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

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

ANNUAL REPORT **2017**

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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. Shi Lei
Mr. Xu Congcai

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. Zhang Fubo
Mr. Xu Congcai

AUTHORIZED REPRESENTATIVES
Mr. Wu Tianran
Mr. Li Weiruo

COMPLIANCE OFFICER
Mr. Wan Congxin

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG
Suite No. 02, 31st Floor, Sino Plaza
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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 2017, the net cash inflow from operating activities was approximately RMB145 million, which represent an increase of RMB240 million as compared to the net cash outflow from operating activities of approximately RMB95 million in year 2016.

- For the year ended 31st December 2017, due to the loss on fair value changes on derivative financial assets of a total amount of approximately RMB186 million, the loss attributable to shareholders was adjusted from approximately RMB268 million to approximately RMB454 million, which represent an increase a loss of approximately RMB47 million as compared to a loss of approximately RMB407 million in year 2016.

- Basic loss per share was approximately RMB0.106 for the year ended 31st December 2017.

- The net asset value per share was approximately RMB0.22 as at 31st December 2017.

- For the year ended 31st December 2017, sale turnover was approximately RMB3,678 million, which represents an increase of approximately 88.9% as compared to year 2016.

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

			% change compare with year 2016	
Type	**Sales amount** (million RMB)	**Sales quantities** (tonnes)	**Sales amount**	**Sales quantities**
BB & compound fertilizers	31	24,424	29	15
Urea	562	386,212	N/A	N/A
Ammonia	460	233,891	201	122
Methanol	731	361,906	40	17
Polyphenylene sulfide	82	1,883	95	144
Others — trading	1,812	N/A	50	N/A

- The Directors do not recommend the payment of any final dividend for the year ended 31st December 2017.

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 31 December 2017. 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.

As the macro-economic conditions showed signs of improvement in 2017, the chemical fertilizer and chemicals industry had been recovering gradually. Despite lingering difficulties for the chemical fertilizer and chemicals industry due to several factors, such as emphasis on safety and environmental protection, production cap of coal and unstable gas supply, the recovery momentum in the second half of 2016 remains intact with substantial increase in prices for synthetic ammonia, urea and methanol products. Nevertheless, due to limited gas supply and production suspension, the equipment utilisation rate and production volume of the Group's Dazhou Plant and Guangan Plant failed to reach the annual target and the Group remained in a loss position.

For the year ended 31 December 2017, due to the loss on fair value changes on derivative financial assets of a total amount of approximately RMB186 million, the audited loss attributable to shareholders of the Group was adjusted from approximately RMB268 million to approximately RMB454 million. Basic loss per share amounted to approximately RMB0.106 (2016: loss of RMB0.097). The net cash inflow from operating activities was approximately RMB145 million in year 2017, which represents an increase of RMB240 million as compared to the net cash outflow from operating activities of approximately RMB95 million in year 2016. The Group's turnover amounted to approximately RMB3,678 million, representing an increase of 88.9% as compared to RMB1,947 million for the corresponding period in 2016. The Group's sales volume (excluding trading) amounted to approximately 1,008,000 tonnes, representing an increase of approximately 130% as compared to 438,000 tonnes of last year.

For the period under review, Dazhou Plant resumed full production on 1 January 2017 and kept optimising the production process to ensure safe, environmental-friendly and stable operation of the equipment for synthetic ammonia and urea. The equipment stopped operating on 30 November 2017 due to gas supply and commenced annual maintenance for 2017. The operation for synthetic ammonia and urea covered 298 days and 281 days, respectively. Guangan Plant had to stop operating and undergo maintenance in September due to the examination and inspection of the PetroChina's desulfurization plant in Longwangmiao. While the operation resumed on 15 October 2017, it was subsequently suspended again on 10 December due to reservation of gas to ensure residential heating supply in winter, resulting in an annual operation time of merely a little more than nine months. In terms of sales, the Dazhou branch's local sales obtained a great breakthrough and sales of methanol continued to be through automotive transportation. The OEM business was restrained by the significant increase in raw material costs, hence failing to meet expectations with regard to sales volume and efficiency. The new material factory was active in process optimisation and equipment reinforcement and further boosted single reactor production volume and reduced energy consumption. However, given the continuous rise in raw material prices and impact from Japanese and U.S. enterprises on the product market, the production volume and implementation effect fell short of our expectation. Despite significant improvement for the market prices of urea, liquid ammonia and methanol when compared to 2016, insufficient gas supply in the 4th quarter of 2017 led to disruption in the production at Dazhou Plant and Guangan Plant and, thus, the failure to reach the targeted production volume, resulting in a loss position for the Group.

Determined to adhere to the development strategy approach and working plan of "minimizing cost and maximizing efficiency, tiding over the hard time" formulated by the Board in 2017, all staff of the Group strived to push forward the production and sales efforts in a market-led approach by safety and environmental measures with enhanced management. With improved operation conditions, zero safety issue throughout the year, satisfactory results from environmental production works and a stable workforce, 2017 was a year of recovery for us. With the concerted effort of all staff and riding on the favourable opportunities arising from market recovery, the Company was walking out from the doldrums.

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

Considering the Group's results during the year under review, the Board does not recommend the payment of any final dividend for the year ended 31 December 2017. The Group has not declared any dividend for the year ended 31 December 2017 (2016: Nil).

PROSPECT

Industry Overview and Outlook

1. **Substantial relief for overcapacity of urea in 2017 with balanced supply and demand of nitrogen fertilizer resulted in price improvement**

   According to the statistics from CNFA (中國氮肥行業協會), for 2017, the production volume of urea in the PRC accumulated to 53.40 million tonnes (material). Meanwhile, the average annualized operating rate of urea enterprises was only 58%, representing a 10.53% decrease compared to that of 2016. According to the statistics from the China Customs, the PRC exported an aggregate of 4.65 million tonnes urea for the whole year, representing a year-on-year decrease of 47.5%. In 2017, the annual capacity of synthetic ammonia and urea recorded a decline of 4.31 million tonnes and 8.52 million tonnes, respectively.

   During the first half of 2017, the domestic urea market as a whole had undergone a period of subdued and sluggish performance due to, among other factors, rigid coal prices, increasingly stringent environmental policies, compounded by continuously low operating rate, the increased demand of fertilizers application in autumn and the restriction imposed on natural gas supply at year-end. Going into the third quarter, the market picked up gradually with an eventual surge in the fourth quarter.

   Looking ahead into 2018, with the support from the following factors, the urea market is expected to maintain the momentum in 2017. Firstly, the government will continue to implement its supply-side reform in 2018, prompting the rationalisation of production capacity in the urea market. Urea plant utilization rate in 2018 is expected to remain at a low level. Secondly, the peak price of coal offers great support to the cost of urea. As to coal supply, a large portion of coal capacity was eliminated during 2017. This, together with the restrictive measures on the importation of coal implemented by the government, has propelled the healthy development of the coal industry. Whereas on the demand side, there has been growing demand for coal from the needs of power consumption, heating supply and chemical products manufacturing-related consumption. Therefore, coal price is expected to be lingering in the upper region in 2018. Thirdly, we may see some increasing demand for urea in respect of construction purpose wood-based panel, automobile diesel exhaust fluid market as well as desulfurization and denitrification processes in power plants.

Chairman's Statement

2. **Growth of downstream industries of the methanol market in 2017 spurred the industry sentiment**
According to 17th China Methanol and Downstream Market Forum (第十七屆中國甲醇及下游市場論壇), production volume of methanol in China was 52.58 million tonnes in 2017, up by 5.96 million tonnes from 2016. The total demand of methanol in China amounted 60.28 million tonnes in 2017, increased by 5.757 million tonnes from 2016. In 2017, accumulated methanol import was 8.146 million tonnes, down by 554,000 tonnes from 2016 while total export was only 126,700 tonnes. The operation rate of methanol enterprises was approximately 71%.

   Given the continuous slowdown in the new production capacity of methanol, further environmental impact, rebound of coal price and production limit on coal, coupled with factors like import contraction of methanol, increased downstream demand, gas insufficiency at the end of the year and production limit on coking, the methanol market in China saw recovery in 2017 with high prices of different regions mainly in the first and the fourth quarter, especially the fourth quarter, which was due to the tight supply of raw material leading to new heights of price for the year in several regions in mid-December.

   Domestic supply and demand of methanol in the PRC is expected to be balanced in 2018. In light of regulatory efforts with regard to environmental protection, olefin utilisation rate, global supply and demand of methanol and macro-financial conditions, the methanol market is expected to be more stable than 2017 with upward potential despite fluctuation. First, stable upstream raw coal prices form a solid base for methanol costs. Second, despite a slow-down in the growth of additional capacity, downstream methanol demands are boosted through substantial consumption of methanol from additional single set olefin equipment in 2017, high utilisation rate of acetate enterprises and intensive development of methanol furnaces and hydrogen production from methanol in the downstream market.

3. **Quality of the Company's fibre resin has improved as an adequate alternative to imported products**
In 2017, the Company enhanced the process of fibre-grade polyphenylene sulphide with lower production cost and better product quality, where nitric acid resistance improved substantially and resin colour improved gradually. Major technological index exceeded industrial standards. The Company has further strengthened its competitiveness. In 2018, the Company will step up efforts on exploring the application of polyphenylene sulphide on modification, broadening the sales area of polyphenylene sulphide products and enhancing our profitability.

