KOYO

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)

2016
ANNUAL REPORT

CONTENTS

Corporate Information

DIRECTORS

Executive Directors
Mr. Wu Tianran
Mr. Li Weiruo
Mr. Yuan Bai
Mr. Wan Congxin

Non-executive Director
Mr. Zhang Fubo

Independent non-executive Directors
Mr. Hu Xiaoping
Mr. Ge Jun
Mr. Shi Lei

COMPANY SECRETARY
Mr. Chung Tin Ming, HKICPA, FCCA

QUALIFIED ACCOUNTANT
Mr. Chung Tin Ming, HKICPA, FCCA

AUDIT COMMITTEE
Mr. Shi Lei
Mr. Hu Xiao Ping
Mr. Ge Jun
Mr. Zhang Fubo

AUTHORIZED REPRESENTATIVES
Mr. Wu Tianran
Mr. Li Weiruo

COMPLIANCE OFFICER
Mr. Wan Congxin

REGISTERED OFFICE
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Grand Cayman KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG
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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 2016, the loss attributable to shareholders was approximately RMB407 million, which represents an increase in loss of approximately RMB301 million as compared to a loss of approximately RMB106 million in year 2015.

— Basic loss per share was approximately RMB0.0972 for the year ended 31st December 2016.

— The net asset value per share was approximately RMB0.32 as at 31st December 2016.

— For the year ended 31st December 2016, sale turnover was approximately RMB1,947 million, which represents an increase of approximately 1.0% as compared to year 2015.

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

			% change compare with year 2015	
Type	**Sales amount** (million RMB)	**Sales quantities** (tonnes)	**Sales amount**	**Sales quantities**
BB & compound fertilizers	24	21,211	(67.6)	(61.6)
Urea	—	—	(100)	(100)
Ammonia	153	105,576	(8.4)	27.8
Methanol	523	310,238	88.8	109.5
Polyphenylene sulfide	42	772	N/A	N/A
Others — trading	1,205	N/A	31.8	N/A

— The Directors do not recommend the payment of any final dividend for the year ended 31st December 2016.

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 2016. 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 2016, against the backdrop of substantial downturn of the global economy, the economy in China entered into a key stage of transformation and upgrading. The overall economy saw a moderate growth with sluggish recovery, which put the overall production and operation of the chemicals industry under persisting pressure in a prolonged weak macro-economy. The market of our major products (synthetic ammonia, urea and methanol etc.) remained subdued for most of the year, resulting in a loss position of the Group.

For the year ended 31st December 2016, the audited loss attributable to shareholders of the Group amounted to approximately RMB407 million. Basic loss per share amounted to approximately RMB9.72 cents (2015: basic loss per share of approximately RMB2.70 cents). The net asset value per share was approximately RMB0.32 as at 31st December 2016. The Group's turnover amounted to approximately RMB1,947 million, representing an increase of approximately 1.0% as compared to approximately RMB1,928 million for 2015. The Group's sales volume (excluding trading) amounted to approximately 438,000 tonnes, representing a decrease of approximately 24.6% as compared to approximately 581,000 tonnes of last year.

For most of the period under review, given numerous unfavorable factors including consistently high natural gas price, cancellation of preferential electricity rates for chemical fertilizers, increasing transportation cost due to load limit of trucks and weak market prices of products, the price spread between the market prices and production costs of the Company's major products such as methanol, urea and liquid ammonia became seriously large, leading to a full-year production suspension of our Dazhou Plant (from 1st January 2016 to 30th December 2016) and production suspension of our Guangan Plant (from January to April). Upon resumption of production of our Guangan Plant in May, the economic indicator for the operation of the methanol and ammonia facilities continued to hit a new record high while the methanol facilities created a new record of consecutive operation of 103 days and a record high in daily production of 495.39 tonnes of liquid ammonia, representing an increase of 50.99 tonnes compared to the maximum daily production of 444.04 tonnes of synthetic ammonia. The OEM and trading of the Company was susceptible to capital and consumption, resulting in unsatisfactory sales scale and efficiency. The new material polyphenylene sulfide (PPS) project was launched on 27th January 2016 with production of qualified PPS products. Despite the technology reform contributable to surging price of lithium chloride catalyst and shrinking product price, the production volume and implementation effect fell short of our expectation.

In light of the lingering situation of oversupply in the chemical fertilizer and chemicals industry, the market prices of urea, synthetic ammonia and methanol products remained weak with the price of urea dropped to its lowest of RMB1,200 per tonne while that of methanol and liquid ammonia dropped to a record low in eight years. As a result, the Company recorded a significant loss and failed to achieve its expected target.

Chairman's Statement

Adhering to the development strategy and working plan of "minimizing cost and maximizing efficiency, tiding over the hard time" formulated by the Board, all staff of the Group strived to push forward the production resumption in a market-led approach by safety and environmental measures with enhanced management. The new material project commenced operation on 27th January 2016 while the Guangan Plant and Dazhou plant resumed production on 2nd May 2016 and 30th December 2016 respectively. With the concerted effort of all staff and backed by improving market of our products in the fourth quarter, the Company is walking out from the doldrums.

1. PPS project commenced production on 27 January 2016 and successfully changed its catalyst, with products recognized by the market

The Group's fiber polyphenylene sulfide project with an annual production capacity of 3,000 tonnes commenced production on 27 January 2016 with satisfactory products, and reached full operation and production target in March and May, respectively. However, prices of lithium ion catalyst increased from RMB40,000 in 2015 to over RMB120,000 in March 2016, whereas due to the impact brought by cutthroat price competition from Japanese and Korean enterprises to grab for market shares, prices of the PPS products decreased from RMB85,000 in 2015 to RMB50,000. The new material factory also faced the uphill challenge of diverging product market prices and costs. Thanks to the 2-month research of the technical team, the new material factory was able to change its catalyst in September, resulting in a 30% reduction in product cost and a huge boost to product quality. In particular, nitric acid resistance was substantially enhanced and resin color was gradually improving, leading to overwhelming product demand. With lowered cost, improved quality and technical indicators exceeding industrial standards, Ko Yo's polyphenylene sulfide achieved a breakthrough to become the first enterprise in the world to achieve a breakthrough in the production process of lithium chloride, as well as a "pioneer" in the field of polyphenylene sulfide and sodium acetate.

2. Suspension of construction for the phosphoric acid project with kiln technology, the second phase of urea project and melamine project in Dazhou

Phosphoric acid project with kiln technology, the second phase of urea project and melamine project in Dazhou are under complete suspension due to the unmaterialized project loan effected by the tightening of banking facilities. Appropriate protection measures have been adopted by means of installing facilities by the Project Construction Headquarters. Construction will resume upon the fund materialization.

Chairman's Statement

PROSPECT

Industry Overview and Outlook

With the chemical fertilizer industry remaining bleak and the overcapacity issue of urea unmitigated, the price of urea during the first three quarters of 2016 followed the downward trend of 2015, with urea average factory price of RMB1,172/ton. Enterprise utilization rate was seriously inadequate, plummeting to 51% during the third quarter. During the fourth quarter, driven by factors including "high cost, low inventory, low utilization", the market price of urea kept increasing, with the average price reaching beyond RMB1,600/ton in December. Average annual factory price of urea in 2016 is only RMB1,270/ton, representing a year-on-year decrease of 18.7%.

According to the statistics from CNFA (中國氮肥工業協會), the production volume of urea of 2016 in the PRC amounted to 61.92 million tonnes (material), representing a year-on-year decrease of 12.3%. The average annual utilization rate of urea enterprises was only 60.1%, decreasing significantly compared to the utilization rate of over 70% in 2015. The accumulated export of urea from the PRC amounted to 8.871 million tonnes, representing a year-on-year decrease of 35.5%. According to the statistics from the customs, the average exporting price of urea is USD223, representing a year-on-year decrease of 22%. In 2016, the annual capacity of synthetic ammonia and urea in the PRC recorded a decline of 2.92 million tonnes and 4.33 million tonnes, respectively. And a group of companies which have suspended production activity for a long time are expected to withdraw from the market.

Looking forward to 2017, the urea market is expected to be primarily on a steady rise on top of the upward trend during the fourth quarter. Firstly, urea enterprises in the PRC have experienced a prolonged difficult period where utilization rate was greatly affected, and resulted in relatively low liquidity on the current market. And with increasing coal price, idle coal-based urea companies were unable to reach breakeven point, causing a delay in recovery of production and expected stressful supply-demand situation. Secondly, inventory in the society is relatively low. As urea price continued to decline in recent years, liquid companies adopted a prudent operating approach and overall maintained a low inventory level. Thirdly, according to the 2017 Tariff Adjustment Plan (2017 年關稅調整方案) issued, the state cancels the original export tax on urea of RMB80/ton and will implement zero-tariff. With cancellation of export tax, together with the expected depreciation in RMB, it is anticipated that export will increase significantly and continuously. Fourthly, the level of intervention by environmental policies is higher than expected, especially in most of the regions in the PRC, where the "smog formation" climate has resulted in more stringent environment checks. Therefore, the natural gas chemical industry, with natural gas, a clean energy, as its main material, is expecting new development opportunities.

Production volume of methanol of 2016 in the PRC amounted to 42.91 million tonnes, representing a year-on-year rising of 8.43% with accumulated methanol import volume and export volume of 8.8 million tonnes representing a year-on-year rising of 58.92% and 33,500 tonnes, representing a year-on-year decrease of 79.45% respectively, and overall apparent consumption of methanol of 51.68 million tonnes in the PRC, representing a year-on-year rising of 13.63%. Utilization rate of methanol companies was approximately 60.8%. Under the influence of the crude oil trend, depreciation in RMB, lowering utilization in the PRC and purchase of material for downstream olefin production, price of methanol was on an overall ascending phase in 2016. In addition, with methanol futures rising substantially, growth of methanol price reached 43% during the fourth quarter, with the highest price exceeding RMB3,000/ton.

Traditional downstream demand of methanol will remain stable and on a slight increasing trend in 2017. As emerging downstream players grow steadily, the focus of methanol may move up further. Primarily, focus of demand will continue to shift towards alternative chemical sectors for petrol and oil. As methanol is a green, cost-saving and recyclable energy, it can effectively solve the problem of current energy shortage in the PRC. In this regard, rapid development of methanol-to-olefin is one of the best solutions. As estimated, an additional capacity of almost at least 2 million tonnes of methanol-to-olefin was released during the first half of 2017. Consequently, production capacity of methanol-to-olefin may reach around 14 million tonnes, with demand for methanol taking up nearly 80% of the total volume. Secondly, it is anticipated that the methanol-fuelled battery industry may experience its growth breaking point in 2017. Currently, methanol-fuelled batteries are used in base-station power, industrial forklift, power hybrid commercial vehicles and other areas. While the state implements a "back-slope mechanism" towards subsidizing pure electricity-driven vehicles and plug-in hybrid vehicles, subsidy regarding fuel-battery vehicles is not included. Further, alcohol-based fuel, being the new alternative energy with the biggest development potential, is largely favored by various large-scale corporations in China.

In 2016, total domestic demand of the fiber PPS amounted to approximately 9,000 tonnes while annual domestic demand for the injection market amounted to approximately 25,000 tonnes, which was mainly supplied by importation. Under the circumstance of prolonged undersupply, despite growing number of new PPS projects in China in these two years, there was merely one who possesses self-developed technology and the ability to produce stable and qualified products. Zigong Honghe and Deyang Chemicals*, the companies used to produce qualified products, continued to suspend production. Only when the new facility with capacity of 3,000 tonnes of Ko Yo was completed and put into operation producing qualified products, the production capacity released progressively. At the beginning of the second half of 2016, Ko Yo succeeded in technology reform, leading to a significant decrease in cost and an increase in market share with over 60% of presence in PPS short fiber sector in China. In 2017, the market demand of fiber will pick up and the total demand is expected to be nearly 15,000 tonnes while the market demand of injection will maintain a steady growth at an average rate of 8–12%.

OBJECTIVES AND STRATEGIES

In anticipation of a gradual recovery for the chemical fertilizers and chemicals industries in 2017, the Group will capitalize on opportunities and 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 for opportunities of merger and acquisition and reorganization in the domestic market.

Chairman's Statement

As to the production:

We will effectively organize and coordinate 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 achieve efficient, long-term and high-loading operation of Dazhou Plant and Guangan Company. We will flexibly and effectively determine and adjust our operation decisions according to the general economic conditions and market dynamics. 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. We will enhance the maintenance and prior inspection of equipment to ensure their safe, stable and long-term operation. Operation conditions of facilities will be further optimized to constantly 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 industrial 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 procedural 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. We will continue to increase the scale of OEM and trading business in order to further increase our profit margins and profitability.

As to management:

We will strengthen the cost-oriented management, enhance the operation risk alert, control and management, and promote the awareness of costs and risks, so as to safeguard ourselves against risks and ensure smooth operation. We will adjust and optimize our structural organization and management process to perfect the management system, thereby boosting our management level and operation efficiency and achieving lean and effective management. Measures with the philosophy of "increasing income, minimizing cost and maximizing efficiency" will be upheld and implemented to overcome difficulties.

