has not experienced any significant difficulties in renewing its short-term borrowings upon their maturities and there is no indication that the banks will not renew the existing short-term borrowings if the Group applies for the renewal. Subsequent to the end of the reporting period and up to the date of approval of these financial statements, the Group has renewed short-term borrowings of approximately RMB319million for another twelve months. In addition, certain banks have advised their intention in writing, though not legally binding, to renew or to extend the loans of approximately RMB618 million for another twelve months when they fall due in 2016.

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

(c) As at 31 December 2015, the contracted capital expenditure committed by the Group amounted to approximately RMB197 million, of which approximately RMB176 million is required to be settled in the coming twelve months. These commitments are mainly related to the construction of four new production facilities in GuangAn, Sichuan Province. The directors of the Company will undertake close monitoring process to control the magnitude and timing of the expected cash outlays associated with the new projects.

(d) The directors also expect that sufficient sales orders will be secured in the coming year such that net operating cash inflows will be generated from its existing as well as the newly completed production facilities.

2. GOING CONCERN BASIS *(Continued)*

In the opinion of the directors, in light of the above, the Group will have sufficient financial resources to finance its operations and fulfill its financial obligations as and when required in the coming twelve months from 31 December 2015. Accordingly, the directors are satisfied that it is appropriate to prepare these consolidated financial statements on a going concern basis.

Notwithstanding the above, significant uncertainties exist as to whether management of the Company will be able to achieve its plans and measures as described above. Whether the Group will be able to continue as a going concern would depend upon the Group's ability to generate adequate financing cash inflows through successful renewal of its current bank loans upon expiry, obtaining additional bank borrowing, and securing other sources of financing, including the issuance of convertible bonds under the put option as needed; 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 2015. HKFRSs comprise Hong Kong Financial Reporting Standards ("HKFRS"); Hong Kong Accounting Standards ("HKAS"); and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's financial statements and amounts reported for the current year and prior years.

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Subsidiaries

Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, 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. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(a) *Business combinations*

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests ("NCI") in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of NCI are measured at their acquisition date fair value, unless another measurement basis is required by HKFRS.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in consolidated profit or loss.

Intra-Group transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies

(b) *Changes in ownership interests in subsidiaries without change of control*

Transactions with NCI that do not result in loss of control are accounted for as equity transactions — that is, as transactions with the equity holders in their capacity as equity holders. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to NCI are also recorded in equity.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Subsidiaries *(Continued)*

Consolidation *(Continued)*

(c) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the board of directors that makes strategic decisions.

Foreign currency translation

(a) Functional and presentation currency

Items included in these 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 ("RMB"), which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in profit or loss within 'finance cost, net'. All other foreign exchange gains and losses are presented in profit or loss within 'other income — net'.

Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation and any impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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 follow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are expensed in profit or loss during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Construction in progress represents the direct costs of construction incurred of property, plant and equipment less any impairment losses. No provision for depreciation is made on construction in progress until such time the relevant assets are completed and ready for use. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised within 'other income — net' in the consolidated statement of profit or loss and other comprehensive income.

Investment properties

Investment properties are interests in land and buildings that are held for long-term rental yields or for capital appreciation or both, rather than for use in the production or supply of goods or services or for administrative purposes.

Investment properties are initially measured at cost, which is the fair value of the consideration given to acquire them, including transaction costs. Subsequently, all investment properties are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is computed on a straight-line basis, after taking into account the estimated residual value (10% of original cost), over the estimated useful lives. The estimated useful lives of investment properties are 35 years.

The useful life and depreciation methods are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from the individual investment properties.

Mining right

Mining right is stated at cost less subsequent accumulated amortisation and accumulated impairment losses. Mining right is amortised using the units of production method based on the proven and probable mineral reserves.

Land use rights

Land use rights are up-front payments to acquire a long-term interest in land, which are regarded as operating leases. These payments are stated at cost and amortised over their respective lease terms on a straight-line basis, net of accumulated impairment charge.

The amortisation charge of land use rights on which a construction-in-progress is under development is capitalised during the construction period. Other amortisation charges are expensed.

Non-current assets held-for-sale

Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs of disposal. Deferred tax assets, even if held for sale, would continue to be measured in accordance with the policies set out in the financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets other than mining right and land use rights

(a) Goodwill

Goodwill arises on the acquisition of subsidiaries, associates and joint ventures and represents the excess of the consideration transferred over the Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or Groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or Group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(b) Construction permits

Separately acquired construction permits are shown at historical cost. Construction permits have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of construction permits over their estimated useful lives of 10 years.

Impairment of non-financial assets

Assets that have an indefinite useful life — for example, goodwill or intangible assets — are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Financial assets

(a) Classification

The Group classifies its financial assets in the categories of financial assets at fair value through profit or loss and loans and receivable. Management determines the classification of its financial assets at initial recognition depending on the purpose for which the investments were acquired.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are classified as current assets if they are either held for trading or are expected to be realised within twelve months of the end of the reporting period. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Assets in this category are classified as current assets if expected to be settled within twelve months; otherwise, they are classified as non-current. Financial assets carried at fair value through profit or loss are initially recognised at fair value and subsequently carried at fair value. Transaction costs are expensed in the consolidated profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial assets *(Continued)*

(a) Classification *(Continued)*

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables', 'pledged bank deposits' and 'cash and cash equivalents' in the consolidated statement of financial position.

(b) Recognition and measurement

Financial assets at fair value through profit or loss are classified as current assets if they are either held for trading or are expected to be realised within twelve months of the end of the reporting period. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Assets in this category are classified as current assets if expected to be settled within twelve months; otherwise, they are classified as non-current. Financial assets carried at fair value through profit or loss are initially recognised at fair value and subsequently carried at fair value. Transaction costs are expensed in the consolidated profit or loss.

The fair values of quoted investments are based on current price within the bid-ask spread which is the most representative of the fair value in the given circumstances. If the market for a financial asset is not active and for unlisted securities, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, refined to reflect the specific circumstances of the issuer. If the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed, the investment is measured at cost less impairment losses.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated profit or loss.

Derivative financial instruments

Derivative financial instruments, including put option of convertible bonds, are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or Group of financial assets is impaired. A financial asset or a Group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or Group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a Group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

The Group first assesses whether objective evidence of impairment exists.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated statement of profit or loss and other comprehensive income. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated statement of profit or loss and other comprehensive income.

Inventories

Inventories comprise raw materials, finished goods and work in progress and are stated at the lower of cost and net realisable value. Cost, calculated on the weighted average basis, comprises materials, direct labour and an appropriate proportion of all production overhead expenditure (based on normal production capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable distribution costs.

Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold in the ordinary course of business. If collection of trade and other receivables is expected in 1 year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of 3 months or less.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within 1 year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statement of profit or loss and other comprehensive income over the period of the borrowings 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 end of reporting period.

Borrowing costs

General and specific 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 added to 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.

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

Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Current and deferred income tax *(Continued)*

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax liabilities are provided on taxable temporary differences arising on investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payment transactions

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

(a) Share options

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

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

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

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

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

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

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

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

The equity component (i.e the bondholder's right to demand settlement in the Company's shares) of the convertible bond will be accounted for as an equity-settled share-based payment transaction. The entity first measures the fair value of the debt component, and then measure the fair value of the equity component by taking into account that the bondholder must forfeit the right to receive cash in order to receive the equity instrument. Subsequent to initial recognition, the debt component of the convertible bond is carried as a liability at amortised cost using the effective interest method until extinguished on conversion or redemption. The equity component is not remeasured subsequent to initial recognition.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that the outflow becomes probable, it will then be recognised as a provision in the consolidated statement of financial position.