OBJECTIVES AND STRATEGIES

2017 was a good start of recovery for the chemical fertilizers and chemicals industries, and also a year of restoration for the Group. Looking ahead to 2018, it is a year of fundamental management for the Group to seize the opportunities arising from the recovery of the industry of chemical fertilizers and chemicals. By stabilizing and optimizing the existing businesses, the Group will endeavor to consolidate the basic work and achieve a safe, long-term and stable operation in order to help the Company weather the storm.

1. We will effectively organize and coordinate production materials, such as water, electricity and gas, especially the coordination of natural gas supply, in order to secure a maximum supply of natural gas so as to ensure long-term and high-loading operation of Dazhou Plant and Guangan Plant.

2. We will cheer all staff up to overcome difficulty by improving working style and enhancing operational awareness in order to fully master the macroeconomic conditions and keep abreast of market dynamics for flexible and effective decision-making. Operation conditions of facilities will be further optimized to constantly reduce the overall unit energy consumption. We will maximize product sales by further optimization of sales efforts. We will step up procurement and supply so as to enhance communication.

3. We will optimize management process and strengthen execution, with a view to enhancing the overall management standard and operation efficiency of the Company and achieving lean and effective management.

4. We will continue to strengthen our position in the existing PPS market for a solid presence in the fiber market and an expansion in the injection molding market so as to grow our market share in China and increase brand influence. As quality products gradually replace imported products, we aim to tap into the international market.

APPRECIATION

Looking back to the past year, the chemical fertilizers and chemicals industries experienced a progressive recovery and the Group began to see restoration. Under the leadership of our management and with the concerted efforts of all of our staff, we adhered to the development strategy and working plan of "minimizing cost and maximizing efficiency, tiding over the hard time" by actively organizing production and sales operation with improved operational situation. In this coming year, we will seize on new opportunities and overcome new challenges under the plan and leadership of the Board. By stabilizing and optimizing the existing businesses, we will strive to achieve the objective of "safe, long-term and quality operation" 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 wholehearted dedication for the year. We will strive to bring more benefits and returns to our shareholders and the society.

Wu Tianran
Chairman

29 March 2018

Business Review

FINANCIAL PERFORMANCE

Results

For the year ended 31st December 2017, 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 RMB3,678 million, an increase of 88.9% as compared to last year. The loss attributable to shareholders of the Company amounted to approximately RMB454 million, representing an increase a loss of approximately RMB47 million as compared to last year. Basic loss per share amounted to approximately RMB0.106.

Cost and profit margin

Cost of sales of the Group amounted to approximately RMB3,644 million, representing an increase of 83.2% as compared to the figure in 2016. 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 increased approximately from -2.1% in 2016 to 0.9% in 2017. The increase in the gross profit margin was due to the increase in selling price of products.

During the year under review, distribution costs increased approximately by 423% as compared with last year. The increase in distribution cost was due to the sales in urea was zero in 2016 and the production was resumed in 2017. The ratio of the distribution costs over sales was 1.15% in 2017 which was 0.73% higher than those in 2016.

In comparison with last year, there was a decrease in administrative expenses of the Group by approximately 38.9% from approximately RMB207.6 million in 2016 to approximately RMB126.9 million in 2017. The decrease in administrative expenses is mainly due to the suspension of production of Dazhou Plant in 2016 and therefore depreciation of Dazhou Plant in 2016 had been charged to the administrative expenses which was not happened in 2017.

Other income decrease from a gain of approximately RMB25 million in 2016 to a loss of approximately RMB173 million in 2017. It was mainly due to the changes in fair value on derivative financial assets. Details are set out in Note 9 to consolidated financial statement. Other expenses amounted to approximately RMB0.3 million in 2017 (2016: approximately RMB44.5 million). The decrease in other expenses was due to there were no impairment losses on various assets in 2017 as compared with last year. Details are set out in Note 10 to consolidated financial statement.

The Group's income tax benefit in 2017 amounted to approximately RMB16.7 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 2017. The Group has not declared any dividend for the year ended 31st December 2017 (2016: Nil).

PRODUCTS

Sales of the Group's products for the year 2016 and 2017 are as follows:

	Turnover in year 2017		Turnover in year 2016		**Percentage Change in turnover**
	RMB'000	**Composite %**	RMB'000	Composite %	**%**
BB & compound fertilizers	**31,000**	**0.8**	24,000	1.2	29
Urea	**562,000**	**15.3**	–	–	N/A
Ammonia	**460,000**	**12.5**	153,000	7.9	201
Methenol	**731,000**	**19.9**	523,000	26.9	40
Polyphenylene sulfide	**82,000**	**2.2**	42,000	2.2	95
Others — Trading	**1,812,000**	**49.3**	1,205,000	61.8	50

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

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31st December 2017, the Group had net current liabilities of approximately RMB2,029,259,000. Current assets as at 31st December 2017 comprised cash and bank deposits of approximately RMB16,312,000, pledged bank deposits of approximately RMB11,596,000, inventories of approximately RMB70,824,000, derivative financial asset of approximately RMB41,670,000, trade receivables of approximately RMB9,271,000 and prepayments and other current assets of approximately RMB207,398,000. Current liabilities as at 31st December 2017 comprised short-term borrowings of approximately RMB1,302,854,000, short-term portion for long-term borrowings of approximately RMB345,960,000, trade and notes payables of approximately RMB61,006,000, advances from customers of approximately RMB301,517,000 and accrued charges and other payables of approximately RMB374,993,000. 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 2017, the Group had outstanding capital commitments of approximately RMB127,285,000. Details of the Group's capital commitments are set out in Note 36 to the consolidated financial statements.

Business Review

FINANCIAL RESOURCES

As at 31st December 2017, the Group had cash and bank deposits of approximately RMB16,312,000 and pledged bank deposits of approximately RMB11,596,000. 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 2017, the total borrowings and notes payable balances of the Group amounted to approximately RMB2,210,966,000.

GEARING RATIO

The Group's gearing ratios were approximately 70% and 61% as at 31st December 2017 and 31st December 2016 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 2017.

MATERIAL ACQUISITION/DISPOSAL

There was no material acquisition or disposal in the year 2017 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 2017, land use rights with a total net book value of approximately RMB60,223,000 (2016: approximately RMB61,664,000), property, plant and machinery with a total net book value of approximately RMB1,168,227,000 (2016: approximately RMB1,329,423,000), investment properties with a total net book value of approximately RMB11,618,000 (2016: approximately RMB12,127,000), mining right with a total net book value of approximately RMB297,300,000 (2016: approximately RMB289,298,000) and bank deposits approximately RMB11,596,000 (2016: approximately RMB12,922,000) were pledged as collateral for the Group's borrowings and notes payable.

NUMBER OF EMPLOYEES

As at 31st December 2017, the Group had 779 (2016: 786) employees, comprising 5 (2016: 6) in management, 94 (2016: 110) in finance and administration, 634 (2016: 626) in production and 46 (2016: 44) in sales and marketing, 773 (2016: 780) of these employees were located in the PRC and 6 (2016: 6) were located in Hong Kong.

ENVIRONMENTAL, SOCIAL AND GOVERANCE

For the year ended 31 December 2017, the Group's key business operations make continuous effort and investment on managing and monitoring environmental and social performance. Technology advancement, especially new materials development, continues to assist the Group achieve long-term business resilience, to achieve its economic, environmental and social sustainability. The group ensures strict compliance with and keeps a close eye on updates of any applicable regulations, laws, and standards. Engagement with stakeholders has resulted in raised concerns on key material issues, which include:Energy, Emissions, Effluents and Waste, Environmental Protection Policies, and Occupational Health and Safety. The Group will continue to identify areas of improvement for the concerned aspects and keep close communication with its stakeholders for advancing ESG management.

The Environmental, Social, Governance Report is set out on pages 26 to 48 of the annual report.

Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Wu Tianran, aged 61, 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 64, is an Executive Director, vice chairman of the Board and the founder of the Group. He graduated from Sichuan Institute of Finance and Economics with a certificate in economics in 1985. Mr. Li has over 20 years' experience in corporate management in the PRC. He was awarded a certificate for "Chief Economists of Large-to-Medium Sized Enterprises in the PRC" after completing "The Study Course for Chief Economists of Large-to-Medium Sized Enterprises" commissioned by the State Economics Commission at the Southwest University of Finance and Economics in 1986. He is one of the authors of "Modern Corporate Management" which was published by the Sichuan Education Publisher. Mr. Li was the former Vice-director of China Nonferrous Metal Corporation in Chengdu. Mr. Li moved to Hong Kong in 1994 and became a permanent resident of Hong Kong in 2001. He was appointed as a member of the Chinese People's Political Consultative Conference of Sichuan Province in 2003. Mr. Li was appointed as the vice chairman of the China Association for Quality Inspection in August 2005. In May 2006, Mr. Li was awarded the "Outstanding Entrepreneur of Privately- owned Petroleum and Chemical Enterprises in China 2006" by the China Petroleum and Chemical Industry Association. In September 2007, Mr. Li received the "Asia 10 Brand Innovative Personality Award" by the Asia Brand Ceremony Organizing Committee. In December 2008, he was accredited the award of "World Economy Top 10 Outstanding Chinese Entrepreneurs" by the "2008 Asia Pacific Annual Chinese-Economy Council for Investment & Financing". Mr. Li is responsible for the management of the plant in China of the Group in Board level.