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

   Our Polyphenylene Sulfide (PPS) Project has commenced production and undergone technical renovation to reduce cost and boost quality, with technical indicators exceeding industrial standards. It is the first enterprise in the world to achieve a breakthrough in the production process of lithium chloride and the PPS products are recognized by the market. In 2017, the Group will further optimize the production process and formula of 3,000-tonnes facilities to boost production volume and quality and reduce cost. Meanwhile, we will strengthen our position in the existing PPS market and expand the industrial chain of PPS products for a solid presence in the fiber market and an expansion in the injection molding market so as to increase brand influence. As quality products gradually replace imported products, we aim to increase market share and tap into the international market.

The Group's 85% industrial phosphoric acid project adopts a kiln technology for phosphoric acid co-developed by the Group and Changsha Research Institute of Mining and Metallurgy of China. We have obtained 10 patented technologies through Sichuan Ko Chang Technology Co., Ltd, which is owned as to 55% by Ko Yo Group. The world-leading technologies may possibly eliminate the flaws of phosphoric acid production in severe pollution, high energy consumption and low resource utilization rate. 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 2017, the Group will seek financing for such project to resume the construction of this 50,000 tonnes 85% industrial phosphoric acid project.

With an optimistic overall performance from basic chemical fertilizers and chemicals industries, together with the expansion on the front of new materials and new technology, 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.

APPRECIATION

Looking back to the past year, the chemical fertilizers and chemicals industries experienced a prolonged trough to see the light of recovery, albeit a slow one. In 2016, under the leadership of the Board and our management and the dedication of our staff, we adhered to a market-oriented approach in our production operation to minimize operational risks and capture the opportunities of recovery, development and production. In this year, we will seize on new opportunities and overcome new challenges in accordance with decisions and strategies devised in general meetings and by the Board and under the leadership of the management. We aim for stable development of basic chemicals industries and active expansion on new material and new technology businesses to boost our overall competitiveness and get through the hardship.

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 unwavering support in times of adversity. We will strive to bring more benefits and returns to our shareholders and the society.

Wu Tianran
Chairman

30 March, 2017

Business Review

FINANCIAL PERFORMANCE

Results

For the year ended 31st December 2016, the Group remained focused on manufacture and distribution of chemical fertilizers and chemical products, including BB Fertilizers and complex fertilizers, methanol, polyphenylene sulfide, urea and ammonia.

During the year under review, the Group recorded turnover of approximately RMB1,947 million, an increase of 1.0% as compared to last year. The loss attributable to shareholders of the Company amounted to approximately RMB407 million, representing an increase a loss of approximately RMB301 million as compared to last year. Basic loss per share amounted to approximately RMB0.0972.

Cost and profit margin

Cost of sales of the Group amounted to approximately RMB1,989 million, representing an increase of 1.70% as compared to the figure in 2015. The major reasons of increase in cost of sales were due to the increase in trading portion of sales.

Gross profit margin of the Group decreased approximately from -1.4%% in 2015 to -2.1 in 2016. 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 78.5% as compared with last year. The decrease in distribution cost was due to the sales in Urea was zero in 2016. The ratio of the distribution costs over sales was 0.4% in 2016 which was 1.5% lower than those in 2015.

In comparison with last year, there was an increase in administrative expenses of the Group by approximately 97.4% from approximately RMB105.2 million in 2015 to approximately RMB207.7 million in 2016. The increase in administrative expenses is mainly due to the suspension of production of Dazhou Plant for year 2016 and the depreciation of Dazhou Plant had been charged to the administrative expenses.

Other income decrease from a gain of approximately RMB217 million in 2015 to a gain of approximately RMB25 million in 2016. 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 approximately RMB45 million in 2016 (2015: approximately RMB113 million). The decrease in other expenses was due to the decrease in impairment loss in 2016 as compared with last year. Details are set out in Note 10 to consolidated financial statement.

The Group's income tax benefit in 2016 amounted to approximately RMB9 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 2016. The Group has not declared any dividend for the year ended 31st December 2016 (2015: Nil).

PRODUCTS

Sales of the Group's products for the year 2015 and 2016 are as follows:

	Turnover in year 2016		Turnover in year 2015		**Percentage Change in turnover**
	RMB'000	**Composite %**	RMB'000	Composite %	**%**
BB & compound fertilizers	**24,000**	**1.2**	74,000	3.8	(67.6)
Urea	**—**	**—**	496,000	25.7	(100)
Ammonia	**153,000**	**7.9**	167,000	8.7	(8.4)
Methenol	**523,000**	**26.9**	277,000	14.4	88.8
Polyphenylene sulfide	**42,000**	**2.2**	—	—	N/A
Others — Trading	**1,205,000**	**61.8**	914,000	47.4	31.8

During the year under review, due to the Dazhou plant was closed temporary, the turnover of urea in year 2016 was zero. Others are trading of methanol, urea, ammonia and various kind of fertilizers.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31st December 2016, the Group had net current liabilities of approximately RMB1,686,814,000. Current assets as at 31st December 2016 comprised cash and bank deposits of approximately RMB24,477,000, pledged bank deposits of approximately RMB12,922,000, inventories of approximately RMB92,464,000, derivative financial asset of approximately RMB227,378,000, trade receivables of approximately RMB36,392,000 and prepayments and other current assets of approximately RMB271,668,000. Current liabilities as at 31st December 2016 comprised short-term borrowings of approximately RMB1,316,013,000, short-term portion for long-term borrowings of approximately RMB220,640,000, trade and notes payables of approximately RMB154,249,000, advances from customers of approximately RMB159,437,000 and accrued charges and other payables of approximately RMB501,776,000. 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 2016, the Group had outstanding capital commitments of approximately RMB226,255,000. Details of the Group's capital commitments are set out in Note 36 to the consolidated financial statements.

FINANCIAL RESOURCES

As at 31st December 2016, the Group had cash and bank deposits of approximately RMB24,477,000 and pledged bank deposits of approximately RMB12,922,000. 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 2016, the total borrowings and notes payable balances of the Group amounted to approximately RMB2,104,935,000.

Business Review

GEARING RATIO

The Group's gearing ratios were approximately 61% and 54% as at 31st December 2016 and 31st December 2015 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 28 to the consolidated financial statements.

CONTINGENT LIABILITIES

The Group had no significant contingent liabilities as at 31st December 2016.

MATERIAL ACQUISITION/DISPOSAL

There was no material acquisition or disposal in the year 2016 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 polyphenylene 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 2016, land use rights with a total net book value of approximately RMB61,664,000 (2015: Nil), property, plant and machinery with a total net book value of approximately RMB1,329,423,000 (2015: approximately RMB1,181,796,000), investment properties with a total net book value of approximately RMB12,127,000 (2015: approximately RMB12,636,000), mining right with a total net book value of approximately RMB289,298,000 (2015: approximately RMB297,091,000) and bank deposits approximately RMB12,922,000(2015: approximately RMB505,055,000) were pledged as collateral for the Group's borrowings and notes payable.

NUMBER OF EMPLOYEES

As at 31st December 2016, the Group had 786 (2015: 925) employees, comprising 6 (2015: 8) in management, 110 (2015: 161) in finance and administration, 626 (2015: 698) in production and 44 (2015: 58) in sales and marketing, 780 (2015: 919) of these employees were located in the PRC and 6 (2015: 6) were located in Hong Kong.

Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Wu Tianran, aged 60, is the Chairman of the Board. He obtained his doctorate degree in economics from the Southwestern University of Finance and Economics in 1990. He became a post-doctorate researcher at Zhejiang University (formerly known as Zhejiang Agricultural University) between 1991 and 1993 and at Fudan University between 1994 and 1996. From 1997 to 1998, Mr. Wu served as a researcher at the Shenzhen Stock Exchange. From 1999 to 2000, Mr. Wu served as the general manager at Shanghai Pudong Science and Technology Investment Co. Ltd. From 2001 to 2006, Mr. Wu served as the deputy general manager (operations) at Zhongtai Trust Co. Ltd. From 2007 to October 2016, Mr. Wu served as a secretary at Dacheng Fund Co. Ltd. Mr. Wu was appointed as an Executive Director and Chairman of the Group on 15 January 2017. Mr. Wu is responsible for the management of the Board, strategic planning, merger and acquisition and related matters with capital market of the Group.

Mr. Li Weiruo, aged 63, is an Executive Director 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 management of the plant in China of the Group in Board level.

Mr. Yuan Bai, aged 58, is an Executive Director of the Group. He was appointed as Chief Executive Officer of the Group on 15 January 2017. 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. He is responsible for the daily operation and management of the Group.

Mr. Wan Congxin, aged 54, is an Executive Director of the Group. He joined the China Construction Bank, Jingmen branch in the Hubei province in 1984 and left with his last position as accountant in 1999. Mr. Wan then joined the Shanghai Mingshen Enterprise (Group) Limited in 1999 and left position as a deputy general manager in November 2016. Mr. Wan was appointed as an Executive Director and compliance officer of the Group on 15 January 2017. Mr. Wan is responsible for the financial management and compliance matters of the Group.

Directors and Senior Management

Mr. Li Shengdi, aged 63, was an Executive Director of the Group from 29 April 2004 to 1 May 2016. 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 an Executive Director of the Group on 29th April 2004. Mr. Li left the Group on 1 May 2016.

Mr. Li Feng, aged 50, was an Executive Director of the Group from 1 July 2014 to 22 July 2016. He graduated from Sichuan University in 2006 with a MBA degree. Before joining Koyo Group, he was the director and standing deputy manager of Sichuan Chemical Industry Holding (Group) Co., Limited. Mr. Li was appointed as an Executive Director of the Group on 1 July 2014 and left the Group on 22 July 2016.

NON-EXECUTIVE DIRECTOR

Mr. Zhang Fubo, aged 54, 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 66, is an Independent Non-Executive Director of the Group. He obtained a bachelor degree in Economics from Sichuan Institute of Finance and Economics in 1982 and a master degree in Economics from Southwest University of Finance and Economics in 1987. Mr. Hu is currently a professor of the Southwest University of Finance and Economics. Mr. Hu has been involved in various research projects at both the provincial and state level and has published numerous articles in financial and economics publications in the PRC. He was appointed as an Independent Non- Executive Director of the Group in June 2003.

Mr. Ge Jun, aged 44, is an Independent Non-Executive Director of the Group. He is currently the head of the Pudong Innovation Research Institute. Mr. Ge obtained his bachelor's degree in physics and chemistry from Xiamen University. Mr. Ge was a visiting scholar at the University of Nottingham. Mr. Ge has served the Shanghai Research Institute of Building Sciences as an assistant engineer and China Europe International Business School ("CEIBS") at various positions including administration manager, deputy head of the corporate and public relations department, assistant to the head of CEIBS and secretary of its foundation fund. He was appointed as an Independent Non-Executive Director of the Group on 15 January 2017.

Mr. Shi Lei, aged 59, is an Independent Non-Executive Director of the Group. He obtained his doctorate degree from the Institute of Economics at Shanghai Academy of Social Sciences in 1993. Mr. Shi joined Fudan University as a post-doctorate researcher in 1993 and maintained a teaching role at Fudan University on a full-time basis thereafter. Mr. Shi is currently serving as a tutor and professor in economics at Fudan University and is also the director of the Center for Public Economy Research at Fudan University. Mr. Shi's main fields of research and teaching include industrial structure and policy, modern enterprise theory and practice and modern economics in China. Mr. Shi has won numerous provincial level research and teaching awards. Mr. Shi was appointed as a special advisor to the Shanghai City Government and is also currently a commentator at the China Central Television. He was appointed as an Independent Non-Executive Director of the Group on 15 January 2017.

Mr. Woo Che-wor, Alex, aged 64, was an Independent Non-Executive Director from 10 June 2003 to 15 January 2017. 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 10 June 2003 and left the Group on 15 January 2017.

Mr. Qian Laizhong, aged 74, was an Independent Non-Executive Director from 16 August 2004 to 1 May 2016. 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 was a member of Sichuan Provincial Committee of Chinese People's Political Consultative Conference. He was appointed as an Independent Non-Executive Director on 16 August 2004 and left the Group on 1 May 2016.

Mr. Sun Tongchuan, aged 76, was an Independent Non-Executive Director from 1 November 2013 to 15 January 2017. 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 1 November 2013 and left the Group on 15 January 2017.

SENIOR MANAGEMENT

Ms. Chi Chuan, aged 61, is the vice president of the Group. She was an Executive Director of the Group from 25 February 2002 to 15 January 2017. 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.

Directors and Senior Management

Ms. Man Au Vivian, aged 52, is the general manger of Ko Yo Development Company Limited. She was an Executive Director of the Group from 17 April 2002 to 15 January 2017. 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 and she is responsible for general administration outside mainland China of the Group.

Mr. Li Ciping, aged 51, is the executive vice president of the Group and the general manager of Sichuan Ko Yo Agruchem Co., Ltd. He was an Executive Director of the Group from 1 July 2014 to 15 January 2017.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.

Mr. Chung Tin Ming, aged 46 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 65, 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. Wen Jinfu, aged 55, 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.

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 2016.

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 2016 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 2016 (2015: Nil).