Revenue recognition

Revenue is measured at fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

Rental income from investment property is recognised in consolidated profit or loss on a straight-line basis over the term of the lease.

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans and receivables is recognised using the original effective interest rate.

Dividend income is recognised when the right to receive payment is established.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grants will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the consolidated statement of profit or loss and other comprehensive income over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred subsidy income and are recognised in the consolidated statement of profit or loss and other comprehensive income on a straight-line basis over the expected lives of the related assets.

Government grants are recognised in the consolidated statement of profit or loss and other comprehensive income as part of other income.

Operating leases

The Group as lessee

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

The Group as lessor

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

Events after the reporting period

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

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgement are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions 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) Useful lives of property, plant and equipment

The estimate of useful lives of property, plant and equipment was made by the directors with reference to the established industry practices, technical assessments made on the durability of the assets, as well as the historical magnitude and trend of repair and maintenance expenses incurred by the Group. It could change significantly as a result of technical innovations and competitor actions in responses to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

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

(b) Share-based payment transactions

The convertible bonds were issued at a total cash consideration less than their total fair value measurement. According to HKFRS 2 — Share-based Payment ("HKFRS 2") paragraph 13A, such difference indicates unidentifiable services have been received (or will be) by the Group. Management considers it is appropriate to account for the issuance of convertible bonds based on HKFRS 2.

For recognising the share-based payment transactions, the fair value of convertible bonds on the grant date is determined using valuation techniques including discounted cash flow analysis and option pricing model. The inputs to these models are taken from observable markets where possible, but a degree of judgement is required in establishing the fair values.

(c) Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy. The recoverable amounts of cash-generating units have been determined based on fair value less costs of disposal calculations. These calculations require the use of estimates.

(d) Impairment of mining right

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

The key assumptions used are:

Sales growth rate	3%
Gross margin	6%–21%
Discount rate (pre-tax)	16%–18%

(e) Classification of non-current assets held for sale

The Group reclassified the non-current assets of one of its subsidiaries to current assets which are held for sale. In determining whether non-current assets can be classified as assets held for sale, management needs to exercise judgement as to whether a sale is highly probable.

(f) 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 exposes to foreign exchange risks as certain portion of cash and cash equivalent, trade and other receivables and short-term borrowings are denominated in foreign currencies, primarily with respect to the US dollar ("USD") and Hong Kong dollar ("HKD"). The Group currently does not have a foreign currency hedging policy as the directors are of the opinion that the Group's exposure to foreign exchange risk is insignificant because the Group's transactions, assets and liabilities were mainly denominated in Renminbi (the "RMB"). However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure when it is necessary and appropriate.

As at 31 December 2015, if RMB had weakened/strengthened by 5% against the USD with all other variables held constant, post-tax loss for the year would have been increased/decreased by approximately RMB782,000 (2014: post-tax loss increased/decreased by approximately RMB993,000), mainly as a result of foreign exchange losses/gains on translation of the USD-denominated long-term borrowings.

As at 31 December 2015, if RMB had weakened/strengthened by 5% against the HKD with all other variables held constant, post-tax loss for the year would have been decreased/increased by approximately RMB88,000 (2014: post-tax loss decreased/increased by approximately RMB9,944,000), mainly as a result of foreign exchange losses/gains on translation of the HKD denominated cash and cash equivalents.

(b) Cash flow and fair value interest rate risk

The Group's interest rate risk mainly arises from pledged bank deposits and borrowings. Long-term borrowing issued at variable rates expose the Group to cash flow risk which is partially offset by cash held at variable rates. The Group's pledged bank deposits, short-term borrowings and convertible bonds were issued at fixed rates and exposed the Group to fair value interest rate risk. During 2015 and 2014, the Group's long-term borrowings at variable rate were denominated in USD and RMB.

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

As at 31 December 2015, if interest rates on long-term borrowings had been increased/decreased by 20 basis points with all other variables held constant, post-tax loss for the year would have been increased/decreased by approximately RMB1,833,000 (2014: post-tax loss increased/decreased by approximately RMB1,938,000), mainly as a result of higher/lower interest expense on floating rate borrowings.

(c) Credit risk

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

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

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

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 and the Company's financial liabilities and net-settled derivative financial instruments into relevant maturity Groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000
At 31 December 2015				
Trade and other payables	**598,620**	**–**	**–**	**–**
Short-term borrowings	**1,588,225**	**–**	**–**	**–**
Long-term borrowings	**281,680**	**126,640**	**328,320**	**180,000**
Convertible bonds	**–**	**–**	**16,700**	**295,878**
Interest payment on borrowings and convertible bonds	**134,551**	**65,158**	**124,316**	**95,445**
At 31 December 2014				
Trade and other payables	408,463	–	–	–
Short-term borrowings	1,719,041	–	–	–
Long-term borrowings	286,572	433,885	214,937	–
Convertible bonds	–	–	–	405,376
Interest payment on borrowings and convertible bonds	84,259	63,788	100,027	141,882

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

The Group has been investing in the construction of new production lines and a significant amount of the financing was obtained from short-term borrowings. As a result, the Group had net current liabilities of approximately RMB1,408 million as at 31 December 2015 (2014: approximately RMB804 million). Nevertheless, the Group has not experienced any difficulties in renewing its short-term borrowings upon their maturities.

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

7. FAIR VALUE ESTIMATION

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's financial liabilities that are measured at fair value:

	2015			
	Level 1	**Level 2**	**Level 3**	**Total**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Assets				
Financial assets at fair value through profit or loss				
— derivative financial assets	–	–	214,822	214,822

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

The following table presents the changes in level 3 instruments for the year ended 31 December 2015 and 2014.

	2015 Derivative financial assets — Put options of convertible bonds RMB'000
Fair value change recognised in profit or loss	214,822
Closing balance	214,822
Total gains for the period included in profit or loss for assets and liabilities held at the end of the reporting period	214,822

The fair value of long-term borrowings for disclosure purposes is estimated by discounting the future contractual cash flows at a current market interest rate for borrowings with similar credit risk and maturity.

The carrying amounts less impairment allowance of cash and cash equivalents, pledged bank deposits, trade and other receivables, trade and other payables, and short-term borrowings approximates their fair values due to their short maturities.

8. REVENUE

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

The Group's sales made in Mainland China are subject to value-added tax. The applicable rates of output value-added tax range from 0% to 17%.

The Group's revenue and profit are generated from one segment, i.e. manufacturing and sale of chemical products and chemical fertilisers in Mainland China, no segment information is therefore presented.

The Group has a number of customers and revenue generated from the top two customers are accounted for 8% (2014: 12%) and 5% (2014:10%) respectively of the Group's revenue during the year.