Mr. Yuan Bai, aged 59, is an Executive Director of the Group. Mr. Yuan graduated from Northeast Institute of Technology with a bachelor degree in engineering in 1982 and obtained a certificate as Senior Engineer in 1992. Mr. Yuan studied economy management in Tsinghua University from September 1995 to March 1996. Prior to joining the Group in August 1999, Mr. Yuan was the Deputy General Manager of Chongqing Sanjiu Industrial Co., Ltd., which focused on the manufacture and trading of non-ferrous metal. Mr. Yuan was elected as a people's delegate of the first session of the People's Congress of Chongqing in 1997. He is responsible for the daily operation and management of the Group.

Mr. Wan Congxin, aged 55, 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.

NON-EXECUTIVE DIRECTOR

Mr. Zhang Fubo, aged 55, 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 Shanghai Shenhua Holdings Company Limited and the chairman of Shunfeng International Clean Energy Limited. He joined the Ko Yo Group on 16 May 2015.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Hu Xiaoping, aged 67, 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. 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. Xu Congcai, aged 66, is an Independent Non-Executive Director of the Group. He received a bachelor degree in political economics from Anhui University of Finance and Economics (formerly known as Anhui Institute of Finance and Trade) in 1982, and in 1998, received a doctorate in economics from the School of Economics, Fudan University. Mr. Xu was admitted to the Special Allowance Program for Outstanding Experts sponsored by the State Council. In 1996, he was recognized as a Young and Middle-aged Expert with Outstanding Contribution. In 2002, he began to serve as an instructor for doctoral candidates to be admitted to the industrial economics programs in Renmin University of China. Currently, he is a professor at Nanjing University of Finance and Economics, a vice president at the Commerce Economy Association of China, a member of the Seventh Session of the Higher Education Institution Approval Committee under the Ministry of Education (from 2017 to 2021), and an executive dean of Taihu University of Wuxi. In addition, Mr. Xu is an independent director of Daqian Ecology and Landscape Co. Ltd. He was previously an independent director of Wuxi Rural Commercial Bank. He was appointed as an Independent Non-Executive Director of the Group on 1 August 2017.

Directors and Senior Management

SENIOR MANAGEMENT

Mr. Li Ciping, aged 52, is the chief executive officer of the Group. He was an Executive Director of the Group from 1 July 2014 to 15 January 2017. He graduated from Fuzhou University in 1985, majoring in Chemical Engineering. Mr. Li joined Ko Yo Group in 2008. Before joining Ko Yo Group, he was the director and general manager of Max Giant International Group Limited in Hong Kong. He had an extensive experience in corporate management.

Ms. Chi Chuan, aged 62, 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.

Ms. Man Au Vivian, aged 53, 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. Chung Tin Ming, aged 47 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 66, 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 56, 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 2017.

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 2017 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 2017 (2016: 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 2017 amounted to approximately RMB563,221,000 (2016: approximately RMB1,017,384,000).

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 122.

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 2017 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. Shi Lei (Appointed on 15 January 2017)
Mr. Xu Congcai (Appointed on 1 August 2017)
Mr. Ge Jun (Appointed on 15 January 2017 and resigned on 5 May 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. Zhang Fubo and Mr. Xu Congcai will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

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

The Independent Non-Executive Directors of the Company are appointed with specific terms inside the letter of appointment for initial fixed terms of two years. Pursuant to A.4.3 of the Corporate Governance Code (the "Corporate Governance Code") set out in Appendix 14 of the Listing Rules, any further appointment of an Independent Non-Executive Director in excess of nine years should subject to a separate resolution to be approved by shareholders. Mr. Hu Xiaoping was appointed as Independent Non-Executive Directors in June 2003 and will severe on the Board for more than fifteen years in June 2018. Therefore, Mr. Hu Xiaoping should retire and re-election at the forthcoming annual general meeting.

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

SHARE OPTIONS

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

Report of the Directors

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

GEM Share Option Scheme

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

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

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

The GEM Share Option Scheme was terminated on 25 August 2008. Therefore, as at 31 December 2017, 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 0.7 years.

During the year ended 31st December 2017, no share options were exercised. Details of option outstanding and movements are disclosed in the following table:

Number of share options

	Held at 1 January 2017 ('000)	Grant during period ('000)	Exercised during period ('000)	Forfeited/ Lapsed during period ('000)	Held at 31 December 2017 ('000)	*Share Options A ('000)	*Share Options B ('000)	*Share Options C ('000)	*Share Options D ('000)
Directors (31.12. 2017)									
Wu Tianran	–	–	–	–	**–**	–	–	–	–
Li Weiruo	–	–	–	–	**–**	–	–	–	–
Yuan Bai	3,400	–	–	–	**3,400**	800	–	2,200	400
Wan Congxin	–	–	–	–	**–**	–	–	–	–
Zhang Fubo	–	–	–	–	**–**	–	–	–	–
Hu Xiaoping	1,200	–	–	–	**1,200**	–	800	400	–
Shi Lei	–	–	–	–	**–**	–	–	–	–
Xu Congcai	–	–	–	–	**–**	–	–	–	–
Employees	13,600	–	–	–	**13,600**	3,900	800	7,400	1,500
Total	18,200	–	–	–	**18,200**	4,700	1,600	10,000	1,900

* Share Options A: Grant at 14th January 2010, exercisable from grant date until 13 January 2020 with exercise price HK$1.150.
Share Options B: Grant at 23 November 2010, exercisable from grant date until 22 November 2020 with exercise price HK$1.100.
Share Options C: Grant at 28 March 2013, exercisable from grant date until 27 March 2023 with exercise price HK$0.595.
Share Options D: Grant at 22 June 2016, exercisable from grant date until 21 June 2026 with exercise price HK$0.151.

Report of the Directors

DIRECTORS' INTERESTS IN SHARES

As at 31st December 2017, 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 31.12.2017)	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
Wu Tianran	140,000	–	140,000	0.00%
Li Weiruo	410,392,000	–	410,392,000	9.55%
Yuan Bai	71,292,800	3,400,000	74,692,800	1.74%
Zhang Fubo	5,000,000	–	5,000,000	0.12%
Hu Xiaoping	–	1,200,000	1,200,000	0.03%

Note: As at 31 December 2017, the spouse of Mr. Wu Tianran held 9,212,000 shares of the Company.

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

Name of Director (as at 31.12.2017)	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 31.12.2017)	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%

SUBSTANTIAL SHAREHOLDERS

As at 31st December 2017, 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.

Report of the Directors

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	18.61%

Note: As at 31 December 2017, 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 2017, 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

Outstanding Convertible Securities

As at 31 December 2017, the outstanding convertible securities (the "Convertible Securities 1") that issued on 13 November 2014 can convert into 1,002,675,000 shares (the "Shares") of the Company and the outstanding convertible securities (the "Convertible Securities 2") that issued on 15 January 2016 can convert into 40,000,000 Shares. Assuming all outstanding convertibles securities converted into shares as at 30 June 2017, set out below is the shareholding structure of the Company before and after such conversion:

As at 31/12/2017	No. of shares before conversion of outstanding convertible securities	% of holdings	No. of shares from conversion of outstanding convertible securities	No. of shares after conversion of outstanding convertible securities	% of holdings
Mr. Li Wei Ruo	410,392,000	9.55	–	410,392,000	7.68
Other Directors	76,432,800	1.78	–	76,432,800	1.43
Mr. Cheng Kin Ming	800,000,000	18.61	1,001,375,000	1,801,375,000	33.73
Public	3,011,217,799	70.06	41,300,000	3,052,517,799	57.16
Total	4,298,042,599	100.00	1,042,675,000	5,340,717,599	100.00

The diluted loss per shares for the year ended 31 December 2017 assuming all outstanding convertible securities being converted was RMB0.085 which is calculated by dividing the loss attribute to the shareholders of the Company by the total number of Shares after all outstanding convertible securities being converted. The calculation method of this diluted loss is not the same as those used in this annual report. According to Hong Kong Accounting Standard 33 paragraphs 43, potential ordinary shares are antidilutive when their conversion to ordinary shares would increase earnings per share or decrease loss per share from continuing operations. The calculation of diluted earnings per share does not assume conversion, exercise, or other issue of potential ordinary shares that would have an antidilutive effect on earnings per share. The conversion of outstanding convertible securities would have an antidilutive effect on earnings per share and therefore the calculation of diluted earnings per share in this annual report does not assume such conversion.

Base on the cash and cash equivalent as at 31 December 2017 and the cash flow from the operation of the Company, the Company has its ability to meet its redemption obligations under Convertible Securities 2 but not Convertible Securities 1. The maturity dates of Convertible Securities 1 and Convertible Securities 2 are 12 November 2024 and 14 January 2019 respectively.

Report of the Directors

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

Convertible Securities 1

Date	**31–12–2018**	**31–12–2019**	**31–12–2020**	**31–12–2021**	**31–12–2022**
Share price (HK$)	0.312	0.320	0.328	0.340	0.351

Convertible Securities 2

Date	**31–12–2018**
Share price (HK$)	0.331

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 29 March 2018.

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. Shi Lei and Mr. Xu Congcai, 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 2017.

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 2017, the five largest customers accounted for approximately 31.1% of the Group's total turnover and the five largest suppliers of the Group accounted for approximately 67.7% of the Group's total purchases. The largest customer of the Group accounted for approximately 8.8% of the Group's total turnover and the largest supplier accounted for approximately 25.0% of the Group's total purchases.

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

CORPORATE GOVERNANCE

A report on the corporate governance practices adopted by the Company is set out on pages 49 to 55 of the annual report.