SHARE CAPITAL

Details of movements in share capital of the Company are set out in Note 28 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 30 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31st December 2016 amounted to approximately RMB1,017,384,000(2015: approximately RMB1,394,713,000).

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.

Report of the Directors

PRE-EMPTIVE RIGHTS

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

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out in page 118.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the year are set out in Note 17 to the consolidated financial statements.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The Directors who held office during the year ended 31st December 2016 and up to the date of this report are:

Executive Directors

Mr. Wu Tianran (Appointed on 15 January 2017)
Mr. Li Weiruo
Mr. Yuan Bai
Mr. Wan Congxin (Appointed on 15 January 2017)
Ms. Chi Chuan (Resigned on 15 January 2017)
Ms. Man Au Vivian (Resigned on 15 January 2017)
Mr. Li Shengdi (Resigned on 1 May 2016)
Mr. Li Feng (Resigned on 22 July 2016)
Mr. Li Ciping (Resigned on 15 January 2017)

Non-Executive Director

Mr. Zhang Fubo

Independent Non-Executive Directors

Mr. Hu Xiaoping
Mr. Ge Jun (Appointed on 15 January 2017)
Mr. Shi Lei (Appointed on 15 January 2017)
Mr. Woo Che-wor, Alex (Resigned on 15 January 2017)
Mr. Qian Laizhong (Resigned on 1 May 2016)
Mr. Sun Tongchuan (Resigned on 15 January 2017)

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. Li Weiruo, Mr. Wan Congxin, Mr. Ge Jun and Mr. Shi Lei 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.

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 29 to the consolidated financial statement.

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

Report of the Directors

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 2016, 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 508,000 share options outstanding under the Existing Share Option Scheme, which represented approximately 0.012% of the Company's shares in issue as at that date. The remaining life of the Existing Share Option Scheme was about 1.7 years.

Report of the Directors

During the year ended 31st December 2016, 80,000,000 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$0.107. Details of option outstanding and movements are disclosed in the following table:

Number of share options

	Held at 1 January 2016 ('000)	Grant during period ('000)	Exercised during period ('000)	Forfeited/ Lapsed during period ('000)	Held at 31 December 2016 ('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 (for year 2016)												
Li Weiruo	–	–	–	–	**–**	–	–	–	–	–	–	–
Yuan Bai	3,400	400	–	(400)	**3,400**	–	–	–	800	–	2,200	400
*Chi Chuan	3,800	–	–	–	**3,800**	–	–	–	–	–	3,800	–
*Man Au Vivian	–	–	–	–	**–**	–	–	–	–	–	–	–
*Li Shengdi	–	–	–	–	**–**	–	–	–	–	–	–	–
*Li Ciping	1,600	–	–	–	**1,600**	–	–	–	1,600	–	–	–
*Li Feng	–	–	–	–	**–**	–	–	–	–	–	–	–
Zhang Fubo	–	–	–	–	**–**	–	–	–	–	–	–	–
*Woo Che-wor Alex	1,200	–	–	–	**1,200**	–	–	–	–	800	400	–
Hu Xiaoping	1,200	–	–	–	**1,200**	–	–	–	–	800	400	–
*Qian Laizhong	–	–	–	–	**–**	–	–	–	–	–	–	–
*Sun Tongchuan	–	–	–	–	**–**	–	–	–	–	–	–	–
Employees	8,100	81,500	(80,000)	(2,600)	**7,000**	–	–	–	2,300	–	3,200	1,500
Total	19,300	81,900	(80,000)	(3,000)	**18,200**	–	–	–	4,700	1,600	10,000	1,900

* Share Options A: Grant at 11 April 2006, exercisable from grant date until 10 April 2016 with exercise price HK$0.750, where 1,800,000 shares options A were lapsed during the year 2016.

Share Options B: Grant at 16 May 2006, exercisable from grant date until 10 April 2016 with exercise price HK$0.750, where 400,000 share options B were lapsed during the year 2016.

Share Options C: Grant at 10 September 2007, exercisable from grant date until 9 September 2017 with exercise price HK$0.580, where 800,000 shares options C were forfeited during the year 2016.

Share Options D: Grant at 14th January 2010, exercisable from grant date until 13 January 2020 with exercise price HK$1.150.

Share Options E: Grant at 23 November 2010, exercisable from grant date until 22 November 2020 with exercise price HK$1.100.

Share Options F: Grant at 28 March 2013, exercisable from grant date until 27 March 2023 with exercise price HK$0.595.

Share Options G: Grant at 22 June 2016, exercisable from grant date until 21 June 2026 with exercise price HK$0.151, where 80,000,000 share options G were exercised during the year 2016.

* Mr. Li Shengdi and Mr. Qian Laizhong were resigned as director on 1 May 2016.

Mr. Li Feng was resigned as director on 22 July 2016.

Ms. Chi Chuan, Ms Man Au Vivian, Mr. Li CiPing and Mr. Woo Che-wor Alex were resigned as director on 15 January 2017.

DIRECTORS' INTERESTS IN SHARES

As at 31st December 2016, 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 (as at 31.12.2016)	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	410,392,000	9,687,500	420,079,500	9.80%
Yuan Bai	71,292,800	3,400,000	74,692,800	1.74%
Chi Chuan	12,300,000	3,800,000	16,100,000	0.38%
Man Au Vivian	–	–	–	–
Li Ciping	800,000	1,600,000	2,400,000	0.06%
Zhang Fubo	5,000,000	–	5,000,000	0.12%
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 (as at 31.12.2016)	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

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

Number of Director (as at 31.12.2016)	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 2016, 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	18.66%

Note: As at 31 December 2016, 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 2016, 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 30 March 2017.

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 three Independent Non-Executive Directors, namely, Mr. Hu Xiaoping, Mr. Ge Jun, and Mr. Shi Lei and one Non-Executive Director, namely Mr. Zhang Fubo.

The audit committee has reviewed with management the accounting principles and practices adopted by the Company and the Group and discussed internal controls and financial reporting matters including a review of the audited financial statements of the Company and the Group for the year ended 31 December 2016.

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 2016, the five largest customers accounted for approximately 35.2% of the Group's total turnover and the five largest suppliers of the Group accounted for approximately 69.0% of the Group's total purchases. The largest customer of the Group accounted for approximately 9.7% of the Group's total turnover and the largest supplier accounted for approximately 38.2% of the Group's total purchases.

Report of the Directors

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 40 to the consolidated financial statements.

CORPORATE GOVERNANCE

A report on the corporate governance practices adopted by the Company is set out on pages 40 to 46 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 years ended 31 December 2015 and was re-appointed as the auditor of the Group on 13 May 2016.

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,

Wu Tianran
Chairman

30 March 2017

Environmental, Social, Governance Report

SCOPE AND REPORTING PERIOD

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

This ESG report covers the Group's overall performance in two subject areas, namely, Environmental and Social of below list of business operations in Sichuan Province, Mainland China from 1 January 2016 to 31 December 2016, unless otherwise stated:

— Dazhou Ko Yo Chemical Industrial Co., Limited (Dazhou)

— Guangan Ko Yo Chemical Industry Co., Limited & Guangan Lotusan Natural Gas Chemicals Co., Limited (Guangan)

— Guangan Ko Yo New Material Co., Limited (New Material)

STAKEHOLDER ENGAGEMENT AND MATERIALITY

In order to identify the most significant aspects for the Group to report on for this ESG report, key stakeholders including investors, government, shareholders, suppliers, employees and customers have been involved in meetings and engagement sessions to discuss and to review areas of attention. This also helps business meeting its potential growth and be prepared for future challenges.

STAKEHOLDERS' FEEDBACK

The Group welcomes stakeholders' feedback on our environmental, social and governance approach and performance. Please give your suggestions or share your views with us via email at koyoir@koychem.com.

KO YO'S COMMITMENT ON ENVIRONMENTAL AND SOCIAL RESPONSIBILITY

As an enterprise with social and public responsibilities, the Group is committed to the sustainable development of the environment and society. The Group strictly follows 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 Group's business operations are located. In accordance with the PRC laws and regulations, the Group revised and issued the Management System of Safety, Environmental Protection and Occupational Health to 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.

Good management operations and technology advancement at operations based in Dazhou and Guangon allow the Group to meet current industrial demand of chemical fertilizers and chemical products. Nevertheless the Group will gradually extend its production chain to sustainable development of new materials and phosphorus to meeting the Group's long term development needs.

Environmental, Social, Governance Report

Project under the guidance of International Finance Corporation (IFC)

Increasing awareness on environmental protection and social responsibility drives consumer and investor behaviour changes, and restructure of business operating model. Consumers prefer to purchase eco-friendly products, while the manufacturing industry starts to use environmental friendly production technology, to fulfil corporate social responsibility.

Under the guidance and help of the IFC (a member of the World Bank Group), Ko Yo's new project — Dazhou Ko Yo Chemical Industrial Co., Limited — strictly follows applicable Performance Standards, strives to avoid or minimize the adverse impacts on the environment and society:

- PS1: Social and Environmental Assessment and Management Systems
- PS2: Labour and Working Conditions
- PS3: Pollution Prevention and Abatement
- PS4: Community Health, Safety and Security
- PS5: Land Acquisition and Involuntary Resettlement

The project has been contributing to the development of the local economy by relying exclusively on Chinese contractors and construction workers for the implementation of the Project. It also helps providing much needed fertilizer to a region of China that has been devastated by previous earthquake, and has an ongoing education program to help local Chinese farmers improve their use of fertilizers.

Compliance with Law & Regulations

The Group 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. The Group complies with the laws, such as the "Effluent Standards of Water Pollutants of Ammonia Industry (GB 13458)" and the "Overall Emission Standards for Air Pollutants (GB 16297)". In 2016, The Group has spent RMB6,212,000 in investing environmental and safety measures and upgrade on production operation.

Type of Emissions

Type of emissions the Group involved in the reporting period was mainly electricity, natural gas, water, unleaded petrol, diesel oil, and production-generated wastewater, sludge, waste salt, waste oil are regulated under national laws and regulations. Total floor area coverage for the Group was 168,051 m^2 and the Group accounts for 100% of emissions from its operations in Mainland China.

Environmental, Social, Governance Report

1. Greenhouse Gas Emission

(i) Greenhouse Gas Emissions

Scope of Greenhouse Gas Emissions	Emission Sources	Emission (in tonnes of CO_2e)	Total Emission (in percentage)
Scope 1			
Direct Emission	Consumption of Unleaded Petrol by the Group's Owned Fleet	58.33	0.60%
	Consumption of Diesel Oil by the Group's Owned Fleet	79.91	
Scope 2			
Indirect Emission	Purchased Electricity[2]	10.03	93.25%
	Purchased Natural Gas[3]	21,638.55	
Scope 3			
Other Indirect Emission	Water Consumption	1,412.14	6.15%
	Sewage Treatment	15.71	
Total		23,214.67	

Note 1: Emission factors were made reference to Appendix 2: Reporting Guidance on Environmental KPIs by Hong Kong Exchanges and Clearing Limited, unless stated otherwise.

Note 2: Combined margin emission factor (average) of 0.88 t-CO2/MWh was used for purchased electricity in Mainland China.

Note 3: Emission factors were made reference to Emission Factors for Greenhouse Gas Inventories (2014) by United States Environmental Protection Agency.

(ii) Removal of Greenhouse Gas Emissions

	Unit	
Total Greenhouse Gas Emitted (a)	tCO_2e	23,214.67
Total Floor Area Coverage (b)	m^2	168,051.00
Emission Intensity (c) = (a)/(b)	tCO_2e/m^2	0.14
Removal by using recycled water (d)	tCO_2e	7,320.60
Total Removal (e) = (d)	**tCO_2e**	**7,320.60**
Final Total Greenhouse Gas Emitted (f) = (a) – (e)	**tCO_2e**	**15,894.07**
Annual emission intensity is reduced to (g) = (f)/(b)	**tCO_2e/m^2**	**0.09**

Environmental, Social, Governance Report

There were 23,214.67 tonnes of carbon dioxide equivalent greenhouse gases emitted from the Group's operation in the reporting period. The annual emission intensity was 0.14 tCO_2e/m^2. The Group's additional effort in using recycled water, contributed to a decreased total amount of 15,894.07 tonnes of carbon dioxide equivalent greenhouse gases, with a dropped annual emission intensity of 0.09 tCO_2e/m^2.

Environmental Initiatives

— Installed online monitoring system for water and gas emissions, which has been connected to the central monitoring system of the local district's Environmental Protection Department for continuous monitoring

— Recycle water through water cooling system and tower (use of air cooling, fan cooling, dosage treatment, steam condensation), approximately 72,000m^3 per day

— Recycle and export carbon dioxide according to the production and market conditions, aiming to achieve zero emission

— Create liquid ammonia as a result of adapting co-production process of methanol and ammonia (comparing to conventional plant that recover methanol directly as fuel burning)

— Recover liquid nitrogen and non-condensable flue gas as fuel gas to heat burners and furnaces at methanol plant

— Recover unreacted sodium sulphate through absorption tower

— Recover unreacted dichlorobenzene and solvent (N-methylpyrrolidone (NMP)) through distillation process

— By-products including industrial salt sodium chloride and recycled lithium carbonate can be sold to other parties.