9. OTHER INCOME/(LOSS) — NET

	2015 RMB'000	2014 RMB'000
Deferred subsidy income recognised	**654**	654
Subsidy income	**613**	803
Rental income, net	**1,066**	1,226
Fair value changes on derivative financial liabilities	**–**	(175,228)
Fair value changes on derivative financial assets	**214,822**	–
Loss of sales of scrap materials, net	**–**	(2,455)
Others, net	**183**	2,261
	217,338	(172,739)

10. OTHER EXPENSES

	2015 RMB'000	2014 RMB'000
Impairment losses non-current assets held for sale	**(56,784)**	–
Impairment losses on other receivables	**(6,883)**	–
Provision for impairment of trade receivables	**(1,626)**	–
Impairment losses on mining rights	**(37,215)**	–
Impairment losses on property, plant and equipment	**(9,081)**	–
Impairment losses on goodwill	**(992)**	–
	(112,581)	–

11. FINANCE EXPENSES — NET

	2015 RMB'000	2014 RMB'000
Finance income:		
Interest income	**(19,976)**	(36,011)
Finance expenses:		
Interest expense:		
Borrowings wholly repayable within 5 years		
— bank borrowings	**159,118**	189,007
— borrowing from International Finance Corporation ("IFC")	**706**	8,585
— borrowing from Asian Equity Special Opportunities Portfolio Master Fund Ltd ("Asian Equity") and PA International Opportunities VII Limited ("PA International")	**–**	16,453
Borrowings wholly repayable over 5 years		
— convertible bonds	**27,717**	19,651
Less: capitalisation in construction-in-progress	**(86,310)**	(128,201)
	101,231	105,495
Exchange loss	**2,682**	5,737
Others	**11**	1,931
	103,924	113,163
Finance expenses — net	**83,948**	77,152

12. INCOME TAX CREDIT

No provision for profits tax in the Cayman Islands, British Virgin Islands or Hong Kong has been made, as the Group had no assessable profit arising in or derived from those jurisdictions during the years ended 31 December 2014 and 2015.

Dazhou Ko Yo Chemical Industry Co., Ltd ("Dazhou Ko Yo Chemical") qualifies as a foreign investment production enterprise and is located in the western region in Mainland China. As approved by local tax bureau, it is subject to the preferential tax policies for the development of western region with Corporate Income Tax ("CIT") at the rate of 15% in 2014. The applicable income tax rate of Dazhou Ko Yo Chemical in 2015 is 25%.

The applicable income tax rate of other subsidiaries located in Mainland China in 2015 and 2014 is 25%.

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

	2015 **RMB'000**	2014 RMB'000
CIT for Mainland China		
— under provision in prior years	**948**	96
Deferred income tax	**(44,042)**	(34,146)
	(43,094)	(34,050)

The taxation on the Group's loss before income tax differs from the theoretical amount that would arise using the taxation rate of 25% (2014:15%), the tax rate of Dazhou KoYo Chemical, the major subsidiary of the Company. The difference is analysed as follows:

	2015 **RMB'000**	2014 RMB'000
Loss before tax	**(149,367)**	(524,739)
Tax calculated at a taxation rate of 25% (2014: 15%)	**(37,342)**	(78,711)
Tax rate difference	**(13,204)**	(7,370)
Expenses not deductible for tax purposes	**10,279**	55,847
Reversal of withholding income tax	**–**	(5,485)
Tax losses for which no deferred income tax was recognized	**13,168**	1,581
Temporary differences for which no deferred income tax was recognized	**18,653**	–
Income not subject to tax	**(35,596)**	(8)
Under-provision in prior years	**948**	96
Taxation	**(43,094)**	(34,050)

13. LOSS FOR THE YEAR

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

	2015 **RMB'000**	2014 RMB'000
Raw materials and consumables used	**799,727**	647,199
Depreciation of property, plant and equipment	**82,762**	77,894
Depreciation of investment properties	**509**	509
Amortisation of land use rights	**1,189**	1,189
Amortisation of other intangible assets	**270**	270
Auditors' remuneration — Audit services	**1,512**	2,470
Operating lease payments	**717**	717
Loss on disposal of property, plant and equipment	**12**	4,292
Share-based payment arising from the issue of convertible bonds	**18,544**	117,166
Staff costs including directors' emoluments		
Salaries, bonus and allowances	**75,041**	56,462
Equity-settled share-based payments	**–**	–
Retirement benefits scheme contributions	**5,501**	10,088
	80,542	66,550

Cost of inventories sold includes staff costs, depreciation and operating lease charges of approximately RMB119,214,000 (2014: approximately RMB105,170,000) 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 2015 and 2014 is set out below:

	Fees RMB'000	Salaries, allowances and benefits in-kind RMB'000	Contributions to pension schemes RMB'000	Share options RMB'000	Total RMB'000
Executive directors					
Mr. Li Weiruo	1,344	780	–	–	2,124
Mr. Yuan Bai (Note i)	252	942	50	–	1,244
Ms. Chi Chuan	252	642	–	–	894
Mr. Li Shengdi	252	642	–	–	894
Ms. Man Au, Vivian	252	433	–	–	685
Mr. Li Feng (Note i)	252	1,200	50	–	1,502
Mr. Li Ciping (Note ii)	252	600	50	–	902
Name of non-executive directors					
Mr. Zhang Fubo (Note iii)	1,050	–	–	–	1,050
Name of independent non-executive directors					
Mr. Hu Xiaoping	101	–	–	–	101
Mr. Woo Che-wor, Alex	101	–	–	–	101
Mr. Qian Laizhong	101	–	–	–	101
Mr. Sun Tong Chuan	101	–	–	–	101
Total for 2015	4,310	5,239	150	–	9,699

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

(a) Directors' emoluments *(Continued)*

	Fees RMB'000	Salaries, allowances and benefits in-kind RMB'000	Contributions to pension schemes RMB'000	Share options RMB'000	Total RMB'000
Executive directors					
Mr. Li Weiruo	1,264	780	17	–	2,061
Mr. Yuan Bai (Note i)	237	942	40	–	1,219
Ms. Chi Chuan	237	642	–	–	879
Mr. Li Shengdi	237	642	–	–	879
Ms. Man Au, Vivian	237	408	14	–	659
Mr. Li Feng (Note i)	119	1,200	34	–	1,353
Mr. Li Ciping (Note ii)	119	600	40	–	759
Name of independent non-executive directors					
Mr. Hu Xiaoping	95	–	–	–	95
Mr. Woo Che-wor, Alex	95	–	–	–	95
Mr. Qian Laizhong	95	–	–	–	95
Mr. Sun Tong Chuan	95	–	–	–	95
Total for 2014	2,830	5,214	145	–	8,189

Notes:

(i) Mr. Li Feng, who was appointed as an executive director on 1 July 2014, has taken over from Mr. Yuan Bai as the Chief executive of the Group.

(ii) Mr. Li Ciping, was appointed as an executive director on 1 July 2014.

(iii) Mr. Zhang Fubo, was appointed as an non-executive director on 16 May 2015

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include five (2014: five) directors whose emoluments are reflected in the analysis presented above.

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

15. LOSS PER SHARE

Basic

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

Diluted

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

Potential ordinary shares arising from the assumed conversion of convertible bonds and the assumed exercise of share options have not been included in the calculation of diluted loss per share because they are anti-dilutive for the year ended 31 December 2014 and 2015.

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

	2015 **RMB'000**	2014 RMB'000
Loss		
Loss for the purpose of calculating basic and diluted earnings per share	**(105,646)**	(490,047)

	2015 **'000**	2014 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic and diluted earnings per share	**3,911,896**	1,648,594

16. LAND USE RIGHTS

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

	2015	2014
	RMB'000	RMB'000
Cost		
At 1 January and 31 December	**59,289**	59,289
Accumulated amortisation		
At 1 January	**7,451**	6,262
Amortisation charge for the year	**1,189**	1,189
At 31 December	**8,640**	7,451
Net book amount		
At 31 December	**50,649**	51,838

All the Group's land use rights are located in Mainland China. The remaining lease periods of the land use rights are between 1 to 43 years (2014: 2 to 44 years).