AUDITORS

ZHONGHUI ANDA CPA Limited was appointed as the auditor of the Group since 19 February 2016 and was re-appointed as the auditor of the Group on 12 May 2017.

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

29 March 2018

Environmental, Social, Governance Report

SCOPE AND REPORTING PERIOD

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

The Group is principally engaged in the research and development, manufacture, marketing and distribution of chemical fertilizers and chemical products. This ESG report covers the Group's overall performance in two subject areas, namely, Environmental and Social of below three business operations in Sichuan Province, Mainland China from 1 January 2017 to 31 December 2017, unless otherwise stated. For governance, please refer to separate Corporate Governance Report in the Annual Report 2017.

— 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

The Group continues to engage with the stakeholders through daily and operational interactions. We work closely with them to understand their needs, concerns, motivations, and objectives. Various stakeholders including internal senior management team, employees, and external customers and suppliers continue to be involved in regular engagement sessions to discuss and to review areas of attention. Specific topics of concerns raised in 2017 included product market share, branding and sales, and long cycle production.

Through a quantitative stakeholder survey, the most material topics raised by the stakeholders included:

— Energy

— Emissions, Effluents and Waste

— Environmental Protection Policies

— Health and Safety

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@koyochem.com or by post to our Company Secretary at Ko Yo Chemical's registered office.

KO YO CHEMICAL'S MISSION AND VISION ON SUSTAINABILITY COMMITMENT

The Group aims to continue with sustainable operations, to provide as many jobs as possible for the stabilization of the local economy, and to invest to alleviate the local rural poverty. The Group complies with the laws and highly regards the importance to the social and environmental benefits. We are committed to promoting the economic construction and capacity building within the community.

Technology advancement continues to be the basis to underpin the Group's development. the new materials industry is also gradually involved in the development of science and technology and sustainable development of phosphorus chemical industry.

In 2017, long term production is highly regarded by the Group considering that brand building requires continuous supply of products and market stability. To achieve long term production, the Group strengthens communication and coordination with the upstream natural gas sector, at the same time, the Group emphasizes on production and equipment management. Special meetings have been held to study the optimization of production and equipment operation, to monitor the efficiency of production equipment, and better quality control of the product.

Compliance with Law & Regulations

The Group ensures strict compliance with any applicable regulations, laws, guidelines, and standards, including such as "Effluent Standards of Water Pollutants of Ammonia Industry (GB 13458)", "Overall Emission Standards for Air Pollutants (GB 16297)", "Law on prevention and control of occupational diseases in People's Republic of China", "Regulations on the supervision and management of occupational health in the workplace", and "Guidelines on the supervision and administration of the occupational health monitoring of the employers".

In addition, the Group closely monitored any updates on relevant laws and standards such as the new "Standard for Emission of Air Pollutants in Chemical Fertilizer Industry" expected to come into force in 2018. The Group will make sure it gets fully prepared to comply with more stringent regulations.

In 2017, The Group has spent RMB77,942,200 in investing in new environmental-friendly technologies, implementing occupational health preventive measures, training and development, and community investment.

A. ENVIRONMENTAL

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

In 2017, the Group deepened environmental protection and energy saving management, actively responded to the call of the national energy saving, promoted several emission reduction and energy saving projects, such as furnace replacement with higher efficiency and lower nitrogen emission; a new heat exchanger for heat recovery and energy saving; a water cooler with energy-saving air compressor.

Environmental, Social, Governance Report

According to the new list of classified management of pollutant discharge permits for fixed pollution sources (2017), for the nitrogen fertilizer industry, business license must be obtained in a unified national new sewage encoding before 31 December 2017. Dazhou company obtained the new license on December 15th, without adjustment on sewage concentration index.

The Group keeps implementing the three management systems — the quality, environment, and energy management system — in an integrative manner. Both Guangan and the New Material site are actively preparing for the establishment of the three management systems and might seek for further external certification in the foreseeable future.

Per Environmental protection tax law of People's Republic of China, the pollution discharge fee will be changed to environmental tax since 1 January 2018, and the related tax expenditure will be increased for the Group. For better economic and environmental outcomes, the Group is expected to further support policies, expenditures, and implementation of pollution control schemes in the near future.

1. Emissions and Waste

(i) Air Pollutant Emission

Manufacturing Air Emission

Various air emissions are produced during the manufacturing processes. While the Group has continuously invested in environmentally friendly and efficient equipment, air emissions are inevitable. And during the reporting period, following types of air pollution and their annual emissions were recorded for Guangan and Dazhou sites, the data collection system is under preparation for NewMaterial.

Site	PM (tonnes)	SO_2(tonnes)	NO_x(tonnes)
Guangan	4.34	2.86	463.74
Dazhou	4.04	3.02	91.26

Vehicle Operation and Emission

Vans, passenger cars, and trucks were used for transportation. Vehicles operated on gasoline or diesel fuel. Their combustion generated several air emissions include nitrogen oxides (NO_x), sulphur oxides (SO_x) and respiratory suspended particles (PM).

		Vehicle non-GHG emissions		
Site	Mobile fuel source	NO_x (kg)	PM (kg)	SO_x (kg)
Guangan	Gasoline and diesel	67.28	4.96	1.04
NewMaterial	Gasoline	78.20	6.94	0.99
Dazhou	Gasoline and diesel	338.61	32.59	0.99

Natural Gas Air Emission

Natural gas was extensively consumed in both Guangan and Dazhou sites, its corresponding SOx and NOx were calculated.

Site	SO_x(tonnes)	NO_x(tonnes)
Guangan	0.08	16.14
Dazhou	0.11	22.89

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

(ii) Greenhouse Gas (GHG) Emissions

There were 872,021.3 tonnes of GHG emitted in the reporting period, reported in carbon dioxide (CO_2) equivalent. The GHG reported included following activities and scope:

- Direct (scope 1) GHG emissions from the stationary combustion of natural gas;
- Direct (scope 1) GHG emissions from the combustion of fuels for mobile transportation;
- Indirect (scope 2) GHG from purchased electricity, and purchased natural gas;
- Indirect (scope 3) GHG from electricity consumed for processing fresh water and wastewater.

Due to the massive emission from scope 1 stationary combustion, methane from paper landfilling was cut-off as it was estimated to be extremely insignificant compared with the scope 1 emission. For similar reasons, other GHG sources such as fugitive emission from refrigerants, scope 3 emission from business air travel were also cut-off in the calculation. It should be noted that due to better platform for ESG data collection, GHG calculation this year included the scope 1 natural gas combustion, leading to enormous difference/increase of GHG from last year.

Environmental, Social, Governance Report

The GHG associated with the on-site natural gas combustion (scope 1) emission was considerably higher than other GHG sources, accounting for about two-thirds of the Group's total GHG emission. It is expected that with the new energy-efficient equipment operating in 2018, the GHG emission will be further reduced. The second largest GHG emission source was the scope 2 emission from purchased electricity and natural gas, which is depending on the energy provider's own operation and thus out of the Group's control.

Site	Combustion Source	CO_2eq. (tonnes)	Total Emission (%, rounded at scope level)
Scope 1 direct GHG emission			
Guangan	Natural gas_Methanol converter[1]	234,550.90	21.32%
	Natural gas_Canteen	44.90	<0.01%
	Natural gas_pressure cooker	62,133.70	5.65%
	Mobile_gasoline and diesel[2]	192.35	0.02%
NewMaterial	Mobile_gasoline only	182.00	0.02%
Dazhou	Natural gas_for ammonia and urea production	421,011.90	38.28%
	Mobile_gasoline and diesel	170.40	21.32%
Scope 1 total		718,286.15	65.31%
Scope 2 indirect GHG emission from purchased electricity[3]			
Guangan	Purchased electricity	93,770.10	8.53%
NewMaterial		8,077	0.73%
Dazhou		46,778.48	4.25%
Scope 2 indirect GHG emission from purchased natural gas[4]			
Guangan	Purchased natural gas	94,206.98	8.57%
Dazhou		133,664.68	12.15%
Scope 2 total		376,497.24	34.23%
Scope 3 indirect GHG emission_electricity consumed for processing fresh water and wastewater[4]			
Guangan	Electricity for processing fresh water and wastewater	2,403.49	0.22%
NewMaterial		63.38	0.01%
Dazhou		2,642.70	0.24%
Scope 3 total		5,109.57	0.46%
Total GHG		1,099,892.96	100%

Note 1: Emission for the combustion of natural gas for stationary source were calculated with emission factors from Greenhouse Gas Protocol Calculation Tool — GHG Emissions from Stationary Combustion (Chinese fuel).

Note 2: Emission for the combustion of for mobile transportation were calculated with emission factors from Greenhouse Gas Protocol Calculation Tool — GHG Emissions from Transport or Mobile Sources.

Note 3: Combined margin emission factor of 0.65075 tCO2/MWh was used for purchased electricity in Sichuan, China.

Note 4: Emission factors were made reference to Appendix 27 of the Main Board Listing Rules and their referred documentation as set out by Hong Kong Exchanges and Clearing Limited, unless stated otherwise.

(iii) Hazardous Waste

Various types of hazardous waste were generated from the individual site. A total amount of 3,025.2 tonnes of hazardous waste was reported for the Group. According to waste type generated at the different site, Guangan only had one type of waste — the waste oil, while Dazhou generated multiple types of wastes. Amount-wise, NewMaterial had the largest output due to the high volume of resin by-products. All hazardous wastes were handled by registered and licensed collectors regulated by the local government. Depending on the type and form of hazardous waste, they would be incinerated, landfilled, or recycled by downstream waste treatment facilities.