2. Electricity

Electricity consumption by the Group in 2016 was 11,401 x 10^4 kWh, with an energy intensity of 400.45 kWh/m^2 for business operations in Guangon and New Material (2015: 84.96 kWh/m^2).

	Electricity Consumption (10^4 kWh)	
Business Operation	2015	**2016**
Dazhou	353	**NA**
Guangan	5,632	**10,280**
New Material	NA	**1,121**
Total	5,985	**11,401**

3. Natural Gas

Natural gas consumption by the Group was 397,070 m^3, with an intensity of 2,780.85 m^3/m^2 for business operation in Guangan (2015: 590 m^3/m^2).

	Steam Consumption (10^3 m^3)	
Business Operation	2015	**2016**
Dazhou	245,327	**NA**
Guangan	170,290	**397,070**
Total	415,617	**397,070**

4. Water

Fresh water consumption by the Group was 3,472,179 m^3 with water intensity of 20.66m^3/m^2. The Group obtained water for industrial use from nearby water supply plants.

Business Operation	**Water Consumption (m^3)**
Dazhou	616,740
Guangan	2,723,004
New Material	132,435
Total	3,472,179

5. Petrol

A total of 21,541 litres of petrol (93 octane and 97 octane) was used for motor vehicles in the reporting period, contributing to 58.33 tonnes of carbon dioxide equivalent. The motor vehicles were for employees and customer commuting.

Business Operation	**Petrol Used (Litre)**
Dazhou	7,006
Guangan	8,535
New Material	6,000
Total	21,541

6. Diesel Oil

A total of 28,002 litres of diesel oil was used for 3 no. of shuttle bus for employee commuting at Dazhou in the reporting period, contributing to 79.91 tonnes of carbon dioxide equivalent.

Business Operation	Petrol Used (Litre)
Dazhou	18,839
Guangan	1,163
New Material	8,000
Total	28,002

7. Packaging Materials

The Group has considered the packaging materials' potential environmental and health impacts before purchasing. A total 1,246,748 pieces of polypropylene copolymer was used for all packaging materials from the Group in 2016, and the packaging materials had no hazardous or recycled contents.

8. Hazardous Waste

Hazardous waste from the Group include:

Source	Business Operation	Waste Generated (tonnes)
Waste Oil (from repair and maintenance works)	Dazhou	0.69
	Guangan	2.72
Waste Salt	New Material	1,350

Waste oil was collected by licensed collectors for further treatment. Waste salt after distillation process was sent to nearby hazardous waste treatment plant for incineration.

9. Non-hazardous Waste

Non-hazardous waste from the Group's operation were sludge from on-site wastewater treatment facilities and general waste from production process. They were sent to approved and qualified treatment facilities for further treatment.

Source	Business Operation	Waste Generated (tonnes)
General Industrial Waste	Dazhou	2.0
Sludge	Guangan	15
	New Material	8

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10. Sewage Treatment

A total amount of 86,608 $m^3$of pre-treated sewage, with an intensity of 0.52 m^3/m^2, was firswt treated at on-site sewage treatment facilities before sending to nearby industrial wastewater treatment facilities for further treatment.

Business Operation	Sewage Generated (m^3)
Dazhou	3,808
Guangan	61,678
New Material	21,120
Total	86,606

A. SOCIAL

1. Employment and Labour Practices

(i) Employment

The Group had a total number of 788 employees as of 31 December 2016, in which 785 employees were from various provinces in People's Republic of China and 3 employees were from hongkong.100% of them were full time employee.

Workforce by Age Group	18-25	26-35	36-45	46-55	56 and above
2016	85	300	192	190	21

Workforce by Gender	Male	Female
2016	628	160

Competitive Compensation and Benefits Package

Employees are entitled to basic social insurance in Mainland China (including medical, pension, unemployment insurance, work-related injury insurance and maternity insurance), various types of leaves (annual leave, sick leave, compassion leave, maternity leave), housing provident fund, transportation subsidies, housing subsidies, communication subsidies and shuttle bus, etc.

The pay system is established based on the Group's business development and human resources strategies, and according to the principle of "to adapt current market, to reflect talent, to give incentive". The Group's remuneration structure is set objectively and has different salary structure and adjustment for different positions and departments. Upon annual review by the board of directors and the Group's business and profit status, employees are awarded with year-end bonus.

Environmental, Social, Governance Report

Appraisal System

Appraisal system is in place to monthly review employees' work attitude, capability, and performance on a point scoring system. Employees will be promoted with salary adjustment based on the point-based appraisal system and the Group's remuneration structure.

Equal Opportunity

The employees are not discriminated against or deprived of such opportunities on the basis of gender, ethnic background, religion, colour, sexual orientation, age, marital status, family status, retirement, disability, pregnancy or any other discrimination prohibited by applicable law. The Group currently has no policy on this.

Turnover

A total number of 171 employees left the Group in 2016, contributing to turnover rate of 17.83%. The annual turnover rates (categorized by gender and age groups) in the reporting period are as follows:

Annual Turnover Rate by Age Group (%)	18-25	26-35	36-45	46-55	56 and above
2016	42.57%	20.21%	8.57%	5.47%	14.29%

Annual Turnover Rate by Gender (%)	Male	Female
2016	18.12%	16.67%

(ii) Employee Health and Safety

Group's Health and Safety Policy

The Group 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 Group has provided its employees 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, the Group published newsletter about measures working under high temperature and heat stroke prevention, as well as dispatching medicines and perquisites to employees. In addition, the Group arranged regular body examination for each of our staff to maintain their physical health.

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Occupational Health Management System

The System aims to effectively prevent, control and eliminate occupational hazards, to prevent occupational diseases, and to protect the right, health and safety of employees, as well as to comply with relevant laws, regulations and other provisions of the state. Personal protective equipment shall be given to employees according to national law and industrial standards. Medical check is required for any new employee to ensure their health conditions are suitable for their job positions.

Safety and Environmental Accident Handling and Accountability System

The System is to standardize the Group's reporting mechanism, responsibility of each unit, and the handling procedures of emergency cases and incidents. Incidents refers to any sudden occurrence, during production and business operations, causing personal safety and health damage, damages to equipment or facilities, economic losses or environmental pollution, which results in immediate suspension or termination of production and business operation. The System covers incident types as below:

— Production operation incident

— Equipment incident

— Traffic on water and land incident

— Fire incident

— Explosion

— Personal injury and death

— Damage and destruction incident

— Natural disaster incident

— Environmental pollution incident

— Near miss incident

Environmental, Social, Governance Report

Dangerous Chemicals Safety Management System

The Group has developed this System to standardize the management approach, and to strength the implementation of safety measures and procedures during the processes of production, operation, storage, transportation, general use, emergency and disposal of dangerous chemicals, as well as to ensure all employees fully understand and to comply with relevant laws, regulations and other provisions of the state.

Occupational Health and Safety Data	2016
Work related fatality	**0**
Work injury cases >3 days	**1**
Work injury cases <3 days	**0**
Lost days due to work injury	**118**

(iii) Development and Training

The Group regularly reviews its training program to ensure all employees are equipped with essential skills and knowledge required for their job positions. The Group has arranged internal training with both internal and external trainers, as well as sending employees to attend training courses provided by other organizations.

In 2016, the training courses covered 10 different categories: strategic management, general management, financial management for non-financial managers, financial audit, human resources management, administrative, procurement, ISO management system, group management system, practical use of information and professional ethics. A total of 4,214 training hours was conducted in 2016, with focus topics on management skill training for manager or above roles, Group's management approach and policy, and profession ethic trainings for all employees. A total of 23 no. of first aiders have been trained especially for handling emergency cases and incidents.

	2016
Total Number of Employee	**788.00**
Total Training Hours	**43,896.00**
Average Training Hours Per Employee	**55.71**
Average training hours completed per employee by gender	
— Male	**56.60**
— Female	**52.20**
Average training hours completed per employee by employee category	
— Senior Management	**36.00**
— Middle Management	**56.00**
— Other Employees	**55.80**

(iv) Labour Standard

The Group has regulation on prevention of illegal employment. All employment and recruitment strictly abide by the Labour Law and Labour Contract Law of the People's Republic of China. There shall be no use of child labour, no one shall sign a labour contract in violation of real intention of the party, and no one shall be forced to work illegally. During recruitment, the Group is responsible for providing truthful information including job responsibility, working condition, working location, occupational health and safety, safety condition at production, labour remuneration, etc.

Human Resources Department in each subsidiary company shall work with the Group's Procurement Department to monitor, investigate and ensure supply chain companies meet labour right and employment situation as stated in this regulation. In case of violation, the Group shall take corresponding measures up to termination of partnership.

The Human Resources Department shall verify the authenticity of candidates provided information (resume, identity card, certificates). At the same time, the hired employee shall take full responsibility for the authenticity of the information provided by their signatures.

2. Operating Practices

(i) Supply Chain Management

Supplier selection is made through long-term assessment, qualification document review, on-site inspection, word of mouth and other means of assessment. One or more than one type of assessment would be used depending on the suppliers' popularity, location, importance of products, etc. In the reporting period, there was 98 qualified suppliers from various provinces in Mainland China, and they are subject to annual review which will be kept on file for future reference. Natural gas is the Group's major raw material, which is supplied by Sinopec and PetroChina. The Group will continue work on effective negotiation and execution of natural gas supply contract to secure the raw material at the most favourable price.

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Procurement Policy

Material procurement refers to the purchase of raw materials, steel, equipment, spare parts, chemical reagents, machine oil, office supplies and low-value consumables required by the Group, as well as necessary equipment, equipment and materials required for any new projects. The Group has Procurement Policy to ensure the quality of purchased goods, reduce material procurement costs, and to prevent material procurement risk. The policy provides guidelines on effective management of below plan and procedure:

— Material Demand Plan

— Supplier Selection

— Material Purchase Plan

— Material Quotation

— Material Procurement Contract

— Material Inspection upon receive

— Material Storage Procedure

(ii) Anti-corruption

The Group has a comprehensive measure with reporting mechanism to prevent corruption particularly on the procurement aspect. The internal NC system has records of the entire procurement process, in which authorized management and colleagues can review key information including price, suppliers and payment methods.

The Group has also established an Internal Audit Department to supervise and to conduct regular check on Procurement Department in terms of contracts, suppliers' quotation, and payment status. Any violation from Procurement Department will be reported directly to the management. This helps keeping anti-corruption measures in place and in control.

Also, as stated in Employment Contract, employees shall be terminated if he/she accepted kickbacks, involved in bribery, or any malpractice that would cause the Group significant loss.

(iii) Product Responsibility

There was no complaints received or product recall in 2016.

Quality Assurance

The Group is committed to quality control and quality assurance, which is demonstrated by its proven success in attaining international standards, namely, ISO 9001 Quality Management System Certification and ISO 14001 Environmental management system Certification and ISO50001 Energy Management System Certification. The Group will continue to maintain its product quality to meet such standards.

Group's Quality Assurance Policy:

— The entire production line makes use of advanced technology and modernized equipment for traditional large-scale chemical fertilizers production

— All employees in production and management team are trained with strong brand awareness, in which they regularly review and make improvement to ensure quality products and services are provided before and after sale.

— The Group shall recall any confirmed controversial products in the market

The Group complies with Regulations on the Safety Management of Dangerous Chemicals to ensure product safety.

Intellectual Property Right

The Group has Intellectual Property Policy to protect its intellectual property right and is aware of its knowledge assets.

C. Community

1. Community Investment

In 2016, the Group has spent RMB10,800 on various aspects of community contribution, such as environmental protection, targeted group alleviation and government and enterprise poverty alleviation.

FUTURE DIRECTIONS FROM THE GROUP

The Group's Urea Production Project at Dazhou Phrase II will further achieve optimal balance between ammonia and carbon dioxide, reducing inefficient emission of carbon dioxide. With timely implementation of advanced technology and improved work processes, the Group continues its transformation to become more energy efficient on its equipment, minimize emission of all types of pollutants with "no leakage plant" as production standard, manage under "quality/environment/energy as one system" and practice "little change and rationalized suggestions" for upcoming works and business development.