As at 31 December 2015, no land use rights was pledged for the Group's borrowings. As at 31 December 2014, certain land use rights with a total net book value of approximately RMB12,004,000 were pledged as collateral for the Group's long-term borrowings.

Amortisation charge had been charged in administrative expenses.

17. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Office equipment and others RMB'000	Construction-in-progress RMB'000	Total RMB'000
Cost						
At 1 January 2014	383,192	846,417	13,381	22,322	1,566,584	2,831,896
Additions	2,730	26,578	1,216	7,826	483,626	521,976
Disposals	–	(44,766)	–	(9,940)	–	(54,706)
At 31 December 2014	385,922	828,229	14,597	20,208	2,050,210	3,299,166
Additions	2,877	849	251	2,466	632,232	638,675
Disposals	–	(7)	(14)	(217)	–	(238)
At 31 December 2015	388,799	829,071	14,834	22,457	2,682,442	3,937,603
Accumulated depreciation and impairment loss						
At 1 January 2014	(24,393)	(226,264)	(5,650)	(6,968)	–	(263,275)
Depreciation	(8,306)	(66,830)	(833)	(1,925)	–	(77,894)
Disposals	–	29,794	–	4,492	–	34,286
At 31 December 2014	(32,699)	(263,300)	(6,483)	(4,401)	–	(306,883)
Depreciation	(6,261)	(66,319)	(1,041)	(9,141)	–	(82,762)
Disposals	–	–	7	142	–	149
Impairment loss	(8,888)	(193)	–	–	–	(9,081)
At 31 December 2015	(47,848)	(329,812)	(7,517)	(13,400)	–	(398,577)
Net book amount						
At 31 December 2015	340,951	499,259	7,317	9,057	2,682,442	3,539,026
At 31 December 2014	353,223	564,929	8,114	15,807	2,050,210	2,992,283

Impairment loss of approximately RMB9,081,000 was recognised in profit or loss for obsolete property, plant and equipment in Qingdao.

All the Group's buildings are located in Mainland China. As at 31 December 2015, property, plant and equipment with a total net book value of approximately RMB1,181,796,000 (2014: approximately RMB908,107,000) were pledged as collateral for the Group's bank borrowings.

For the year ended 31 December 2015, borrowing costs of approximately RMB86,310,000 (2014: approximately RMB128,201,000) have been capitalised in the construction-in-progress.

18. INVESTMENT PROPERTIES

	2015 RMB'000	2014 RMB'000
Cost		
As at 1 January and 31 December	**13,862**	13,862
Accumulated depreciation and impairment loss		
As at 1 January	**(717)**	(208)
Charge for the year	**(509)**	(509)
As at 31 December	**(1,226)**	(717)
Net book value		
As at 31 December	**12,636**	13,145
Fair value as at 31 December	**22,350**	24,370

All the Group's investment properties are located in Mainland China. As at 31 December 2015, investment properties with a total net book value of approximately RMB12,636,000 (2014: Nil) were pledged as collateral for the Group's bank borrowings.

The fair values of the investment properties as at 31 December 2015 were estimated on the open market basic value by reference to market evidence of recent transaction for similar properties by management. It falls under level 2 in the fair value hierarchy.

The rental income arising from investment properties for the year 2015 of approximately RMB1,575,000 (2014: approximately RMB1,721,000) and depreciation charges are included in other income.

As at 31 December 2015, the Group had no unprovided contractual obligations for future repairs and maintenance (2014: Nil).

19. MINING RIGHT

The mining right represents the right to conduct mining activities in a phosphate mine located in Sichuan, Mainland China, which has a remaining legal life of 24 years, expiring in 2039.

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

As at 31 December 2015, the mining right with a total net book value of approximately RMB297,091,000 (2014: Nil) were pledged as collateral for the Group's bank borrowings.

20. OTHER INTANGIBLE ASSETS

	Goodwill	Construction permits	Total
	RMB'000	RMB'000	RMB'000
Cost			
At 1 January 2014, 31 December 2014 and 31 December 2015	8,900	2,700	11,600
Accumulated amortisation and impairment loss			
At 1 January 2014	–	(702)	(702)
Amortisation charge	–	(270)	(270)
At 31 December 2014	–	(972)	(972)
Amortisation charge	–	(270)	(270)
Impairment loss	(992)	–	(992)
At 31 December 2015	(992)	(1,242)	(2,234)
Net book amount			
At 31 December 2015	7,908	1,458	9,366
At 31 December 2014	8,900	1,728	10,628

Construction permits represent the permissions granted by the government for the construction of GuangAn Project. Amortisation charge of approximately RMB270,000 (2014: approximately RMB270,000) is included in administrative expenses.

21. IMPAIRMENT OF GOODWILL AND MINING RIGHT

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

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

	2015	2014
Growth rate	**3%**	3%
Discount rate (post-tax discount rate applied to the cash flow projections)	**16.41%**	17.25%
Years of cash flows projection (expected mining period of the phosphate mine)	**30 years**	30 years

Management determined gross margin based on past market prices of the phosphoric acid which are produced from phosphate ore and management's estimation of exploitation and production costs. The discount rate used is post-tax and reflects specific risks relating to the relevant CGU. Expected mining period of the phosphate mine is determined based on extractable reserve of the phosphate mine and the Group's production capacity. The legal life of mining right can be extended upon maturity to enable the Group to conduct mining activities in the expected mining period. Impairment losses of approximately RMB992,000 and approximately RMB37,215,000 were provided on goodwill and mining right for the year ended 31 December 2015 respectively.

22. SUBSIDIARIES

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

Name (Note i)	**Place of incorporation/ establishment**	**Principal activities and place of operation**	**Particulars of issued share capital**	**Interest held**
Held directly:				
Ko Yo Ecological Agrotech (BVI) Limited ("Ko Yo BVI")	the British Virgin Islands (the "BVI")	Investment holding, the BVI	100 ordinary shares of USD1 each	100%
Bright Bridge Investments Limited	BVI	Investment holding, the BVI	1 ordinary share of USD1 each	100%
Ko Yo Hong Kong New Material Company Limited ("Hong Kong New Material")	Hong Kong	Investment holding,Hong Kong	HK$10,000 ordinary shares	100%
Held indirectly:				
Ko Yo Development Company Limited ("Ko Yo Hong Kong")	Hong Kong	Investment holding, Hong Kong	3,000,000 non-voting deferred shares and HK$100 ordinary shares	100%