	Hazardous waste generated on each site (tonnes)		
Waste type	**Guangan**	**NewMaterial**	**Dazhou**
Waste oil	24.44	1	3.01
Sludge		12	
Waste activated carbon		1	
Resin by-products		2,916.19	
Lead battery			0.20
Chemical solutions			0.30
Asbestos waste			0.26
Chemical catalyst			62.71
Lubricant			4.10
Total waste per site	24.44	2930.19	70.57
Intensity (tonnes/m²)	5.59E-05	1.21E-02	6.30E-03

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(iv) Non-hazardous Waste

Non-hazardous wastes the Group generated were mainly industrial waste from production, waste plastic buckets, and domestic waste. A total amount of 157.6 tonnes of non-hazardous wastes were generated in total. Non-hazardous wastes were collected and categorized first, and waste metal was sold to recyclers, while other wastes were hauled away by licensed collectors to the municipal waste treatment facility.

	Non-hazardous waste generated on each site (tonnes)		
Waste type	**Guangan**	**NewMaterial**	**Dazhou**
Waste plastic bucket	n/a	2.80	3.01
Domestic waste	9	n/a	n/a
waste paper_recycle	0	0.12	61
waste paper_landfill	59	0.39	58
Total waste per site	68	3.31	86.3
Intensity (tonnes/m²)	1.56E–04	1.37E–05	7.70E–03

Overall, the Group aimed to divert and reduce waste by implementing upgrading OA system for strict operation and increasing recycling rate.

(v) Wastewater

The Group has on-site waste water treatment facility for Guangan, NewMaterial and Dazhou sites. A total amount of 105,159 m^3, 41,200 m^3, and 48,233 m^3 of wastewater was discharged and treated for Guangan, NewMaterial, and Dazhou site respectively. They were treated by removing impurities, sedimentation, aeration and then discharged into guardianship, the qualified part is discharged into public sewage system directly, while the unqualified part is treated on-site again until it meets the pre-defined criteria.

Various wastewater indicators are measured including Biochemical Oxygen Demand, Chemical Oxygen Demand, Total Suspended Solids (TSS), pH, volatile phenol, total N, total P, Cyanide, Sulfide etc. and the monitoring reports demonstrated that all effluents are within the permissible level set by Effluent Standards of Water Pollutants of Ammonia Industry GB 13458.

(mg/L)	Guangan	NewMaterial	Dazhou
TSS	≤100	–	≤100
NH_3-N	≤50	–	≤50
COD	≤200	≤500	≤200
Oil	≤3	–	≤3
Volatile phenol	0	–	0
pH	≤6-9	≤6-9	≤6-9
Total N	≤60	–	≤60
Total P	≤1.5	–	≤1.5
Cyanide	0	–	0
Sulfide	0	≤1	0
BOD5	–	≤300	–

2. Use of Resources

(i) Energy Consumption

The major type of energy source the Group consumed was natural gas. By implementing new energy-efficient furnace, the Group further reduced its natural gas consumption in 2017.

	Natural gas consumption reduction from last reporting cycle	
Site	**Natural gas consumption in 2017 (in m^3)**	Natural gas consumption in 2016 (in m^3)
Guangan	1.57E+8	3.97E+8
NewMaterial	1.24E+7	n/a

The electricity consumption by the Group was 2.28E+08 Kilowatt-hour (kWh), or 228 million kWh in total for the Group, and Guangan site consumed the largest amount of electricity, though the highest intensity was observed for Dazhou site. Other fuels used by the Group included gasoline and diesel for vehicles during the reporting period.

Annual electricity consumption and intensity

Site	Consumption (kWh)	Intensity (kWh per m^2 total floor area)
Guangan	1.44E+08	329.70
NewMaterial	12,411,800	51.50
Dazhou	71,883,950	6,417.06

Natural gas, diesel, and gasoline fuel consumption

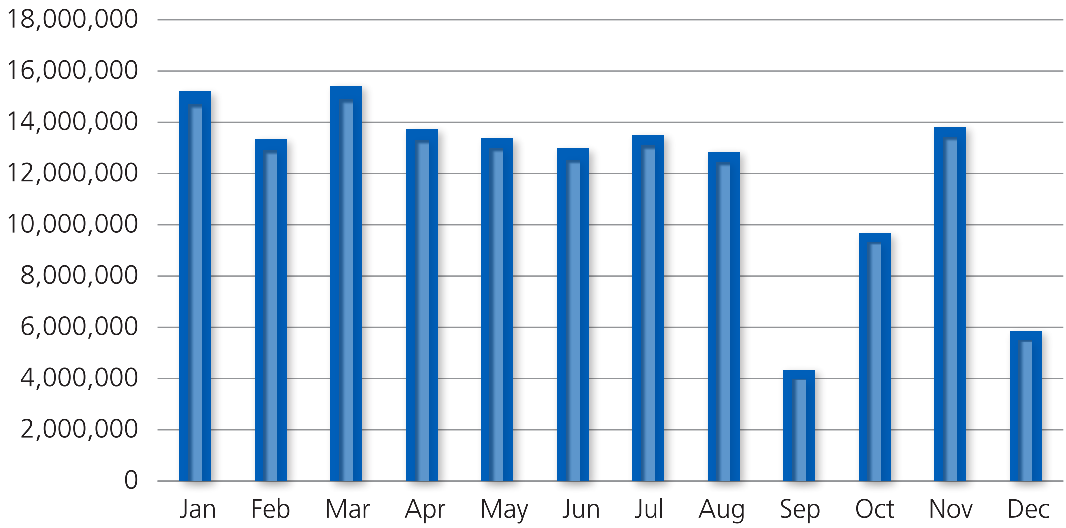
Site	Energy source	Direct consumption (in liter)	Indirect consumption (in 10^6 kWh)
Guangan	Natural gas	1.57E+11	1,114.98
	Gasoline/petrol	69,600.00	0.62
	Diesel (mobile)	1,400.00	0.01
NewMaterial	Gasoline/petrol	67,200.00	0.60
Dazhou	Natural gas	306,559,190.30	1,581.98
	Gasoline/petrol	28,320.00	0.25
	Diesel (mobile)	35,376.00	0.35

Note: Conversion factors were made reference to China Energy Statistical Yearbook 2017.

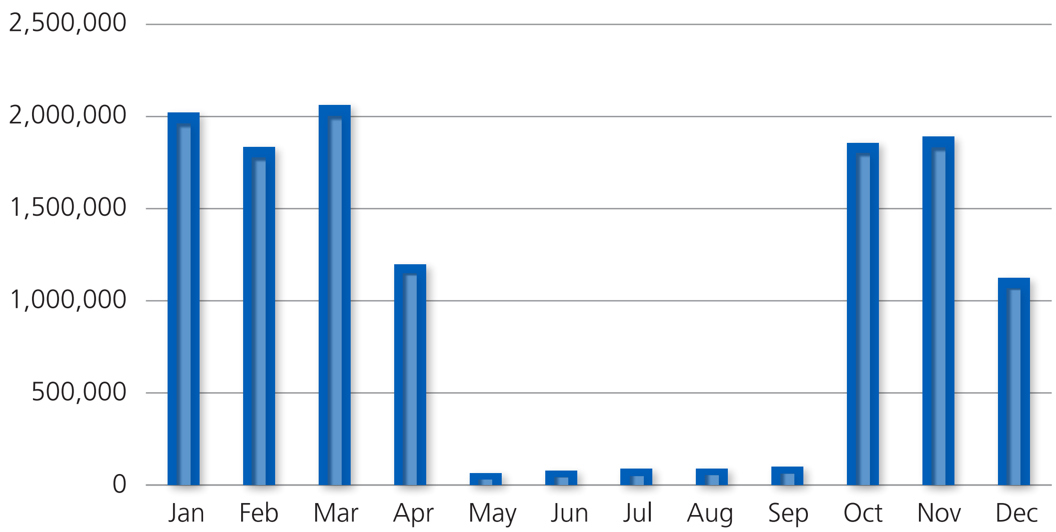
Environmental, Social, Governance Report

By breaking down the monthly electricity consumption, extensive within-month variation was observed for the NewMaterial site, this is due to parking inspection from May to September.