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, except for the period between the resignation of the Independent Non-Executive Director Mr. Qian Laizhong on 1 May 2016 and the resignation of the Executive Director Mr. Li Feng on 22 July 2016, the number of independent non-executive directors in the Company fell below the requirement under Rule 3.10A of the Listing Rule, 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 eight directors of which four are Executive Directors, one is Non-Executive Director and three are Independent Non-Executive Directors. The detail is as follow:

Executive Directors
Mr. Wu Tianran *(Chairman)* (Appointed on 15.01.2017)
Mr. Li Weiruo
Mr. Yuan Bai
Mr. Wan Congxin (Appointed on 15.01.2017)
Ms. Chi Chuan (Resigned on 15.01.2017)
Ms. Man Au Vivian (Resigned on 15.01.2017)
Mr. Li Shengdi (Resigned on 01.05.2016)
Mr. Li Ciping (Resigned on 15.01.2017)
Mr. Li Feng (Resigned on 22.07.2016)

Non-Executive Director
Mr. Zhang Fubo

Independent Non-Executive Directors
Mr. Hu Xiaoping
Mr. Ge Jun (Appointed on 15.01.2017)
Mr. Shi Lei (Appointed on 15.01.2017)
Mr. Woo Che-wor, Alex (Resigned on 15.01.2017)
Mr. Qian Laizhong (Resigned on 01.05.2016)
Mr. Sun Tongchuan (Resigned on 15.01.2017)

Except for the period between the resignation of the Independent Non-Executive Director of Mr. Qian Laizhong on 1 May 2016 and the resignation of the Executive Director of Mr. Li Feng of 22 July 2016, the Independent Non-Executive Directors represented over one-third of the Board during the year 2016. 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. 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. Notice of all board meetings were given to all directors to ensure all directors, who were given an opportunity to attend and include matters in the agenda for discussion. Agenda and accompanying board papers are sent to all directors at least one day prior to the meeting. Draft and final versions of minutes of board meetings were sent within a reasonable time to all directors for comment and record. All the committee meetings follow the applicable practices and procedures used in board meetings.

In the financial year ended 31st December 2016, 24 board meetings and 2 shareholders' meetings were held and the attendance record for the meetings by each director is as follow:

Attendants	Number of board meetings attended/total	Board meetings attendance percentage	Number of shareholders' meetings attended/total	Shareholders' meetings Attended percentage
Executive Directors				
Mr. Li Weiruo	24/24	100%	2/2	100%
Mr. Yuan Bai	24/24	100%	2/2	100%
Ms. Chi Chuan (Resigned on 15 January 2017)	24/24	100%	2/2	100%
Ms. Man Au Vivian (Resigned on 15 January 2017)	24/24	100%	2/2	100%
Mr. Li Shengdi (Resigned on 1 May 2016)	14/14	100%	2/2	100%
Mr. Li Feng (Resigned on 22 July 2016)	15/15	100%	2/2	100%
Mr. Li Ciping (Resigned on 15 January 2017)	24/24	100%	2/2	100%
Non-Executive Director				
Mr. Zhang fubo	4/24	16.7%	2/2	100%
Independent Non-Executive Directors				
Mr. Hu Xiaoping	4/24	16.7%	2/2	100%
Mr. Woo Che-wor, Alex (Resigned on 15 January 2017)	4/24	16.7%	2/2	100%
Mr. Qian Laizhong (Resigned on 1 May 2016)	3/14	21.4%	2/2	100%
Mr. Sun Tongchuan (Resigned on 15 January 2017)	4/24	16.7%	2/2	100%

Corporate Governance Practices

Chairman and Chief executive officer

The Chairman of the Group is Mr. Wu Tianran, primarily responsible for the management of the Board and ensuring the Board functions effectively, smoothly and following a good corporate governance practices. Mr. Wu Tianran, the Chairman and together with the other three 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. Wu Tianran is responsible strategic planning, merger and acquisition and related matters with capital market of the Group for the development of the Group. Mr. Li Weiruo is responsible for monitoring all the business of the Group in China in Board level. Mr. Yuan Bai, the Chief Executive Officer of the Group, is responsible for the daily operation and management of the Group. Mr. Wan Congxin is responsible for the financial management 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 (Resigned on 1 May 2016)	1/1	100%
Mr. Sun Tongchuan (Appointed on 1 May 2016 and resigned on 15 January 2017)	N/A	N/A
Mr. Ge Jun (Appointed on 15 January 2017)	N/A	N/A
Mr. Shi Lei (Appointed on 15 January 2017)	N/A	N/A
Non-Executive Director		
Mr. Zhang Fubo	1/1	100%
Executive Director		
Ms. Chi Chuan (Resigned on 15 January 2017)	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) (Resigned on 1 May 2016)	1/1	100%
Mr. Sun Tongchuan (Chairman) (Appointed on 1 May 2016 and Resigned on 15 January 2017)	N/A	N/A
Mr. Ge Jun (Appointed on 15 January 2017)	N/A	N/A
Mr. Woo Che-wor, Alex (Resigned on 15 January 2017)	1/1	100%
Mr. Hu Xiaoping	1/1	100%
Non-Executive Director		
Mr. Zhang Fubo	1/1	100%
Executive Director		
Mr. Li Shengdi (Resigned on 1 May 2016)	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. Li Weiruo, Mr. Wan Congxin, Mr. Ge Jun and Mr. Shi Lei will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

AUDIT COMMITTEE

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

Attendants	**Number of meetings attended/total**	**Attendance percentage**
Independent Non-Executive Directors		
Mr. Woo Che-wor, Alex (Chairman) (Resigned on 15 January 2017)	4/4	100%
Mr. Shi Lei (Chairman) (Appointed on 15 January 2017)	N/A	N/A
Mr. Qian Laizhong (Resigned on 1 May 2016)	3/3	100%
Mr. Hu Xiaoping	4/4	100%
Mr. Sun Tongchuan (Resigned on 15 January 2017)	4/4	100%
Mr. Ge Jun (Appointed on 15 January 2017)	N/A	N/A
Non-Executive Director		
Mr. Zhang Fubo (Appointed on 15 January 2017)	N/A	N/A

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

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

The Audit Committee is responsible for reviewing the accounting principles and practices adopted by the Group, recommending the Board on the Group's internal control and risk management system, and ensuring the Group's financial statements present a true and fair view of the Group's financial position. The Audit Committee had reviewed with management the accounting principles and practices and discussed internal controls and financial reporting matters including a review of the audited financial statements of the Company and Group for the year ended 31st December 2016.

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

Corporate Governance Practices

INDEPENDENT EXTERNAL AUDITORS

In 2016, the total remuneration charged by to the independent external auditors amounted to approximately RMB1.7 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 47 and 117 of this annual report.

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)

OPINION

We have audited the consolidated financial statements of Ko Yo Chemical (Group) Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 52 to 117, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw attention to Note 2 to the consolidated financial statements which states that the Group had a net operating cash outflows of approximately RMB95 million during the year ended 31 December 2016. As at 31 December 2016, the Group's current liabilities exceeded its current assets by approximately RMB1,687 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 modified in respect of this matter.

KEY AUDIT MATTERS

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

Independent Auditor's Report

Property, plant and equipment

Refer to Note 17 to the consolidated financial statements

The Group tested the amount of property, plant and equipment for impairment. This impairment test is significant to our audit because the balance of property, plant and equipment of approximately RMB3,320,658,000 as at 31 December 2016 is material to the consolidated financial statements. In addition, the Group's impairment test involves application of judgement and is based on assumptions and estimates.

Our audit procedures included, among others:

— Assessing the identification of the related cash generating units;

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

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

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

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

— Checking input data to supporting evidence.

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

Mining right

Refer to Notes 19 and 21 to the consolidated financial statements

The Group tested the amount of mining right for impairment. This impairment test is significant to our audit because the balance of mining right of approximately RMB289,298,000 as at 31 December 2016 is material to the consolidated financial statements. In addition, the Group's impairment test involves application of judgement and is based on assumptions and estimates.

Our audit procedures included, among others:

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

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

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

— Checking arithmetical accuracy of the valuation model; and

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

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

Derivative financial assets

Refer to Note 25 to the consolidated financial statements

The Group measured its derivative financial assets with the change in fair value recognised in the consolidated profit or loss. This fair value measurement is significant to our audit because the balance of derivative financial assets of approximately RMB227,378,000 as at 31 December 2016 and the fair value gain of approximately RMB12,556,000 for the year then ended are material to the consolidated financial statements. In addition, the Group's fair value measurement involves application of judgement and is based on assumptions and estimates.

Our audit procedures included, among others:

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

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

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

— Checking arithmetical accuracy of the valuation model; and

— Assessing the disclosure of the fair value measurement in the consolidated financial statements.

Independent Auditor's Report

We consider that the Group's fair value measurement of the derivative financial assets is supported by the available evidence.

OTHER INFORMATION IN THE ANNUAL REPORT

The directors are responsible for the other information. The other information comprises all the information in the Company's annual report, but does not include the consolidated financial statements and our auditors' report thereon. The other information is expected to be made available to us after the date of this auditor's report.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

RESPONSIBILITIES OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

Independent Auditor's Report

A further description of our responsibilities for the audit of the consolidated financial statements is located at the HKICPA's website at:

http://www.hkicpa.org.hk/en/standards-and-regulations/standards/auditing-assurance/auditre/

This description forms part of our auditor's report.

ZHONGHUI ANDA CPA Limited
Certified Public Accountants
Ng Ka Lok
Audit Engagement Director
Practising Certificate Number P06084

Hong Kong, 30 March 2017

Consolidated Statement Of Profit Or Loss And Other Comprehensive Income

For The Year Ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
Revenue	8	**1,947,027**	1,928,147
Cost of sales		**(1,988,713)**	(1,955,537)
Gross loss		**(41,686)**	(27,390)
Distribution costs		**(8,087)**	(37,631)
Administrative expenses		**(207,617)**	(105,155)
Other income	9	**24,729**	217,338
Other expenses	10	**(44,514)**	(112,581)
Operating loss		**(277,175)**	(65,419)
Finance income	11	**2,753**	19,976
Finance expenses	11	**(142,617)**	(103,924)
Loss before tax		**(417,039)**	(149,367)
Income tax credit	12	**9,054**	43,094
Loss and total comprehensive loss for the year	13	**(407,985)**	(106,273)
Attributable to:			
Equity holders of the Company		**(407,154)**	(105,646)
Non-controlling interests		**(831)**	(627)
		(407,985)	(106,273)
Loss per share attributable to the equity holders of the Company during the year (expressed in RMB per share)			
— Basic	15	**(0.0972)**	(0.0270)
— Diluted	15	**(0.0972)**	(0.0270)

Consolidated Statement Of Financial Position

As At 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
ASSETS			
Non-current assets			
Land use rights	*16*	**117,143**	50,649
Property, plant and equipment	*17*	**3,320,658**	3,539,026
Investment properties	*18*	**12,127**	12,636
Mining right	*19*	**289,298**	297,091
Other intangible assets	*20*	**8,889**	9,366
Deferred income tax assets	*34*	**80,713**	73,607
		3,828,828	3,982,375
Current assets			
Inventories	*23*	**92,464**	78,487
Trade and other receivables	*24*	**308,060**	348,148
Prepaid income tax, net		**—**	3,562
Derivative financial assets	*25*	**227,378**	214,822
Pledged bank deposits	*26*	**12,922**	505,055
Cash and cash equivalents	*27*	**24,477**	59,782
		665,301	1,209,856
Non-current assets held for sale		**—**	142,000
		665,301	1,351,856
Total assets		**4,494,129**	5,334,231
EQUITY			
Equity attributable to owners of the Company			
Share capital	*28*	**367,531**	342,822
Reserves	*30*	**1,017,384**	1,394,713
		1,384,915	1,737,535
Non-controlling interest		**1,976**	2,807
Total equity		**1,386,891**	1,740,342

Consolidated Statement Of Financial Position

As At 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
LIABILITIES			
Non-current liabilities			
Long-term borrowings	*31*	**568,282**	634,960
Convertible bonds	*32*	**115,296**	124,835
Deferred subsidy income	*33*	**1,930**	2,584
Deferred income tax liabilities	*34*	**69,615**	71,563
		755,123	833,942
Current liabilities			
Trade and other payables	*35*	**814,310**	890,042
Provision for tax		**1,152**	—
Short-term borrowings	*31*	**1,316,013**	1,588,225
Current portion of long-term borrowings	*31*	**220,640**	281,680
		2,352,115	2,759,947
Total liabilities		**3,107,238**	3,593,889
Total equity and liabilities		**4,494,129**	5,334,231
Net current liabilities		**(1,686,814)**	(1,408,091)
Total assets less current liabilities		**2,142,014**	2,574,284

The consolidated financial statements on pages 52 to 117 were approved and authorised for issue by Board of Directors on 30 March 2017 and are signed on behalf of the Board by:

Director *Director*

Consolidated Statement Of Changes In Equity

For The Year Ended 31 December 2016

	Attributable to equity holders of the Company											
	Share capital RMB'000	Share premium RMB'000	Merger reserve RMB'000	Share-based compensation reserve — share options RMB'000	Share-based compensation reserve — convertible bonds RMB'000	Reserve fund RMB'000	Enterprise expansion fund RMB'000	Accumulated loss RMB'000	Transaction with non-controlling interests RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 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
Balance at 1 January 2016	**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**
Total comprehensive loss for the year	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(407,154)**	**—**	**(407,154)**	**(831)**	**(407,985)**
Issue of shares:												
— Employee share option scheme	**6,960**	**3,550**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**10,510**	**—**	**10,510**
— Conversion of bonds	**17,749**	**60,194**	**—**	**—**	**(48,622)**	**—**	**—**	**—**	**—**	**29,321**	**—**	**29,321**
Issuance of convertible bonds	**—**	**—**	**—**	**—**	**8,636**	**—**	**—**	**—**	**—**	**8,636**	**—**	**8,636**
Share-based payments	**—**	**—**	**—**	**6,067**	**—**	**—**	**—**	**—**	**—**	**6,067**	**—**	**6,067**
At 31 December 2016	**367,531**	**1,406,774**	**(22,041)**	**28,269**	**227,018**	**45,273**	**1,131**	**(665,531)**	**(3,509)**	**1,384,915**	**1,976**	**1,386,891**