22. SUBSIDIARIES *(Continued)*

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

Name (Note i)	Place of incorporation/ establishment	Principal activities and place of operation	Particulars of issued share capital	Interest held
Chengdu Ko Yo Chemical Industry Co., Ltd. ("Chengdu Ko Yo Chemical")	Mainland China	Manufacture and sale of chemical products and chemical fertilisers, Mainland China	RMB27,000,000	60%
Chengdu Ko Yo Compound Fertilisers Co., Ltd. ("Chengdu Ko Yo Compound")	Mainland China	Manufacture, research, development and sale of bulk blended fertilisers, Mainland China	RMB15,000,000	100%
Dazhou Ko Yo Chemical Industry Co., Ltd ("Dazhou Ko Yo Chemical") (Note ii)	Mainland China	Manufacture and sale of chemical products, Mainland China	RMB350,000,000	100%
Qingdao Ko Yo Chemical Industry Co., Ltd. ("Qingdao Ko Yo Chemical")	Mainland China	Manufacture, research, development and sale of bulk blended fertilisers, Mainland China	USD2,100,000	100%
Hong Kong Cuyo Investment Limited ("Hong Kong Cuyo")	Hong Kong	Investment holding, Hong Kong	HK$4,720,000 ordinary shares	100%
Sichuan Chengyuan Chemical Industry Co., Ltd ("Sichuan Cuyo") (Note ii)	Mainland China	Exploration and exploitation of a phosphorous mine, Mainland China	RMB5,000,000	100%
Sichuan Ko Yo Agrochem Co., Ltd ("Ko Yo Agrochem")	Mainland China	Sale of chemical products and chemical fertilisers, Mainland China	RMB24,000,000	100%
Guangan Ko Yo Chemical Industry Co., Ltd ("Ko Yo GuangAn")	Mainland China	Manufacture and sale of chemical products,Mainland China	RMB160,000,000	100%
Chengdu Dayuan Chemical Industry Co., Ltd ("Ko Yo Dayuan")	Mainland China	Investment holding, Mainland China	RMB100,000	100%
Chengdu Meiyuan Chemical Industry Co., Ltd ("Ko Yo Meiyuan")	Mainland China	Investment holding, Mainland China	RMB100,000	100%
Guangan Lotusan Natural Gas Chemicals Co., Ltd ("Ko Yo Lotusan")	Mainland China	Manufacture and sale of chemical products, Mainland China	RMB43,000,000	100%

22. SUBSIDIARIES *(Continued)*

Name (Note i)	Place of incorporation/ establishment	Principal activities and place of operation	Particulars of issued share capital	Interest held
Sichuan Ko Chang Technology Co., Ltd ("Ko Yo Ko Chang")	Mainland China	Development of phosphoric acid production technology	RMB10,000,000	55%
Guangan Ko Yo New Material Co., Ltd ("Guangan New Material") (Note ii)	Mainland China	Manufacture and sale of engineering plastics, Mainland China	RMB64,000,000	100%
Sichuan KoYo Chemical Sci-tech Development Co., Ltd	Mainland China	Development of chemical production technology, Mainland China	–	100%
Guangan Ko Yo Phos-chemical Technology Co., Ltd	Mainland China	Manufacture and sale of chemical products, Mainland China	RMB100,000,000	100%

Notes:

i. The English name of certain companies referred in these 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 and Guangan New Material were pledged as collateral for the Group's borrowings. There is no restriction on the subsidiary's ability to transfer funds to its parent in the form of cash dividends or to repay loans or advances.

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

23. INVENTORIES

	2015 **RMB'000**	2014 RMB'000
Raw materials	**62,313**	50,048
Finished goods	**16,174**	12,279
	78,487	62,327

There is no inventory written down as at 31 December 2015 (2014: Nil).

24. TRADE AND OTHER RECEIVABLES

	2015 RMB'000	2014 RMB'000
Trade receivables	**20,309**	23,140
Less: provision for impairment of trade receivables	**(6,867)**	(5,241)
Trade receivables — net	**13,442**	17,899
Notes receivable	**–**	2,112
Prepayments for raw materials	**127,348**	221,411
Other tax receivables	**172,681**	167,081
Due from employees	**12,755**	8,177
Others	**21,922**	19,140
	348,148	435,820

As at 31 December 2015 and 2014, the fair value of trade and other receivables of the Group approximated to their carrying amounts.

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

The credit terms of trade receivables granted by the Group are normally within 3 months. The ageing analysis of trade receivables is as follows:

	2015 RMB'000	2014 RMB'000
Less than 3 months	**13,442**	17,899
More than 1 year	**6,867**	5,241
	20,309	23,140
Less: provision for impairment of trade receivables	**(6,867)**	(5,241)
	13,442	17,899

As of 31 December 2015, trade receivables of approximately RMB13,442,000 (2014: approximately RMB17,899,000) that are under credit term were fully performing.

As at 31 December 2015, provision for impairment of trade receivables was made for estimated irrecoverable trade receivables of approximately RMB1,626,000 (2014: Nil).

As at 31 December 2015, trade receivables of approximately RMB6,867,000 (2014: approximately RMB5,241,000) were impaired and a total provision of approximately RMB6,867,000 (2014: approximately RMB5,241,000) was provided for. The individually impaired receivables mainly relate to wholesalers, which are in unexpected difficult economic situations. The ageing of these receivables is more than 1 year.

25. DERIVATIVE FINANCIAL ASSETS

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

	2015 **RMB'000**
Opening balance at 1 January	–
Fair value credited to profit or loss	**214,822**
At 31 December	**214,822**

26. PLEDGED BANK DEPOSITS

The deposits are denominated in RMB and pledged for certain bank borrowings. The effective interest rates on pledged bank deposits are ranging from 1.55% to 2.50% (2014: 2.35% to 4.75%).

27. CASH AND CASH EQUIVALENTS

The weighting average effective interest rate on cash at bank at 31 December 2015 is 0.35% (2014: 0.35%).

28. NON-CURRENT ASSETS HELD FOR SALE

In 2011, due to municipal planning arrangement, at the request of the People's Government of Chengdu, the manufacturing plant of Ko Yo Chemical at Chengdu, Sichuan Province is required to be discontinued. The Group therefore has applied to the government to approve the change of the usage of Ko Yo Chemical's land use rights from industrial usage to commercial usage ("Government Approval") and is arranging the disposal of the non-current assets of Ko Yo Chemical to other parties. Ko Yo Chemical ceased operation since 2011.

In 2011, the Group and Chengdu Hexin Real Estate Co, Ltd (the "Purchaser") entered into various agreements to sell 100% equity interest in Ko Yo Chemical, at a total cash consideration of approximately RMB219.44 million.

Approximately RMB69.44 million was received for the transferring of 40% equity interest in Ko Yo Chemical to the Purchaser. A deposit of approximately RMB30.66 million has also been received from the Purchaser for acquiring the remaining 60% equity interest in Ko Yo Chemical.

Pursuant to the agreements, the Group is required to settle remaining liabilities of Ko Yo Chemical and is entitled to the proceeds from disposal of certain machinery of Ko Yo Chemical. The Group has received a consideration of approximately RMB31 million for such disposal from an independent third party.

During the year, a deposit of approximately RMB10.9 million has also been received from the Purchaser for acquiring the remaining 60% equity interest in Ko Yo Chemical. The Group and the Purchaser also entered into an additional agreements to change a total consideration to approximately RMB142 million.

28. NON-CURRENT ASSETS HELD FOR SALE *(Continued)*

Due to the delay of government approval and fulfilment of certain terms and conditions, the sale of the wholly 100% equity interest in Ko Yo Chemical has not been completed. And thus all the amounts received in relation to the disposal of Ko Yo Chemical and the machinery totalling approximately RMB142 million are classified as advances from the Purchasers.

On the basis that the Group is still committed to sell and the Purchaser is still committed to purchase 100% equity interest in Ko Yo Chemical, the Group has been making positive progress in obtaining the Government Approval and there is no legal obstacle which prevents the Group from obtaining the Government Approval, the directors consider the assets of Ko Yo Chemical should remain being classified as non-current assets held for sale.