Monthly Electricity Consumption (kWh) for Guangan



Monthly Electricity Consumption (kWh) for NewMaterial



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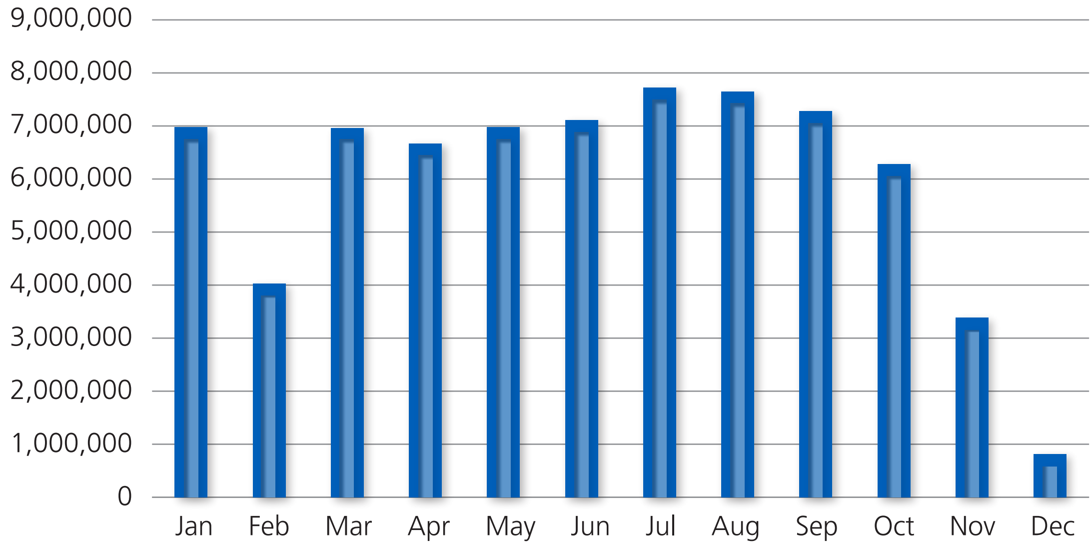
Monthly Electricity Consumption (kWh) for Dazhou



(ii) Water Consumption

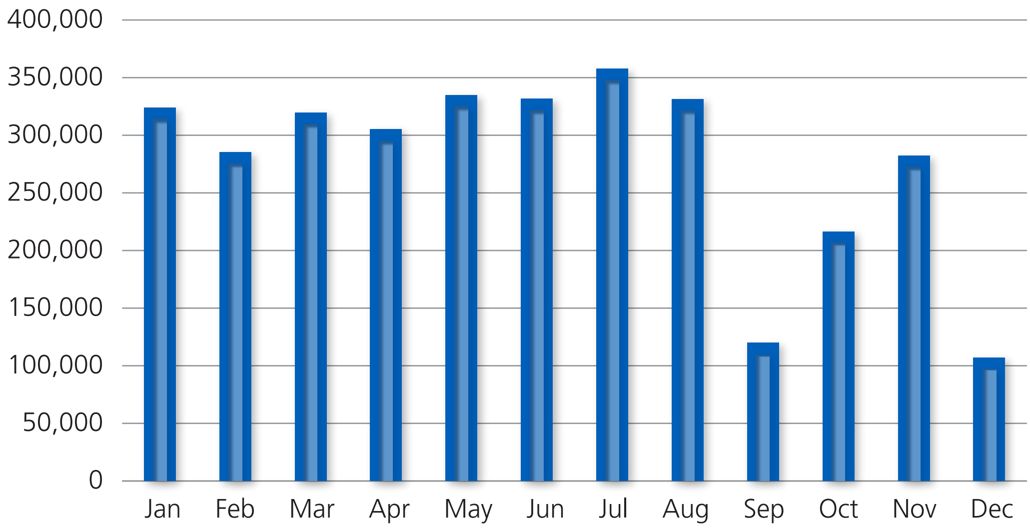
The Group obtained water for industrial use from nearby water supply plants. There was no issue in sourcing water during the reporting year. The total water consumption for the Group was 6,996,549 m^3.

Water consumption and intensity

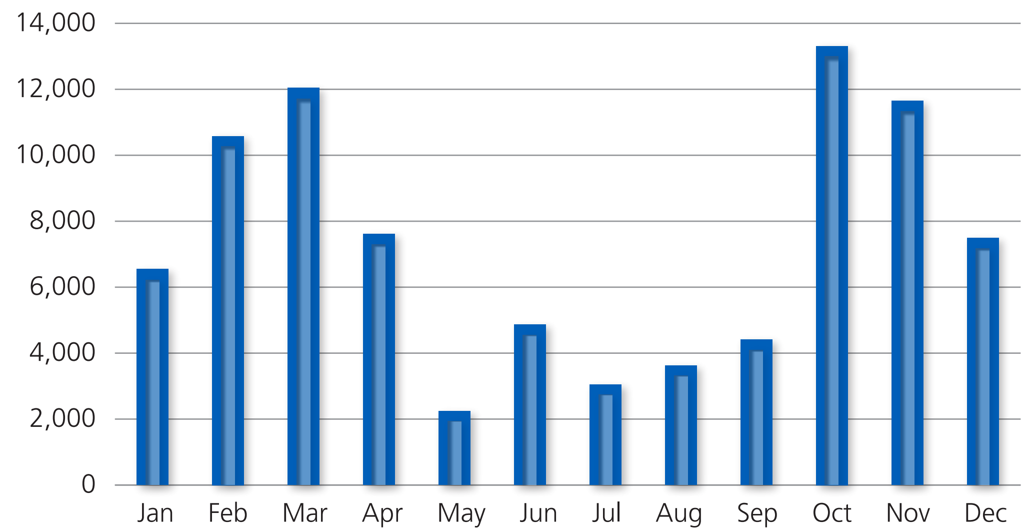
Site	Consumption (m^3)	Intensity (m^3 per m^2 total floor area)
Guangan	3,315,140	7.58
NewMaterial	87,421	0.36
Dazhou	3,645,080	325.40

By breaking down the monthly water consumption, a similar pattern could be observed as for the electricity consumption because NewMaterial factory was not in active production during these months.

Monthly Water Consumption (m^3) for Guangan



Monthly Water Consumption (m^3) for NewMaterial



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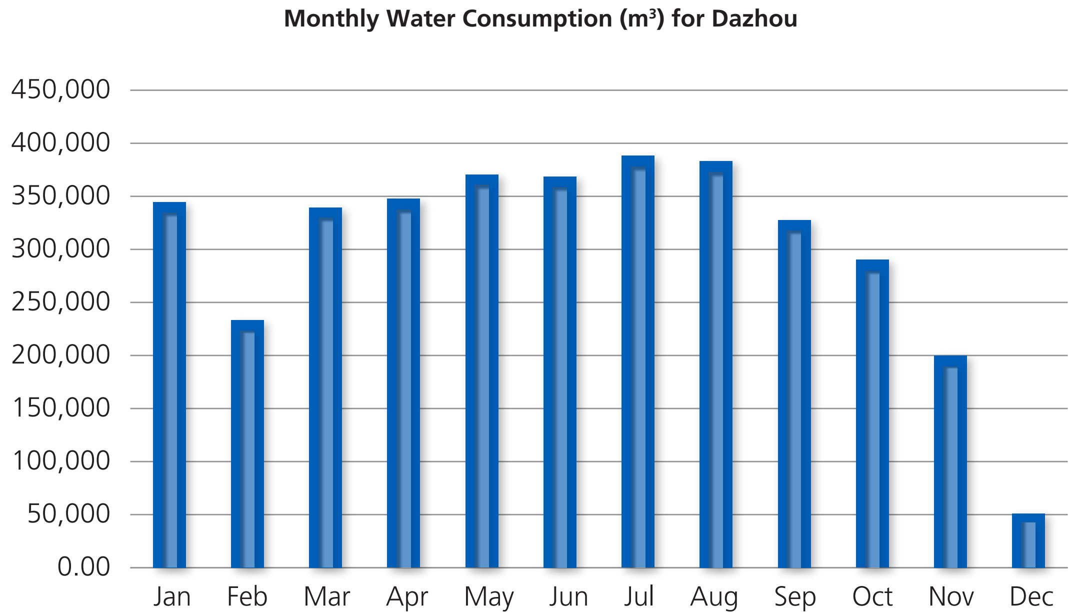

(iii) Packaging materials

Due to the different nature of the business operation, different types of packaging materials were used for the three sites, with Dazhou consuming the largest amount of packaging material in weight. All packaging materials had no hazardous contents.

Site	Total packaging materials used in 2017 (kg)
Guangan	297
NewMaterial	8,295
Dazhou	1,268,174
Total	1,276,766

3. The Environment and Natural Resources

(i) Significant Impacts of Activities on the Environment

As a resource-intensive business, the company has moderate impacts on the environment and ecosystem by extracting and further processing raw earth materials. Nevertheless, the raw materials we used are abundant and none of them are rare minerals.

With the new Standard for Emission of Air Pollutants in Chemical Fertilizer Industry expected to be issued in 2018, it is very possible that the Group will face a more stringent emission standard in place. The Group is actively planning to adopt more advanced technologies to further reduce the emission of nitrogen oxides.

(ii) Resource Conservation

The company's survival highly relies on the availability of natural resources. With the backing of rich natural resources, the Group extends the production chain from raw material, product, further processing to the stage of product distribution, named as "one-step service system". This optimizes the allocation of environmental, social, and economic resources, leading to a full integration of three-pillar sustainability.

In addition to the resource conservation during production, the Group continued to encourage pro-environmental behaviour among staff including asking them to switch-off electronic devices when not in use. For waste furniture and electronics, the Group also maximized their reusing rate whenever possible. The Group is also implementing new plans to improve the efficiency of energy use, e.g., setting the air conditioning temperature higher in the summer and lower in the winter. The recovery box is provided with a public space in the office, with clear recycling instructions. Canteen tableware, such as bowls and chopsticks are all bought with recyclable materials.

B. SOCIAL

1. Employment and Labour Practices

The Group continues to invest in capacity building among local human resource, striving to be an employer of choice by stringently following local and national laws, adopting best practices, and treating people with full respect.

(i) Employment

The Group had a total number of 640 employees from all three sites as of 31 December 2017. 100% of them were full time employee. General Human Resource (HR) policies about compensation and benefits packages, promotion, disciplines, appraisal and evaluation are not changed in the reporting year.

Personnel management system was not updated this year. Employees are entitled to basic social insurance in Mainland China. More focus on occupational health and safety practices was put forward this year. Employees are allowed to adopt combined working hours and not exceeding a total of 40 working hours each week.