Consolidated Statement Of Cash Flows

For The Year Ended 31 December 2016

	2016 RMB'000	2015 RMB'000
Cash flows from operating activities		
Loss before tax	**(417,039)**	(149,367)
Adjustments for:		
Depreciation of property, plant and equipment	**172,983**	82,762
Depreciation of investment properties	**509**	509
Amortisation of land use rights	**2,186**	1,189
Amortisation of intangible assets	**270**	270
Loss on disposal of property, plant and equipment	**68**	12
Interest income	**(2,753)**	(19,976)
Interest expense	**142,178**	101,231
Exchange loss	**32**	2,682
Share-based payment	**6,067**	18,544
Impairment loss on non-current assets held for sale	**—**	56,784
Impairment loss on other receivables	**13,991**	6,883
Provision for impairment of trade receivables	**—**	1,626
Impairment loss on mining right	**7,793**	37,215
Impairment loss on property, plant and equipment	**22,523**	9,081
Impairment loss on goodwill	**207**	992
Fair value change of derivative financial assets	**(12,556)**	(214,822)
Operating cash flows before working capital changes	**(63,541)**	(64,385)
Increase in inventories	**(13,977)**	(16,160)
Decrease in trade and other receivables	**26,097**	79,163
Increase in trade and other payables	**23,965**	90,805
Decrease in deferred subsidy income	**(654)**	(654)
Cash (used in)/generated from operations	**(28,110)**	88,769
Interest paid	**(71,493)**	(94,225)
Income tax refund	**4,714**	3,045
Net cash used in operating activities	**(94,889)**	(2,411)

Consolidated Statement Of Cash Flows

For The Year Ended 31 December 2016

	2016 RMB'000	2015 RMB'000
Cash flows from investing activities		
Purchases of property, plant and equipment and payments for construction-in-progress	**(64,931)**	(529,868)
Proceeds from disposal of property, plant and equipment	**—**	77
Interest received	**2,753**	19,976
Net cash used in investing activities	**(62,178)**	(509,815)
Cash flows from financing activities		
Exercise of share options	**10,510**	3,813
Issuance of convertible bonds	**19,081**	37,800
Decrease in pledged bank deposits	**492,133**	184,548
Proceeds from borrowings	**1,276,960**	3,272,487
Repayments of borrowings	**(1,676,890)**	(3,422,057)
Net cash generated from financing activities	**121,794**	76,591
Net decrease in cash and cash equivalents	**(35,273)**	(435,635)
Cash and cash equivalents at beginning of year	**59,782**	498,099
Exchange losses	**(32)**	(2,682)
Cash and cash equivalents at end of year	**24,477**	59,782

Notes To The Consolidated Financial Statements

For The Year Ended 31 December 2016

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 RMB95 million during the year ended 31 December 2016. As at 31 December 2016, the Group's current liabilities exceeded its current assets by approximately RMB1,687 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 RMB226 million as at 31 December 2016.

The directors of the Company have reviewed the Group's cash flow projections, which cover a period of twelve months from 31 December 2016. They have assessed the appropriateness of adopting the going concern basis for the preparation of these consolidated financial statements for the year ended 31 December 2016 in light of the Group's plans and measures described below to improve its cash flows:

(a) As at 31 December 2016 the Group's total borrowings amounted to approximately RMB2,105 million, of which approximately RMB1,537 million will be due within twelve months from 31 December 2016. As at that date, the Group's bank deposits pledged for short-term borrowings amounted to approximately RMB13 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 consolidated financial statements, the Group has renewed short-term borrowings of approximately RMB130 million for another twelve months.

2. GOING CONCERN BASIS *(continued)*

(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 2016, the contracted capital expenditure committed by the Group amounted to approximately RMB226 million, of which approximately RMB226 million is required to be settled in the coming twelve months. These commitments are mainly related to the construction of 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 Dazhou plant and two new GuangAu plant.

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 2016. 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.

Notes To The Consolidated Financial Statements

For The Year Ended 31 December 2016

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 2016. HKFRSs comprise Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards; and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's financial statements and amounts reported for the current year and prior years.

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

4. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Consolidation

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Consolidation *(continued)*

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

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

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

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

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

Business combination and goodwill

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

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

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

Notes To The Consolidated Financial Statements

For The Year Ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combination and goodwill *(continued)*

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

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

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

Foreign currency translation

(i) Functional and presentation currency

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment

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

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

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

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

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

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

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

Investment properties

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

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

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

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For The Year Ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Mining rights

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

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.

Construction permits

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

Inventories

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

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Recognition and derecognition of financial instruments

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

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

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

Derivative financial instruments

Derivatives are initially recognised and subsequently measured at fair value. Changes in the fair value of derivatives are recognised in profit or loss as they arise.

Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the receivables' carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition. The amount of the allowance is recognised in profit or loss.

Impairment losses are reversed in subsequent periods and recognised in profit or loss when an increase in the receivables' recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the receivables at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

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4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Cash and cash equivalents

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

Financial liabilities and equity instruments

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

Borrowings

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

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

Trade and other payables

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

Equity instruments

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

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 profit or loss, with a corresponding adjustment to equity.

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Share-based payment transactions *(continued)*

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

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

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

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

Revenues from the sales of manufactured goods and trading of goods are recognised on the transfer of significant risks and rewards of ownership, which generally coincides with the time when the goods are delivered and the title has passed to the customers.

Interest income is recognised on a time-proportion basis using the effective interest method.

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

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits

(a) Employee leave entitlements

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

(b) Pension obligations

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Borrowing costs

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

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

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

Government grants

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

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

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

Government grants relating to the purchase of assets are deducted from the carrying amount of the assets. The grant is recognised in profit or loss over the life of a depreciable asset by way of a reduced depreciation charge.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation

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

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

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

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

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

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

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

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

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4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Related parties

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

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

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

(ii) has significant influence over the Group; or

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

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

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

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

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

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of assets

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

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

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

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

Provisions and contingent liabilities

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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) Depreciation and impairment of property, plant and equipment

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

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

(b) Impairment of mining right

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

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

(c) Income taxes

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

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

(d) 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.

6. FINANCIAL RISK MANAGEMENT

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

(a) Foreign exchange risk

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

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6. FINANCIAL RISK MANAGEMENT *(continued)*

(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 2016 and 2015, the Group's long-term borrowings at variable rate were denominated in RMB.

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

As at 31 December 2016, 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 RMB1,578,000 (2015: post-tax loss increased/decreased by approximately RMB1,833,000), 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.

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6. FINANCIAL RISK MANAGEMENT *(continued)*

(d) Liquidity risk

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

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

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2016				
Trade and other payables	**749,800**	**—**	**—**	**—**
Short-term borrowings	**1,316,013**	**—**	**—**	**—**
Long-term borrowings	**220,640**	**128,320**	**349,962**	**90,000**
Convertible bonds	**—**	**—**	**13,360**	**259,165**
Interest payment on borrowings and convertible bonds	**139,904**	**48,973**	**102,832**	**59,274**
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

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6. FINANCIAL RISK MANAGEMENT *(continued)*

(d) Liquidity risk *(continued)*

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

The Group has been investing in the construction of new production lines and a significant amount of the financing was obtained from short-term borrowings. As a result, the Group had net current liabilities of approximately RMB1,610 million as at 31 December 2016 (2015: approximately RMB1,408 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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following disclosures of fair value measurements use a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value:

Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2 inputs: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs: unobservable inputs for the asset or liability.

The Group's policy is to recognise transfers into and transfers out of any of the three levels as of the date of the event or change in circumstances that caused the transfer.

(a) Disclosures of level in fair value hierarchy at 31 December:

	2016			
	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	**—**	**—**	**227,378**	**227,378**

	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

Notes To The Consolidated Financial Statements

For The Year Ended 31 December 2016

7. FAIR VALUE ESTIMATION *(continued)*

(b) Reconciliation of assets measured at fair value based on level 3:

	2016 Derivative financial assets — Put options of convertible bonds RMB'000	2015 Derivative financial assets — Put options of convertible bonds RMB'000
Opening balance	**214,822**	—
Fair value change recognised in profit or loss	**12,556**	214,822
Closing balance	**227,378**	214,822
Total gains for the period included in profit or loss for asssets held at the end of the reporting period	**12,556**	214,822

(c) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements at 31 December 2016:

The Group's financial controller is responsible for the fair value measurements of assets and liabilities required for financial reporting purposes, including level 3 fair value measurements. The financial controller reports directly to the Board of Directors for these fair value measurements. Discussions of valuation processes and results are held between the financial controller and the Board of Directors at least twice a year.

For level 3 fair value measurements, the Group will normally engage external valuation experts with the recognised professional qualifications and recent experience to perform the valuations.

Key unobservable inputs used in level 3 fair value measurements are mainly historical volatility.

Notes To The Consolidated Financial Statements

For The Year Ended 31 December 2016

7. FAIR VALUE ESTIMATION *(continued)*

Level 3 fair value measurements

Description	Valuation technique	Unobservable inputs	Effect on fair value for increase of inputs	**Fair value 2016**	Fair value 2015
				RMB'000	RMB'000
Derivative financial assets	Binomial tree method	Historical volatility	Increase	**227,378**	214,822

During the two years, there were no changes in the valuation techniques used.

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 9.7% (2015: 7.8%) and 8.8% (2015: 4.8%) respectively of the Group's revenue during the year.

9. OTHER INCOME

	2016	2015
	RMB'000	RMB'000
Deferred subsidy income recognised	**654**	654
Subsidy income	**9,495**	613
Rental income, net	**1,464**	1,066
Fair value changes on derivative financial assets	**12,556**	214,822
Others, net	**560**	183
	24,729	217,338

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For The Year Ended 31 December 2016

10. OTHER EXPENSES

	2016 RMB'000	2015 RMB'000
Impairment losses non-current assets held for sale	—	(56,784)
Impairment losses on other receivables	(13,991)	(6,883)
Provision for impairment of trade receivables	—	(1,626)
Impairment losses on mining rights	(7,793)	(37,215)
Impairment losses on property, plant and equipment	(22,523)	(9,081)
Impairment losses on goodwill	(207)	(992)
	(44,514)	(112,581)

11. FINANCE EXPENSES — NET

	2016 RMB'000	2015 RMB'000
Finance income:		
Interest income	(2,753)	(19,976)
Finance expenses:		
Interest expense:		
— bank borrowings	116,288	159,118
— borrowing from International Finance Corporation ("IFC")	—	706
— convertible bonds	27,478	27,717
Less: capitalisation in construction-in-progress	(1,588)	(86,310)
	142,178	101,231
Exchange loss	32	2,682
Others	407	11
	142,617	103,924
Finance expenses — net	139,864	83,948

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 2015 and 2016.

The applicable income tax rate of other subsidiaries located in Mainland China in 2016 and 2015 is 25%.

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

	2016	2015
	RMB'000	RMB'000
CIT for Mainland China		
— under-provision in prior years	**—**	948
Deferred income tax	**(9,054)**	(44,042)
	(9,054)	(43,094)

The taxation on the Group's loss before income tax differs from the theoretical amount that would arise using the taxation rate of 25% (2015:25%). The difference is analysed as follows:

	2016	2015
	RMB'000	RMB'000
Loss before tax	**(417,039)**	(149,367)
Tax calculated at a taxation rate of 25% (2015: 25%)	**(104,260)**	(37,342)
Tax rate difference	**10,580**	(13,204)
Expenses not deductible for tax purposes	**23,663**	10,279
Tax losses for which no deferred income tax was recognised	**52,818**	13,168
Temporary differences for which no deferred income tax was recognised	**11,151**	18,653
Income not subject to tax	**(3,006)**	(35,596)
Under-provision in prior years	**—**	948
Income tax credit	**(9,054)**	(43,094)

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For The Year Ended 31 December 2016

13. LOSS FOR THE YEAR

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

	2016	2015
	RMB'000	RMB'000
Raw materials and consumables used	548,610	799,727
Depreciation of property, plant and equipment	172,983	82,762
Depreciation of investment properties	509	509
Amortisation of land use rights	2,186	1,189
Amortisation of other intangible assets	270	270
Auditors' remuneration — Audit services	1,620	1,512
Operating lease payments	850	717
Loss on disposal of property, plant and equipment	68	12
Share-based payment arising from the issue of convertible bonds	—	18,544
Staff costs including directors' emoluments		
Salaries, bonus and allowances	67,789	75,041
Equity-settled share-based payments	6,067	—
Retirement benefits scheme contributions	6,288	5,501
	80,144	80,542

Cost of inventories sold includes staff costs, depreciation and operating lease charges of approximately RMB71,082,000 (2015: approximately RMB119,214,000) which are included in the amounts disclosed separately above.