A deposit payment of approximately RMB2,980,000 for the government approval has been paid by the Group to the Bureau of Land and Resources of Xindu.

The details of the non-current assets held for sale are as follows:

	As at 31 December 2015 RMB'000	As at 31 December 2014 RMB'000
Non-current assets held for sale		
Property, plant and equipment	**108,488**	151,871
Land use rights	**22,166**	31,030
Deferred tax assets	**11,346**	15,883
	142,000	198,784

29. SHARE CAPITAL

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

	Number of shares		**Share capital**	
	2015 '000	2014 '000	**2015 HKD'000**	2014 HKD'000
Authorised:				
At the beginning of year	**8,000,000**	20,000,000	**800,000**	400,000
Share Consolidation (Note a)	**–**	(16,000,000)	**–**	–
Increase of authorised share capital (Note b)	**–**	4,000,000	**–**	400,000
At end of year	**8,000,000**	8,000,000	**800,000**	800,000

29. SHARE CAPITAL *(Continued)*

Ordinary shares, issued and fully paid:

	Number of shares		Share capital	
	2015	2014	**2015**	2014
	'000	'000	**RMB'000**	RMB'000
At the beginning of the year	**3,502,942**	7,195,285	**302,960**	138,618
Share Consolidation (Note a)	**–**	(5,756,228)	**–**	–
Issue of shares:				
— New Shares (Note c)	**–**	800,000	**–**	63,368
— Employee share option scheme	**6,520**	32,000	**522**	2,535
— Exercise of warrant rights (Note d)	**–**	215,385	**–**	17,119
— Conversion of bonds (Note e)	**488,700**	1,016,500	**39,340**	81,320
At end of the year	**3,998,162**	3,502,942	**342,822**	302,960

(a) Share consolidation

On 13 October 2014, every five authorised and issued shares of HKD0.02 each in the share capital of the Company were consolidated into one consolidated share of HKD0.1 each in the share capital of the Company. Accordingly, the number of authorised and issued shares of the Company was reduced by 16,000,000,000 and 5,756,228,000, respectively.

Share information disclosed in these consolidated financial statements has been adjusted on post-consolidation basis.

(b) Increase of authorised share capital

On 13 October 2014, the authorised share capital of the Company was increased from HKD400,000,000 to HKD800,000,000 by the creation of an additional 4,000,000,000 shares of HKD0.1 each.

(c) New Shares

On 13 November 2014, the Company issued 800,000,000 ordinary shares at an issue price of HKD0.32 per share to Asia Pacific Resources Development Investment Limited. Share premium of approximately RMB124,791,000, representing the difference between the cash proceeds of approximately RMB188,159,000 and the par value of issued shares amounting to approximately RMB63,368,000, was recognised.

(d) Exercise of warrant rights

During the year 2014, due to the issue of new shares and convertible bonds, the Company adjusted the exercise price of warrants issued to Asian Equity and PA International from HKD0.8 per share to HKD0.65 per share. Asian Equity and PA International exercised all of the warrants to subscribe 215,385,000 new ordinary shares at an exercise price of HKD0.65 (equivalent to RMB0.517) per share.

29. SHARE CAPITAL *(Continued)*

(e) Conversion of bonds

During the year, the convertible bonds holders exercised certain convertible bonds to subscribe 488,700,000 ordinary shares (2014: 1,016,500,000 ordinary shares) at an exercise price of HKD0.32 and HKD0.41 per share.

Capital management

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

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

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

The gearing ratio as at 31 December 2015 was as follows:

	2015 RMB'000	2014 RMB'000
Short-term borrowings	**1,588,225**	1,719,041
Long-term borrowings	**916,640**	935,394
Convertible bonds	**124,835**	147,629
Total borrowings	**2,629,700**	2,802,064
Less:		
Cash and cash equivalents	**(59,782)**	(498,099)
Pledged bank deposits	**(505,055)**	(689,603)
Net debt	**2,064,863**	1,614,362
Total equity	**1,740,342**	1,756,658
Total capital	**3,805,205**	3,371,020
Gearing ratio	**54%**	48%

The increase in the gearing ratio resulted mainly from the decrease in cash and cash equivalents by the payment of purchases of property, plant and equipment and payments for construction-in-progress

30. SHARE-BASED PAYMENT

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

(a) GEM Share Option Scheme

On 10 June 2003, the Company adopted a share option scheme (the "GEM Share Option Scheme").

The details of share options outstanding are as follows:

Date of grant	11 April 2006	16 May 2006	10 September 2007	Total
Exercise price (HKD per option)	0.75	0.75	0.58	
Remaining life	0.28 year	0.37 year	1.69 years	
Granted to	18 employees	2 executive directors and 1 independent director	7 employees	
1 January 2014	6,500,000	1,240,000	4,600,000	12,340,000
Exercised	(4,700,000)	(420,000)	(3,800,000)	(8,920,000)
31 December 2014	1,800,000	820,000	800,000	3,420,000
1 January 2015	**1,800,000**	**820,000**	**800,000**	**3,420,000**
Exercised	**–**	**(420,000)**	**–**	**(420,000)**
31 December 2015	**1,800,000**	**400,000**	**800,000**	**3,000,000**

30. SHARE-BASED PAYMENT *(Continued)*

(b) New Share Option Scheme

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

Date of grant	14 January 2010	23 November 2010	28 March 2013	15 November 2013	Total
Exercise price (HKD per option)	1.15	1.1	0.595	0.48	
Remaining life	4.04 year	4.90 year	7.24 year	7.87 years	
Granted to	5 executive directors and 8 employees	3 independent directors	4 executive directors and 2 independent directors and 21 employees	1 independent director	
1 January 2014	9,180,000	2,400,000	32,700,000	1,200,000	45,480,000
Exercised	(3,480,000)	–	(19,600,000)	–	(23,080,000)
31 December 2014	5,700,000	2,400,000	13,100,000	1,200,000	22,400,000
1 January 2015	**5,700,000**	**2,400,000**	**13,100,000**	**1,200,000**	**22,400,000**
Exercised	**(1,000,000)**	**(800,000)**	**(3,100,000)**	**(1,200,000)**	**(6,100,000)**
31 December 2015	**4,700,000**	**1,600,000**	**10,000,000**	**–**	**16,300,000**

31. 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-based compensation reserve – share options RMB'000	Share-based compensation reserve – convertible bonds RMB'000	Retained earnings / (accumulated losses) RMB'000	Total RMB'000
At 1 January 2014	550,133	37,162	22,202	–	316	609,813
Total comprehensive loss for the year	–	–	–	–	(302,132)	(302,132)
Issue of shares:						
— New Shares	124,791	–	–	–	–	124,791
— Employee share option scheme	14,660	–	–	–	–	14,660
— Exercise of warrant rights	296,887	–	–	–	–	296,887
— Conversion of bonds	227,691	–	–	(222,001)	–	5,690
Issuance of convertible bonds	–	–	–	567,778	–	567,778
At 31 December 2014	1,214,162	37,162	22,202	345,777	(301,816)	1,317,487
At 1 January 2015	**1,214,162**	**37,162**	**22,202**	**345,777**	**(301,816)**	**1,317,487**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**27,131**	**27,131**
Issue of shares:						
— Employee share option scheme	**3,291**	**–**	**–**	**–**	**–**	**3,291**
— Conversion of bonds	**125,577**	**–**	**–**	**(111,682)**	**–**	**13,895**
Issuance of convertible bonds	**–**	**–**	**–**	**32,909**	**–**	**32,909**
At 31 December 2015	**1,343,030**	**37,162**	**22,202**	**267,004**	**(274,685)**	**1,394,713**

31. RESERVES *(Continued)*

(b) Company *(Continued)*

(a) 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.