Compensation and Benefits Package

The Group continues to follow the principle of "to adapt current market, to reflect talent, to give incentive" to guide the compensation system. The remuneration structure is "merit-based" and set objectively based on the personnel's position and performance. Employees are awarded with a year-end bonus based on their annual review results.

Appraisal System

Two individual appraisal systems were put forward to evaluate the management team and frontline staff separately with a different focus. Both the upwards appraisal and top-down appraisal were used for the management team evaluation. In which way, the managers' performance was better evaluated by both their subordinates and supervisors.

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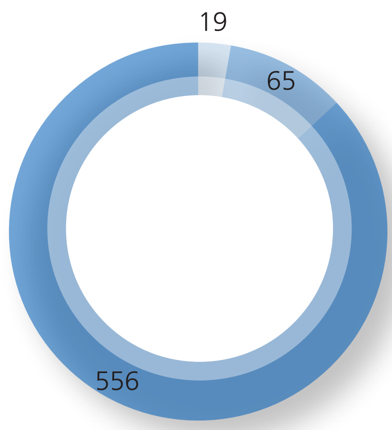
Equal Opportunity

Our 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. Though without formal policies, the Group firmly adopts "equal opportunity" principles during recruitment, evaluation, and promotion processes.

	Guangan # of employees	**NewMaterial # of employees**	**Dazhou # of employees**	**Total**
Total number of employees (as of 2017/12/31)	226	123	291	640
Employee category				
Senior management	7	5	7	19
Middle management	24	19	22	65
Frontline and other staff	195	99	262	556
By age group				
<=25	0	25	16	41
>=26, and <=35	85	36	138	259
>=36, and <=45	48	34	68	150
>=46, and <=55	72	27	67	166
>=56	21	1	2	24
By gender				
Male	192	103	231	526
Female	34	20	60	114
By region	0			
Mainland China	226	123	291	640

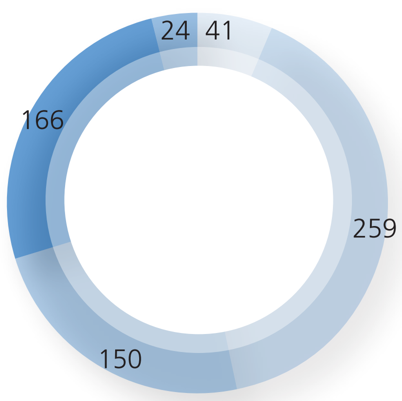
Environmental, Social, Governance Report

Total Workforce (# of employees) by Employee Category



Senior management Middle management Frontline and other staff

Total Workforce (# of employees) by Age Group



<= 25 >= 26, and <= 35 >= 36, and <= 45 >= 46, and <= 55 >= 56

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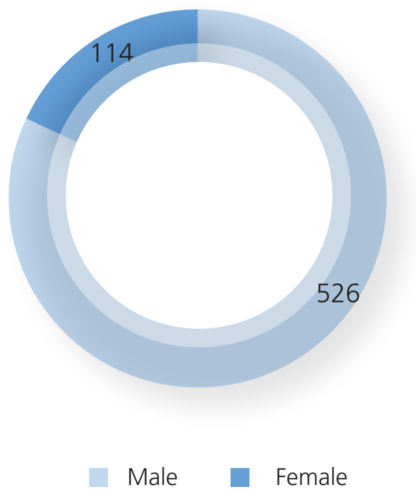
Total Workforce (# of employees) by Gender

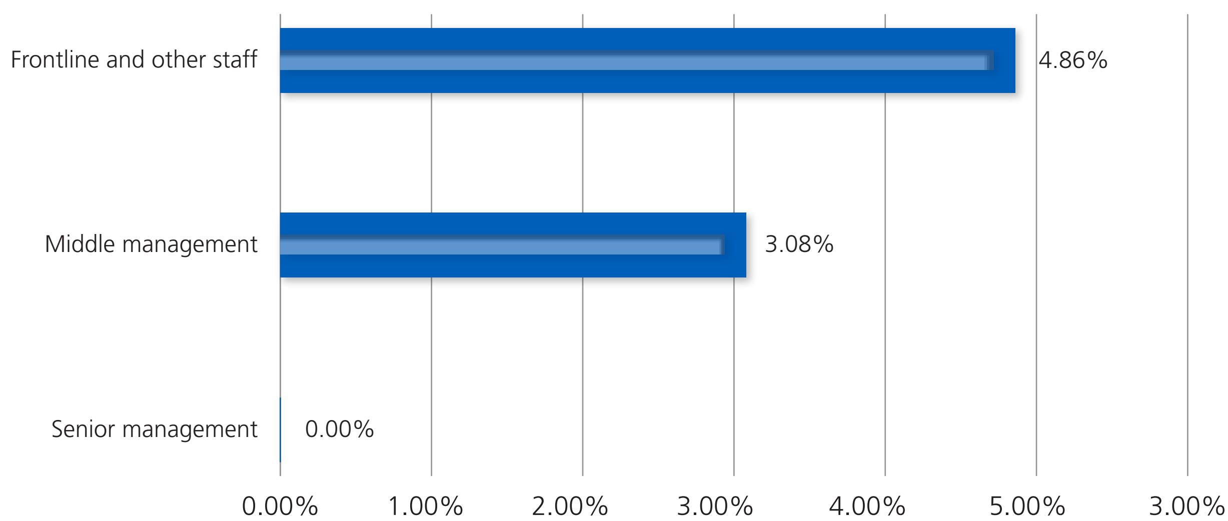


Turnover

A total number of 29 employees left the Group in 2017, contributing to the turnover rate of 4.53%. The Group retained more employees and the turnover rate was a 75% reduction compared with last reporting cycle.

	Guangan # of employees	NewMaterial # of employees	Dazhou # of employees	Total
Total number of employees leaving employment in 2017	9	10	10	29
Turnover Rate	**3.98%**	**8.13%**	**3.44%**	**4.53%**
Employee category				
Senior management	0	0	0	0
Middle management	0	2	0	2
Frontline and other staff	9	8	10	27
By age group				
<=25	4	0	1	5
>=26, and <=35	5	0	7	12
>=36, and <=45	0	10	2	12
>=46, and <=55	0	0	0	0
>=56	0	0	0	0
By gender				
Male	9	10	6	25
Female	0	0	4	4
By region				
Mainland China	9	10	10	29

Total turnover rate by employee category



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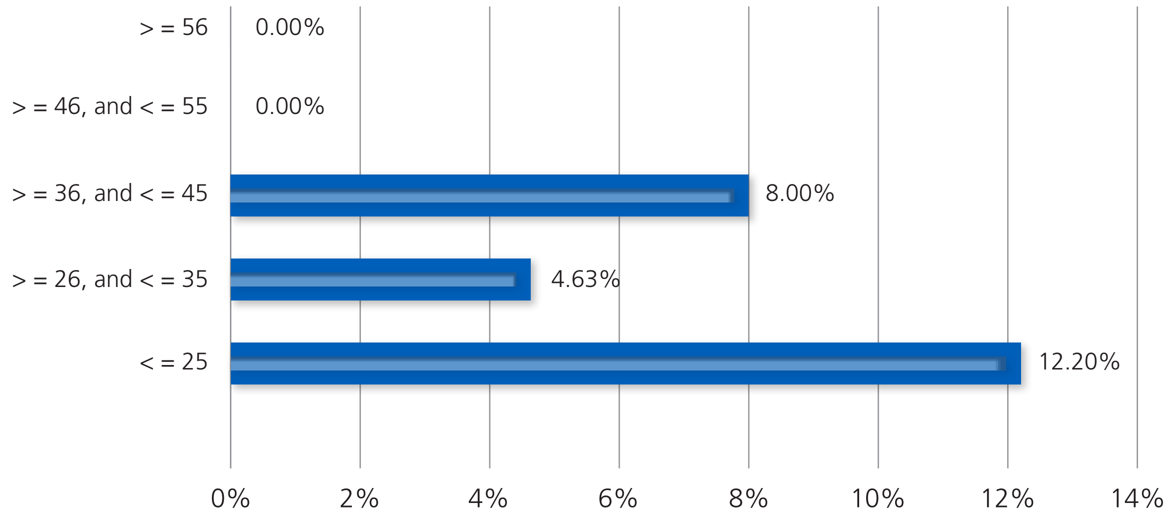
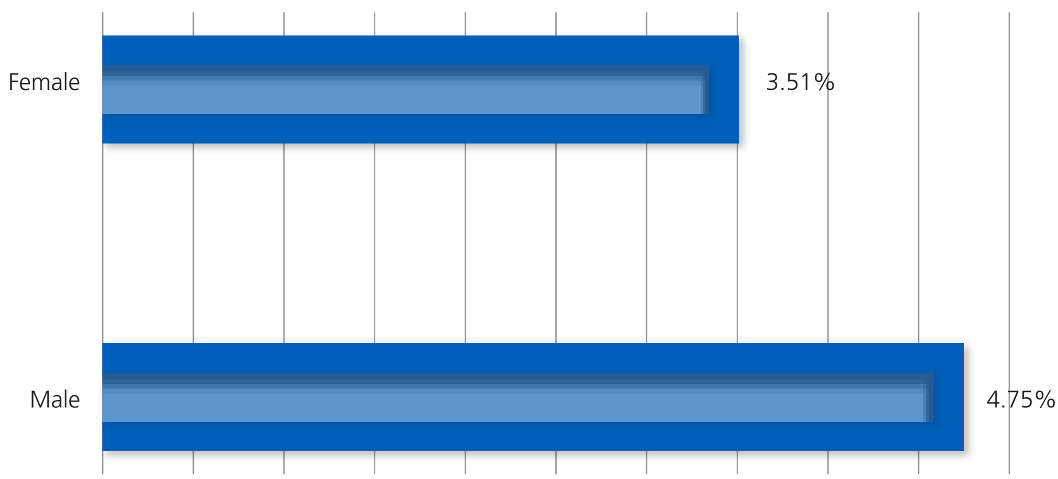
Total turnover rate by age group



Total turnover rate by gender



(ii) Employee Health and Safety

The Group endeavours to ensure employees are protected from potential hazards, risks, and accidents. Workplace health and safety is of paramount importance to the Group. The Group treats workplace health and safety as a continuously improving process, and we frequently review and improve safety management system processes to achieve injury-free workplace.