Notes To The Consolidated Financial Statements

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14. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The remuneration of every director for the years ended 31 December 2016 and 2015 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	1,440	780	—	—	2,220
Mr. Yuan Bai	270	965	28	54	1,317
Ms. Chi Chuan *(Note i)*	270	642	—	—	912
Mr. Li Shengdi *(Note ii)*	90	214	—	—	304
Ms. Man Au, Vivian *(Note iii)*	270	433	—	—	703
Mr. Li Feng *(Note iv)*	150	659	—	—	809
Mr. Li Ciping *(Note v)*	270	569	28	—	867
Name of non-executive director					
Mr. Zhang Fubo	1,800	—	—	—	1,800
Name of independent non-executive directors					
Mr. Hu Xiaoping	108	—	—	—	108
Mr. Woo Che-wor, Alex (Note vi)	108	—	—	—	108
Mr. Qian Laizhong (Note vii)	36	—	—	—	36
Mr. Sun Tong Chuan (Note viii)	108	—	—	—	108
Total for 2016	4,920	4,262	56	54	9,292

Notes To The Consolidated Financial Statements

For The Year Ended 31 December 2016

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	1,344	780	—	—	2,124
Mr. Yuan Bai	252	942	50	—	1,244
Ms. Chi Chuan *(Note i)*	252	642	—	—	894
Mr. Li Shengdi *(Note ii)*	252	642	—	—	894
Ms. Man Au, Vivian *(Note iii)*	252	433	—	—	685
Mr. Li Feng *(Note iv)*	252	1,200	50	—	1,502
Mr. Li Ciping *(Note v)*	252	600	50	—	902
Name of non-executive director					
Mr. Zhang Fubo	1,050	—	—	—	1,050
Name of independent non-executive directors					
Mr. Hu Xiaoping	101	—	—	—	101
Mr. Woo Che-wor, Alex *(Note vi)*	101	—	—	—	101
Mr. Qian Laizhong *(Note vii)*	101	—	—	—	101
Mr. Sun Tong Chuan *(Note viii)*	101	—	—	—	101
Total for 2015	4,310	5,239	150	—	9,699

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

(a) Directors' emoluments *(continued)*

Note:

(i) Ms. Chi Chuan resigned as an executive director on 15 January 2017.

(ii) Mr. Li Shengdi resigned as an executive director on 1 May 2016.

(iii) Ms. Man Au, Vivian resigned as an executive director on 15 January 2017.

(iv) Mr. Li Feng resigned as an executive director on 22 July 2016.

(v) Mr. Li Ciping resigned as an executive director on 15 January 2017.

(vi) Mr. Woo Che-wor, Alex resigned as an independent non-executive director on 15 January 2017.

(vii) Mr. Qian Laizhong resigned as an independent non-executive director on 1 May 2016.

(viii) Mr. Sun Tong Chuan resigned as an independent non-executive director on 15 January 2017.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include five (2015: 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.

Notes To The Consolidated Financial Statements

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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 2015 and 2016.

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

	2016	2015
	RMB'000	RMB'000
Loss		
Loss for the purpose of calculating basic and diluted loss per share	**(407,154)**	(105,646)

	2016	2015
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic and diluted loss per share	**4,189,013**	3,911,896

16. LAND USE RIGHTS

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

	2016 RMB'000	2015 RMB'000
Cost		
At 1 January	59,289	59,289
Transfer from Construction-in-progress	68,680	—
At 31 December	127,969	59,289
Accumulated amortisation		
At 1 January	8,640	7,451
Amortisation charge for the year	2,186	1,189
At 31 December	10,826	8,640
Net book amount		
At 31 December	117,143	50,649

All the Group's land use rights are located in Mainland China. The remaining lease periods of the land use rights are between 42 to 48 years (2015: 1 to 43 years).

As at 31 December 2016, land use rights with a total net book value of approximately RMB61,664,000 (2015: Nil) were pledged as collateral for the Group's bank borrowings.

Amortisation charge had been charged in administrative expenses.

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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 2015	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
Additions	—	438	—	560	44,888	45,886
Disposals	—	—	(340)	(136)	—	(476)
Transferred from/(to) construction-in-progress	717,233	1,533,146	—	—	(2,250,379)	—
Transferred to land use rights	—	—	—	—	(68,680)	(68,680)
At 31 December 2016	1,106,032	2,362,655	14,494	22,881	408,271	3,914,333
Accumulated depreication and impairment loss						
At 1 January 2015	(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)
Depreciation	(17,822)	(146,199)	(971)	(7,991)	—	(172,983)
Disposals	—	—	306	102	—	408
Impairment loss	—	(22,523)	—	—	—	(22,523)
At 31 December 2016	(65,670)	(498,534)	(8,182)	(21,289)	—	(593,675)
Net book amount						
At 31 December 2016	1,040,362	1,864,121	6,312	1,592	408,271	3,320,658
At 31 December 2015	340,951	499,259	7,317	9,057	2,682,442	3,539,026

17. PROPERTY, PLANT AND EQUIPMENT *(continued)*

Impairment loss of approximately RMB22,523,000 (2015: approximately RMB9,081,000) was recognised in profit or loss for obsolete property, plant and equipment.

All the Group's buildings are located in Mainland China. As at 31 December 2016, property, plant and equipment with a total net book value of approximately RMB1,329,423,000 (2015: approximately RMB1,181,796,000) were pledged as collateral for the Group's bank borrowings.

For the year ended 31 December 2016, borrowing costs of approximately RMB1,588,000 (2015: approximately RMB86,310,000) have been capitalised in the construction-in-progress.

18. INVESTMENT PROPERTIES

	2016	2015
	RMB'000	RMB'000
Cost		
As at 1 January and 31 December	**13,862**	13,862
Accumulated depreciation and impairment loss		
As at 1 January	**(1,226)**	(717)
Charge for the year	**(509)**	(509)
As at 31 December	**(1,735)**	(1,226)
Net book value		
As at 31 December	**12,127**	12,636
Fair value as at 31 December	**23,892**	22,350

Notes To The Consolidated Financial Statements

For The Year Ended 31 December 2016

18. INVESTMENT PROPERTIES *(continued)*

All the Group's investment properties are located in Mainland China. As at 31 December 2016, investment properties with a total net book value of approximately RMB12,127,000 (2015: approximately RMB12,636,000) were pledged as collateral for the Group's bank borrowings.

The fair values of the investment properties as at 31 December 2016 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 2016 of approximately RMB1,973,000 (2015: approximately RMB1,575,000) and depreciation charges are included in other income.

As at 31 December 2016, the Group had no unprovided contractual obligations for future repairs and maintenance (2015: 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 23 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 2016, the mining right with a total net book value of approximately RMB289,298,000 (2015: approximately RMB297,091,000) were pledged as collateral for the Group's bank borrowings.

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20. OTHER INTANGIBLE ASSETS

	Goodwill RMB'000	Construction permits RMB'000	Total RMB'000
Cost			
At 1 January 2015, 31 December 2015 and 31 December 2016	8,900	2,700	11,600
Accumulated amortisation and impairment loss			
At 1 January 2015	—	(972)	(972)
Amortisation charge	—	(270)	(270)
Impairment loss	(992)	—	(992)
At 31 December 2015	(992)	(1,242)	(2,234)
Amortisation charge	—	(270)	(270)
Impairment loss	(207)	—	(207)
At 31 December 2016	(1,199)	(1,512)	(2,711)
Net book amount			
At 31 December 2016	7,701	1,188	8,889
At 31 December 2015	7,908	1,458	9,366

Construction permits represent the permissions granted by the government for the construction of GuangAn Project. Amortisation charge of approximately RMB270,000 (2015: approximately RMB270,000) is included in administrative expenses.

Notes To The Consolidated Financial Statements

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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:

	2016	2015
Growth rate	**3%**	3%
Discount rate (post-tax discount rate applied to the cash flow projections)	**15.51%**	16.41%
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 RMB207,000 and approximately RMB7,793,000 were provided on goodwill and mining right for the year ended 31 December 2016 respectively (Impairment losses of approximately RMB992,000 and approximately RMB37,215,000 were provided on goodwill and mining right for the year ended 31 December 2016 respectively).

Notes To The Consolidated Financial Statements

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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%
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%

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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 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")*(Note ii)*	Mainland China	Manufacture and sale of chemical products, Mainland China	RMB160,000,000	100%
Chengdu Dayuan Chemical Industry Co., Ltd ("Ko Yo Dayuan")	Mainland China	Investment holding, Mainland China	RMB100,000	100%
Chengdu Meiyuan Chemical Industry Co., Ltd ("Ko Yo Meiyuan")	Mainland China	Investment holding, Mainland China	RMB100,000	100%
Guangan Lotusan Natural Gas Chemicals Co., Ltd ("Ko Yo Lotusan")*(Note ii)*	Mainland China	Manufacture and sale of chemical products, Mainland China	RMB43,000,000	100%
Sichuan Ko Chang Technology Co., Ltd ("Ko Yo Ko Chang")	Mainland China	Development of phosphoric acid production technology	RMB10,000,000	55%
Guangan Ko Yo New Material Co., Ltd ("Guangan New Material") *(Note ii)*	Mainland China	Manufacture and sale of engineering plastics, Mainland China	RMB64,000,000	100%
Sichuan KoYo Chemical Sci-tech Development Co., Ltd	Mainland China	Development of chemical production technology, Mainland China	—	100%
Guangan Ko Yo Phos-chemical Technology Co., Ltd ("Guangan Phos")	Mainland China	Manufacture and sale of chemical products, Mainland China	RMB100,000,000	100%

Notes:

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

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

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

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23. INVENTORIES

	2016 RMB'000	2015 RMB'000
Raw materials	**68,200**	62,313
Finished goods	**24,264**	16,174
	92,464	78,487

There is no inventory written down as at 31 December 2016 (2015: Nil).

24. TRADE AND OTHER RECEIVABLES

	2016 RMB'000	2015 RMB'000
Trade receivables	**43,259**	20,309
Less: provision for impairment of trade receivables	**(6,867)**	(6,867)
Trade receivables — net	**36,392**	13,442
Prepayments for raw materials	**105,705**	127,348
Other tax receivables	**114,691**	172,681
Due from employees	**12,759**	12,755
Others	**38,513**	21,922
	308,060	348,148

As at 31 December 2016 and 2015, the fair value of trade and other receivables of the Group approximated to their carrying amounts.

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

Notes To The Consolidated Financial Statements

For The Year Ended 31 December 2016

24. TRADE AND OTHER RECEIVABLES *(continued)*

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

	2016 RMB'000	2015 RMB'000
Less than 3 months	36,106	13,442
More than 1 year	7,153	6,867
	43,259	20,309
Less: provision for impairment of trade receivables	(6,867)	(6,867)
	36,392	13,442

As of 31 December 2016, trade receivables of approximately RMB36,392,000 (2015: approximately RMB13,442,000) that are under credit term were fully performing.

As at 31 December 2016, no provision for impairment of trade receivables was made. (2015: approximately RMB1,626,000).

As at 31 December 2016, trade receivables of approximately RMB6,867,000 (2015: approximately RMB6,867,000) were impaired and a total provision of approximately RMB6,867,000 (2015: approximately RMB6,867,000) 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.

As of 31 December 2016, trade receivables of approximately RMB286,000 (2015: Nil) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	2016 RMB'000	2015 RMB'000
More than 1 year	286	—

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25. DERIVATIVE FINANCIAL ASSSETS

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:

	2016	2015
	RMB'000	RMB'000
Opening balance at 1 January	**214,822**	—
Fair value credited to profit or loss	**12,556**	214,822
At 31 December	**227,378**	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 0.15% to 2.80% (2015: 1.55% to 2.50%).

27. CASH AND CASH EQUIVALENTS

The weighting average effective interest rate on cash at bank at 31 December 2016 is 0.3% (2015: 0.35%).

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28. SHARE CAPITAL

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

	Number of shares		Share capital	
	2016	2015	**2016**	2015
	'000	'000	**HKD'000**	HKD'000
Authorised:				
At the beginning and the end of the year	**8,000,000**	8,000,000	**800,000**	800,000

Ordinary shares, issued and fully paid:

	Number of shares		Share capital	
	2016	2015	**2016**	2015
	'000	'000	**RMB'000**	RMB'000
At the beginning of the year	**3,998,162**	3,502,942	**342,822**	302,960
Issue of shares:				
— Employee share option scheme	**80,000**	6,520	**6,960**	522
— Conversion of bonds (Note a)	**210,193**	488,700	**17,749**	39,340
At the end of the year	**4,288,355**	3,998,162	**367,531**	342,822

Notes To The Consolidated Financial Statements

For The Year Ended 31 December 2016

28. SHARE CAPITAL *(continued)*

(a) Conversion of bonds

During the year, the convertible bonds holders exercised certain convertible bonds to subscribe 210,193,000 ordinary shares (2015: 488,700,000 ordinary shares) at an exercise price from HKD0.32 to 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 2016 was as follows:

	2016 **RMB'000**	2015 RMB'000
Short-term borrowings	**1,316,013**	1,588,225
Long-term borrowings	**788,922**	916,640
Convertible bonds	**115,296**	124,835
Total borrowings	**2,220,231**	2,629,700
Less:		
Cash and cash equivalents	**(24,477)**	(59,782)
Pledged bank deposits	**(12,922)**	(505,055)
Net debt	**2,182,832**	2,064,863
Total equity	**1,386,891**	1,740,342
Total capital	**3,569,723**	3,805,205
Gearing ratio	**61%**	54%

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.