(b) 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.

(c) Contributed surplus

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

(d) Transfer of equity interest to NCI

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

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

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

32. BORROWINGS

	2015 RMB'000	2014 RMB'000
Non-current portion of long-term bank borrowings (Note a)	**634,960**	648,822
Current portion of long-term bank borrowings (Note a)	**281,680**	262,777
Current portion of long-term borrowings from IFC (Note b)	**–**	23,795
Current portion of long-term borrowings	**281,680**	286,572
Short-term borrowings (note c)	**1,588,225**	1,719,041
	2,504,865	2,654,435

The borrowings are secured by bank deposits of approximately RMB505,055,000 (2014: approximately RMB689,603,000), property, plant and equipment with a total net book value of approximately RMB1,181,796,000 (2014: approximately RMB908,107,000), investment properties with a total net book value of approximately RMB12,636,000 (2014: Nil), mining right with a total net book value of approximately RMB297,091,000 (2014: Nil), 100% equity interest in Dazhou Ko Yo Chemical, Sichuan Cuyo and Guangan New Material (2014: 100% equity interest in Ko Yo Hong Kong, Dazhou Ko Yo Chemical and Sichuan Cuyo) and guaranteed by Mr. Li Weiruo. As at 31 December 2015 and 2014, no land use rights were pledged for any long-term bank borrowings.

(a) Long-term bank borrowings

The average effective interest rate of bank borrowings as at 31 December 2015 is 7.00% (2014: 8.09%).

As at 31 December 2015 and 2014, the Group's long-term bank borrowings were repayable as follows:

	2015 RMB'000	2014 RMB'000
Within 1 year	**281,680**	262,777
Between 1 and 2 years	**126,640**	433,885
Between 2 and 3 years	**128,320**	176,617
Between 3 and 5 years	**200,000**	38,320
Over 5 years	**180,000**	–
	916,640	911,599
Within 1 year included in current liabilities	**(281,680)**	(262,777)
	634,960	648,822

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

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

32. BORROWINGS *(Continued)*

(b) Borrowing from IFC

On 16 April 2009, the Group entered into a borrowing agreement and a warrant subscription agreement with IFC, pursuant to which, IFC granted a long-term loan of USD20 million (equivalent to approximately RMB132,454,000) to the Group at the coupon interest rate of LIBOR plus 4.5% per annum and the Company issued warrants for nil consideration to IFC to subscribe for 100,000,000 ordinary shares in the Company at an exercise price of HKD0.78 per share. The borrowing was repaid in 2015. All of the Group borrowings from IFC are denominated in USD.

(c) Short-term borrowings

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

	2015	2014
	RMB'000	RMB'000
At fixed rates in USD	**15,634**	–
At fixed rates in HKD*	**18,550**	–
At fixed rates in RMB	**1,554,041**	1,719,041
	1,588,225	1,719,041

* The amount due to a related company is unsecured, interest-bearing of 15% p.a. and repaid on or before 28 February 2016.

The short-term borrowings were issued at interest rates which range from 3.26% to 15.00% (2014: 5.60% to 7.80%) per annum. The fair value of short-term borrowings approximate to their carrying amounts.

33. CONVERTIBLE BONDS

	2015	2014
	RMB'000	RMB'000
Liability component		
Convertible bonds 1	**114,305**	147,629
Convertible bonds 2	**10,530**	–
	124,835	147,629

33. CONVERTIBLE BONDS *(Continued)*

Convertible bonds 1

On 13 November 2014, the Company issued convertible bonds to Asia Pacific Resources Development Investment Limited, with a principal amount of HKD832,000,000 (equivalent to approximately RMB665,600,000) pursuant to the subscription agreement entered into between the Company and Asia Pacific Resources Development Investment Limited on 30 July 2014. The convertible bonds bears interest at 7% per annum on the principal amount of the convertible bonds outstanding from time to time. The convertible bonds can be converted into ordinary shares at a conversion price of HKD0.32 from the day immediately following the date of the issue of convertible bonds to the maturity date which is 12 November 2024. If the convertible bonds have not been converted, they will be redeemed at par on 12 November 2024 in RMB using a pre-determined 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
Fair value of convertible bonds on grant date	214,988	567,778	782,766
Interest expense accrued	19,651	–	19,651
Converted during the year	(87,010)	(222,001)	(309,011)
At 31 December 2014	147,629	345,777	493,406
At 1 January 2015	**147,629**	**345,777**	**493,406**
Interest expense accrued	**27,542**	**–**	**27,542**
Interest expense paid	**(20,711)**	**–**	**(20,711)**
Converted during the year	**(40,155)**	**(93,399)**	**(133,554)**
At 31 December 2015	**114,305**	**252,378**	**366,683**

The principal amount of the convertible bonds as at 31 December 2015 is approximately RMB295,878,000 (2014: approximately RMB405,376,000).

The difference between the fair value of the convertible bonds on grant date and that of the identifiable considerations of approximately RMB117,166,000 is recognised in the administrative expenses for the year ended 31 December 2014.

33. CONVERTIBLE BONDS *(Continued)*

Convertible bonds 2

On 23 December 2015, the Company placed convertible bonds to three subscribers, with a principal amount of HKD45,000,000 pursuant to the placing agreement entered into between the Company and placing agent on 15 December 2015. The convertible bonds are non-interest bearing. The convertible bonds can be converted into ordinary shares at a conversion price of HKD0.41 from the day immediately following the date of the issue of convertible bonds to the maturity date which is 22 December 2018. If the convertible bonds have not been converted, they will be redeemed at par on 22 December 2018 in RMB using a pre-determined fixed rate of exchange of RMB1.00 to HKD1.1976. Interest will be paid annually in RMB using a pre-determined fixed rate of exchange of RMB1.00 to HKD1.1976 until the maturity date.

	Liability component RMB'000	Equity component RMB'000	Total RMB'000
Fair value of Convertible Bonds on grant date	**23,436**	**32,909**	**56,345**
Interest expense accrued	**175**	**–**	**175**
Converted during the year	**(13,081)**	**(18,283)**	**(31,364)**
At 31 December 2015	**10,530**	**14,626**	**25,156**

The principal amount of the convertible bonds as at 31 December 2015 is approximately RMB16,700,000. The difference between the fair value of the convertible bonds on grant date and that of the identifiable considerations of approximately RMB18,544,000 is recognised in the administrative expenses for the year ended 31 December 2015.

34. DEFERRED SUBSIDY INCOME

Government grant for production facilities

	2015 RMB'000	2014 RMB'000
At 1 January	**3,238**	3,892
Subsidy income recognised	**(654)**	(654)
At 31 December	**2,584**	3,238

35. DEFERRED INCOME TAX

There were no offsetting of deferred income tax assets and liabilities in 2015 and 2014.