Notes To The Consolidated Financial Statements

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29. 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	N/A	N/A	0.69 years	
Granted to	18 employees	2 executive directors and 1 independent director	7 employees	
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
1 January 2016	1,800,000	400,000	800,000	3,000,000
Lapsed	(1,800,000)	(400,000)	—	(2,200,000)
31 December 2016	—	—	800,000	800,000

Notes To The Consolidated Financial Statements

For The Year Ended 31 December 2016

29. 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	22 June 2016	Total
Exercise price (HKD per option)	1.15	1.1	0.595	0.48	0.151	
Remaining life	3.04 year	3.90 year	6.24 year	6.87 years	9.47 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 executive director and 3 employees	
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
1 January 2016	4,700,000	1,600,000	10,000,000	—	—	16,300,000
Grant	—	—	—	—	81,900,000	81,900,000
Exercised	—	—	—	—	(80,000,000)	(80,000,000)
31 December 2016	4,700,000	1,600,000	10,000,000	—	1,900,000	18,200,000

Notes To The Consolidated Financial Statements

For The Year Ended 31 December 2016

30. RESERVES

(a) Group

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

(b) Company

	Share premium	Contributed surplus	Share-based compensation reserve — share options	Share-based compensation reserve — convertible bonds	Accumulated losses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
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
At 1 January 2016	1,343,030	37,162	22,202	267,004	(274,685)	1,394,713
Total comprehensive loss for the year	—	—	—	—	(407,154)	(407,154)
Issue of shares:						
— Employee share option scheme	3,550	—	—	—	—	3,550
— Conversion of bonds	60,194	—	—	(48,622)	—	11,572
Issuance of convertible bonds	—	—	—	8,636	—	8,636
Share-based payments	—	—	6,067	—	—	6,067
At 31 December 2016	1,406,774	37,162	28,269	227,018	(681,839)	1,017,384

30. RESERVES *(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.

Notes To The Consolidated Financial Statements

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31. BORROWINGS

	2016 RMB'000	2015 RMB'000
Non-current portion of long-term bank borrowings (Note a)	**568,282**	634,960
Current portion of long-term bank borrowings (Note a)	**220,640**	281,680
Short-term borrowings (note b)	**1,316,013**	1,588,225
	2,104,935	2,504,865

The borrowings are secured by bank deposits of approximately RMB12,922,000 (2015: approximately RMB505,055,000), property, plant and equipment with a total net book value of approximately RMB1,329,423,000 (2015: approximately RMB1,181,796,000), investment properties with a total net book value of approximately RMB12,127,000 (2015: approximately RMB12,636,000), mining right with a total net book value of approximately RMB289,298,000 (2015: approximately RMB297,091,000), land use rights with a total net book value of approximately RMB61,664,000 (2015: Nil), 100% equity interest in Dazhou Ko Yo Chemical, Sichuan Cuyo, Guangan New Material, Ko Yo GuangAn and Ko Yo Lotusan (2015: 100% equity interest in Dazhou Ko Yo Chemical, Sichuan Cuyo and Ko Yo Agrochem) and guaranteed by Mr. Li Weiruo and the Company.

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31. BORROWINGS *(continued)*

(a) Long-term bank borrowings

The average effective interest rate of bank borrowings as at 31 December 2016 is 5.65% (2015: 7.00%).

As at 31 December 2016 and 2015, the Group's long-term bank borrowings were repayable as follows:

	2016 RMB'000	2015 RMB'000
Within 1 year	**220,640**	281,680
Between 1 and 2 years	**128,320**	126,640
Between 2 and 3 years	**159,962**	128,320
Between 3 and 5 years	**190,000**	200,000
Over 5 years	**90,000**	180,000
	788,922	916,640
Within 1 year included in current liabilities	**(220,640)**	(281,680)
	568,282	634,960

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.

Notes To The Consolidated Financial Statements

For The Year Ended 31 December 2016

31. BORROWINGS *(continued)*

(b) Short-term borrowings

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

	2016	2015
	RMB'000	RMB'000
At fixed rates in USD	**—**	15,634
At fixed rates in HKD*	**7,200**	18,550
At flxed rates in RMB	**1,308,813**	1,554,041
	1,316,013	1,588,225

* The amount due to a related company is unsecured, interest-bearing of 15% p.a. and repayable on demand.

The short-term borrowings were issued at interest rates which range from 4.35% to 15.00% (2015: 3.26% to 15.00%) per annum. The fair value of short-term borrowings approximate to their carrying amounts.

32. CONVERTIBLE BONDS

	2016	2015
	RMB'000	RMB'000
Liability component		
Convertible bonds 1	**106,516**	114,305
Convertible bonds 2	**—**	10,530
Convertible bonds 3	**8,780**	—
	115,296	124,835

32. CONVERTIBLE BONDS *(continued)*

Convertible bonds 1

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

	Liability component	Equity component	Total
	RMB'000	RMB'000	RMB'000
At 1 January 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
At 1 January 2016	**114,305**	**252,378**	**366,683**
Interest expense accrued	**25,933**	**—**	**25,933**
Interest expense charged to accrued expense	**(18,141)**	**—**	**(18,141)**
Converted during the year	**(15,581)**	**(31,316)**	**(46,897)**
At 31 December 2016	**106,516**	**221,062**	**327,578**

The principal amount of the convertible bonds as at 31 December 2016 is approximately RMB259,165,000 (2015: approximately RMB295,878,000).

Notes To The Consolidated Financial Statements

For The Year Ended 31 December 2016

32. 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	Equity component	Total
	RMB'000	RMB'000	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
At 1 January 2016	**10,530**	**14,626**	**25,156**
Interest expense accrued	**18**	**—**	**18**
Converted during the year	**(10,548)**	**(14,626)**	**(25,174)**
At 31 December 2016	**—**	**—**	**—**

32. CONVERTIBLE BONDS *(continued)*

Convertible bonds 3

On 15 January 2016, 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. The convertible bonds are non-interest bearing. The convertible bonds can be converted into ordinary shares at a conversion price of HKD0.40 from the day immediately following the date of the issue of convertible bonds to the maturity date which is 14 January 2019. If the convertible bonds have not been converted, they will be redeemed at par on 14 January 2019 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	Equity component	Total
	RMB'000	RMB'000	RMB'000
Fair value of Convertible Bonds on grant date	10,445	8,636	19,081
Interest expense accrued	1,527	—	1,527
Converted during the year	(3,192)	(2,680)	(5,872)
At 31 December 2016	8,780	5,956	14,736

The principal amount of the convertible bonds as at 31 December 2016 is approximately RMB13,360,000.

33. DEFERRED SUBSIDY INCOME

Government grant for production facilities

	2016	2015
	RMB'000	RMB'000
At 1 January	**2,584**	3,238
Subsidy income recognised	**(654)**	(654)
At 31 December	**1,930**	2,584

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34. DEFERRED INCOME TAX

There were no offsetting of deferred income tax assets and liabilities in 2016 and 2015.

	2016	2015
	RMB'000	RMB'000
Deferred tax assets:		
— To be recovered after more than 12 months	**80,661**	73,555
— To be recovered within 12 months	**52**	52
	80,713	73,607
Deferred tax liabilities		
— To be settled after more than 12 months	**(69,615)**	(71,563)
— To be settled within 12 months	**—**	—
	(69,615)	(71,563)

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

Deferred income tax assets:

	Tax losses	**Impairment of assets**	**Deferred subsidy income**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000
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
At 1 January 2016	**73,343**	**—**	**264**	**73,607**
Charged to profit or loss	**7,158**	**—**	**(52)**	**7,106**
At 31 December 2016	**80,501**	**—**	**212**	**80,713**

34. DEFERRED INCOME TAX *(continued)*

Deferred income tax liabilities:

	Mining right
	RMB'000
At 1 January 2015	(80,867)
Charged to profit or loss	9,304
At 31 December 2015	(71,563)
At 1 January 2016	**(71,563)**
Charged to profit or loss	**1,948**
At 31 December 2016	**(69,615)**

As at 31 December 2016, the Group had total unused tax losses of approximately RMB738,142,000 (2015: approximately RMB427,740,000). No deferred tax asset has been recognised in respect of tax losses of certain subsidiaries of approximately RMB416,138,000 (2015: approximately RMB134,368,000) due to the unpredictability of future profit streams of these subsidiaries. Deferred tax asset of approximately RMB80,501,000 (2015: approximately RMB73,343,000) has been recognised in respect of the tax losses of certain subsidiaries of approximately RMB322,004,000 (2015: approximately RMB293,372,000) as management considered it is probable that these subsidiaries can generate sufficient taxable profit to utilise the above tax loss of approximately RMB322,004,000.

Notes To The Consolidated Financial Statements

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35. TRADE AND OTHER PAYABLES

	2016 RMB'000	2015 RMB'000
Trade payables (Note a)	**154,249**	171,903
Construction payable	**356,481**	375,526
Advances from customers	**159,437**	147,895
Advances from disposal of the non-current assets held for sale	**—**	142,000
Accrued expenses	**62,033**	36,930
Interest payables	**61,348**	—
Other taxes payable	**2,408**	1,527
Others	**18,354**	14,261
	814,310	890,042

(a) Trade payables

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

	2016 RMB'000	2015 RMB'000
Less than 1 year	**87,495**	156,769
More than 1 year but not exceeding 2 years	**61,297**	14,180
More than 2 years but not exceeding 3 years	**2,084**	4
More than 3 years	**3,373**	950
	154,249	171,903

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

36. COMMITMENTS

(a) Capital commitments

	2016 RMB'000	2015 RMB'000
Constructions-in-progress:		
Contracted but not provided for	**226,255**	197,348

(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:

	2016 RMB'000	2015 RMB'000
Not later than 1 year	**882**	220
More than 1 year but not exceeding 2 years	**242**	—
Total operating commitments	**1,124**	220

(c) Operating leases rental receivables

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

	2016 RMB'000	2015 RMB'000
Not later than 1 year	**2,084**	1,914
More than one year but not exceeding five years	**9,029**	8,841
More than five years	**—**	2,626
	11,113	13,381

Notes To The Consolidated Financial Statements

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37. RELATED-PARTY TRANSACTIONS

At 31 December 2016, long-term borrowings of approximately RMB90,000,000 (2015: approximately RMB204,960,000) and short-term borrowings of approximately RMB374,963,000 (2015: approximately RMB128,275,000) 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.

38. KEY MANAGEMENT COMPENSATION (EXCLUDING DIRECTORS' EMOLUMENTS)

	2016	2015
	RMB'000	RMB'000
Salaries and other short-term employee benefits	**2,572**	2,880

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

	2016	2015
	RMB'000	RMB'000
ASSETS		
Non-current assets		
Interests in subsidiaries	**255,717**	695,932
Loan to subsidiaries	**1,101,072**	970,009
	1,356,789	1,665,941
Current assets		
Other receivables	**404**	299
Derivative financial assets	**227,378**	214,822
Cash and cash equivalents	**70**	1,971
	227,852	217,092
Total assets	**1,584,641**	1,883,033

39. STATEMENT OF FINANCIAL POSITION OF THE COMPANY AS AT 31 DECEMBER *(continued)*

	2016 RMB'000	2015 RMB'000
EQUITY		
Capital and reserves attributable to equity holders of the Company		
Share capital	367,531	342,822
Reserves	1,017,384	1,394,713
Total equity	1,384,915	1,737,535
LIABILITIES		
Non-current liabilities		
Convertible bonds	115,296	124,835
Current liabilities		
Accruals and other payables	30,120	2,113
Short-term borrowings	7,200	18,550
Financial guarantee liabilities	47,110	—
	84,430	20,663
Total liabilities	199,726	145,498
Total equity and liabilities	1,584,641	1,883,033
Net current assets	143,422	196,429
Total assets less current liabilities	1,500,211	1,862,370

40. EVENT AFTER THE REPORTING PERIOD

On 13 January 2017, the Company and each of the Subscribers have mutually agreed to terminate each of the respective Subscription Agreements which entered on 28 November 2016 and the Subscription of new shares of the Company will not proceed.

41. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved and authorised for issue by the Board of Directors on 30 March 2017.

Five Year 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 2016.

	2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000	2012 RMB'000
Turnover	**1,947,027**	1,928,147	1,369,590	1,339,252	1,346,970
(Loss)/Profit before taxation	**(417,039)**	(149,367)	(524,739)	(64,257)	128,598
Taxation	**9,054**	43,094	34,050	6,868	(26,986)
Minority interest	**(831)**	(627)	(642)	(333)	–
(Loss)/Profit after taxation	**(407,154)**	(105,646)	(490,047)	(57,056)	101,612
Total assets	**4,494,129**	5,334,231	5,333,257	5,443,943	4,443,963
Total liabilities	**(3,107,238)**	(3,593,889)	(3,576,599)	(4,371,644)	(3,322,291)
Total equity	**1,386,891**	1,740,342	1,756,658	1,072,299	1,121,672