	2015 **RMB'000**	2014 RMB'000
Deferred tax assets:		
— To be recovered after more than 12 months	**73,555**	38,817
— To be recovered within 12 months	**52**	52
	73,607	38,869
Deferred tax liabilities		
— To be settled after more than 12 months	**(71,563)**	(80,867)
— To be settled within 12 months	**–**	–
	(71,563)	(80,867)

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

Deferred income tax assets:

	Tax losses RMB'000	**Impairment of assets** RMB'000	**Deferred subsidy income** RMB'000	**Total** RMB'000
At 1 January 2014	9,161	679	368	10,208
Credited to profit or loss	28,713	–	(52)	28,661
At 31 December 2014	37,874	679	316	38,869
At 1 January 2015	**37,874**	**679**	**316**	**38,869**
Charged to profit or loss	**35,469**	**(679)**	**(52)**	**34,738**
At 31 December 2015	**73,343**	**–**	**264**	**73,607**

35. DEFERRED INCOME TAX *(Continued)*

Deferred income tax liabilities:

	Mining right	Withholding tax of the unremitted earnings of Mainland China subsidiaries	Total
	RMB'000	RMB'000	RMB'000
At 1 January 2014	(80,867)	(5,485)	(86,352)
Credited to profit or loss	–	5,485	5,485
At 31 December 2014	(80,867)	–	(80,867)
At 1 January 2015	**(80,867)**	**–**	**(80,867)**
Credited to profit or loss	**9,304**	**–**	**9,304**
At 31 December 2015	**(71,563)**	**–**	**(71,563)**

As at 31 December 2015, the Group had total unused tax losses of approximately RMB427,740,000 (2014: approximately RMB325,530,000). No deferred tax asset has been recognised in respect of tax losses of certain subsidiaries of approximately RMB133,309,000 (2014: approximately RMB23,229,000) due to the unpredictability of future profit streams of these subsidiaries. Deferred tax asset of RMB73,607,000 (2014: approximately RMB52,804,000) has been recognised in respect of the tax losses of certain subsidiaries of approximately RMB294,431,000 (2014: RMB302,301,000) as management considered it is probable that these subsidiaries can generate sufficient taxable profit to utilise the above tax loss of approximately RMB294,431,000.

The tax losses that are not recognised as deferred tax asset will be expired as follows:

	2015	2014
	RMB'000	RMB'000
Not later than one year	**131,816**	2,302
More than one year and not exceeding three years	**427**	11,822
More than three years and not exceeding five years	**1,066**	9,105
At 31 December	**133,309**	23,229

36. TRADE AND OTHER PAYABLES

	2015 RMB'000	2014 RMB'000
Trade payables (Note a)	**171,903**	108,156
Construction payable	**375,526**	266,719
Advances from customers	**147,895**	148,481
Advances from Purchasers (note 28)	**142,000**	131,100
Accrued expenses	**36,930**	18,666
Other taxes payable	**1,527**	2,386
Others	**14,261**	14,922
	890,042	690,430

(a) Trade payables

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

	2015 RMB'000	2014 RMB'000
Less than 1 year	**156,769**	102,322
More than 1 year but not exceeding 2 years	**14,180**	3,702
More than 2 years but not exceeding 3 years	**4**	1,059
More than 3 years	**950**	1,073
	171,903	108,156

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

37. COMMITMENTS

(a) Capital commitments

	2015 RMB'000	2014 RMB'000
Constructions-in-progress:		
Contracted but not provided for	**197,348**	342,644

(b) Commitments under operating leases

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

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

	2015 RMB'000	2014 RMB'000
Not later than 1 year	**220**	800
More than 1 year but not exceeding 2 years	**–**	220
Total operating commitments	**220**	1,020

(c) Operating leases rental receivables

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

	2015 RMB'000	2014 RMB'000
Not later than 1 year	**1,914**	1,721
More than one year but not exceeding five years	**8,841**	7,542
More than five years	**2,626**	5,675
	13,381	14,938

38. RELATED-PARTY TRANSACTIONS

At 31 December 2015, long-term borrowings of approximately RMB204,960,000 (2014: approximately RMB193,320,000) and short-term borrowings of approximately RMB128,275,000 (2014: approximately RMB81,300,000) were guaranteed by Mr. Li Weiruo with no charge. In the opinion of the directors of the Company, the fair value of guarantee provided by Mr. Li Weiruo is insignificant to the Group. Such guarantee has not been accounted for by the Group.

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

39. KEY MANAGEMENT COMPENSATION (EXCLUDING DIRECTORS' EMOLUMENTS)

	2015 **RMB'000**	2014 RMB'000
Salaries and other short-term employee benefits	**2,880**	2,673

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

	2015 RMB'000	2014 RMB'000
ASSETS		
Non-current assets		
Interests in subsidiaries	**695,932**	750,770
Loan to subsidiaries	**970,009**	1,017,361
	1,665,941	1,768,131
Current assets		
Other receivables	**299**	–
Derivative financial assets	**214,822**	–
Cash and cash equivalents	**1,971**	65
	217,092	65
Total assets	**1,883,033**	1,768,196
EQUITY		
Capital and reserves attributable to equity holders of the Company		
Share capital	**342,822**	302,960
Reserves	**1,394,713**	1,317,487
Total equity	**1,737,535**	1,620,447
LIABILITIES		
Non-current liabilities		
Convertible bonds	**124,835**	147,629
Current liabilities		
Accruals and other payables	**2,113**	120
Short-term borrowings	**18,550**	–
	20,663	120
Total liabilities	**145,498**	147,749
Total equity and liabilities	**1,883,033**	1,768,196
Net current assets/(liabilities)	**196,429**	(55)
Total assets less current liabilities	**1,862,370**	1,768,076

41. EVENT AFTER THE REPORTING PERIOD

On 5 January 2016, the Company and Partners Capital Securities Limited "Placing Agent" entered into the placing agreement pursuant to which the Placing Agent agreed to use its best endeavours to procure the subscribers to subscribe for the convertible bonds in the aggregate principal amount of not more than HK$50,000,000. Based on the initial conversion price of HK$0.40, the maximum number of conversion shares that may be allotted and issued upon full conversion of the convertible bonds is no more than 125,000,000 shares.

All conditions precedent set out in the placing agreement have been fulfilled and completion of the placing agreement took place on 15 January 2016, where the convertible bonds in the aggregate principal amount of HK$23,200,000 have been successfully placed by the Placing Agent to two subscribers pursuant to the terms and conditions of the placing agreement.

42. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved and authorised for issue by the Board of Directors on 30 March 2016.

Financial Summary

FIVE YEAR FINANCIAL SUMMARY

The following table summarizes the audited results, assets and liabilities of the Group for the five years ended 31st December 2015.

	2015	2014	2013	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	**1,928,147**	1,369,590	1,339,252	1,346,970	1,426,888
(Loss)/Profit before taxation	**(149,367)**	(524,739)	(64,257)	128,598	105,783
Taxation	**43,094**	34,050	6,868	(26,986)	(5,629)
Minority interest	**(627)**	(642)	(333)	–	–
(Loss)/Profit after taxation	**(105,646)**	(490,047)	(57,056)	101,612	100,154
Total assets	**5,334,231**	5,333,257	5,443,943	4,443,963	3,249,116
Total liabilities	**(3,593,889)**	(3,576,599)	(4,371,644)	(3,322,291)	(2,229,056)
Shareholders' funds	**1,740,342**	1,756,658	1,072,299	1,121,672	1,020,060