Following management practices were implemented for securing employees' health and safety:

- The Group applies high power exhaust fan and air conditioning in the workplace, and makes sure that all ventilation system has been properly maintained and operated to ensure a healthy indoor environment;
- The Group systematically identifies and closely monitors any occupational hazards in the workplace;
- The Group has provided annual Occupational health examination to the employees, and the Group will examine further about any treatment schemes if any cases found;
- All employees are informed by the potential occupational health hazards and are provided with personal health protection equipment and supplies; and
- To minimize any human disasters, a special chemical storage area is designated whenever in need, and all chemicals are marked with clear names, instructions, and hazardous signs.

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

As a result of effective health and safety management, the Group achieved a 49% reduction in the lost days compared with last reporting cycle.

	Occupational Health and Safety Data	
	2017	2016
Work related fatality	**0**	0
Work injury cases >= 3 days	**1**	1
Work injury cases < 3 days	**0**	0
Lost days due to work injury	**60**	118

(iii) Development and Training

The company did not have new, updated, or modified policies related to the knowledge and skills improvement of the employees to perform their duties. At the end of each year, the Group will require all subsidiaries to collect and report training needs for next year. The Group then designs a reasonable training plan per the needs identified. The following year, the employees are trained in strict accordance with the training plan, and the employees will be evaluated after training. All employees are organized to conduct training on occupational health and safety at least once every year, and at least 2 emergency rescue exercises.

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In 2017, the Group completed a total of 50,720 training hours for all 640 employees, achieving a 100% training rate for all employees, regardless their position held and gender.

The Group arranged various series of training activities for people of different position and department. Training topics included management level training such as improvement of personnel and financial management skills; operators' training on job skills promotion; and occupational health and safety training for all employees.

		Guangan	NewMaterial	Dazhou	Total
Number of Employee receiving training		226	123	291	640
Total Training Hours		17,740	16,396	16,584	50,720
By employee category					
Senior Management	# of employees receiving training	7	5	7	19
	Average training hours completed per employee	55	20	50	44
Middle management	# of employees receiving training	24	19	22	65
	Average training hours completed per employee	60	24	50	45
Frontline and other staff	# of employees receiving training	195	99	262	556
	Average training hours completed per employee	82	160	58	84
By gender					
Male	# of employees receiving training	192	103	231	526
	Average training hours completed per employee	80	133	64	83
Female	# of employees receiving training	34	20	60	114
	Average training hours completed per employee	70	133	30	60

(iv) Labour Standard

The Group did not update relevant policies on prevention of illegal employment. There were no children nor forced labour in the Group's operations in the reporting period. Background check was conducted for every new employee during the recruitment process to ensure compliance with any applicable labour laws in China, such as the Labor Law of the PRC.

2. Operating Practices

(i) Supply Chain Management

The Group conducts survey and evaluation of qualified suppliers every year to evaluate suppliers' qualifications and product quality, to ensure they continue to meet our suppliers' standards.

In addition to the standard investigation and evaluation, the Group compares the qualification of each supplier and the quality of their processes and products. Qualified suppliers would be updated and kept on the list of qualified suppliers. Any supplier would be eliminated from the qualified supplier list providing that their performance and evaluation were not meeting the standards for two times. In addition, in the daily work, information on potential new suppliers would be collected, and will be further evaluated if needs arise.

During the procurement process, the company has policies such as energy efficiency appliance, fair trade products, and we request suppliers' commitment to stick with applicable environmental and social standards.

In 2017, major suppliers of the Group were all sourced from mainland China.

	Number of Suppliers by Sites			
Geographical Region	**Guangan**	**NewMaterial**	**Dazhou**	**Total**
Mainland China	265	77	138	480

(ii) Product Responsibility

The quality control and quality assurance procedures were not updated in 2017 and the Group continues to follow the Quality Assurance Policy. There were no complaints received or product recall in 2017.

The production equipment of Dazhou company updated an emergency plan for treating unexpected accident. In case the service is interrupted, the agricultural sales companies will be notified immediately to respond to any external sales request in time.

Intellectual Property Right

The Group has set up intellectual property right clause in the employee contract, provided intellectual property training to selected employees, and has established relevant policies during the process of employees turnover.

Consumer Data Protection

Consumers' data and privacy are protected by the purchasing, sales and finance department of the Group. Other departments and personnel do not have access to such data. All data transmission is carried out by internal encryption system. In order to ensure network stability and data security, group's information center is responsible for the development and maintenance of the office system.

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(iii) Anti-corruption

The Group strictly regulates the discipline and professional conduct of employees, to prevent any potential bribery, extortion, fraud, money laundering and gambling. The Group management system clearly stated that: any personnel who abuse powers for corruption, bribes, and/or bribery, will be transferred to judicial office for further investigation. The Group's Internal Audit Department continues to supervise and to conduct a regular check on Procurement Department in terms of contracts, suppliers' quotation, and payment status. There were no corruption cases reported or found in 2017.

3. Community Investment

The Group highly considers the responsibility to work in partnership with the local communities. In 2017, the Group has spent RMB80,313 on various aspects of community contribution, such as targeted group alleviation, government and enterprise poverty alleviation. For example, the Group provided poverty alleviation financial aid to wanyuan town, qinghua town, and wanyuan city in Sichuan province.

FUTURE DIRECTIONS FROM THE GROUP

The Group will continue to strengthen the management of safety, environmental protection, energy conservation and occupational health and safety. Specifically, the Group will implement environmental protection and energy conservation project such as replacing the burner of the first-stage furnace with efficient low-nitrogen burner to decrease emissions, increasing heat exchange efficiency to the refrigeration system, recycling more waste heat and upgrading the water cooler of air compressors.

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. Ge Jun on 5 May 2017 and the appointment of the Independent Non-Executive Director Mr. Xu Congcai on 1 August 2017, the number of independent non-executive directors in the Company did not fulfill the requirement under Rules 3.10(1) and 3.10A of the Listing Rules, 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 as at 31 December 2017. 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 Ciping (Resigned on 15.01.2017)

Non-Executive Director
Mr. Zhang Fubo

Independent Non-Executive Directors
Mr. Hu Xiaoping
Mr. Ge Jun (Appointed on 15.01.2017 and resigned on 05.05.2017)
Mr. Shi Lei (Appointed on 15.01.2017)
Mr. Xu Congcai (Appointed on 01.08.2017)
Mr. Woo Che-wor, Alex (Resigned on 15.01.2017)
Mr. Sun Tongchuan (Resigned on 15.01.2017)

Except for the period between the resignation of the Independent Non-Executive Director of Mr. Ge Jun on 5 May 2017 and the appointment of the Independent Non-Executive Director of Mr. Xu Congcai of 1 August 2017, the Independent Non-Executive Directors represented over one-third of the Board during the year 2016. Among the three Independent Non-Executive Directors, at least one has appropriate professional qualifications or accounting or related financial management expertise which satisfies the requirement under the rule 3.10(1) and (2) of the Listing Rules. An annual confirmation of the independence of each Independent Non-Executive Director had been received in accordance with each and every guideline set out in rule 3.13 of the Listing Rules. All Independent Non-Executive Directors are identified as such in all corporate communications that disclose the names of the directors. There is no family or other material relationship among members of the Board.

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

Corporate Governance Practices

Board meeting

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

In the financial year ended 31st December 2017, 10 board meetings and 1 shareholders' meeting were held and the attendance record for the meetings by each director is as follow:

Attendants	Number of board meetings attended/total	Board meetings attendance percentage	Number of shareholders' meetings attended/total	Shareholders' meetings Attended percentage
Executive Directors				
Mr. Wu Tianran (Appointed on 15.01.2017)	7/7	100%	1/1	100%
Mr. Li Weiruo	10/10	100%	1/1	100%
Mr. Yuan Bai	10/10	100%	1/1	100%
Mr. Wan Congxin (Appointed on 15.01.2017)	7/7	100%	1/1	100%
Ms. Chi Chuan (Resigned on 15.01.2017)	3/3	100%	0/0	N/A
Ms. Man Au Vivian (Resigned on 15.01.2017)	3/3	100%	0/0	N/A
Mr. Li Ciping (Resigned on 15.01.2017)	3/3	100%	0/0	N/A
Non-Executive Director				
Mr. Zhang fubo	10/10	100%	1/1	100%
Independent Non-Executive Directors				
Mr. Hu Xiaoping	10/10	100%	1/1	100%
Mr. Shi Lei (Appointed on 15.01.2017)	7/7	100%	1/1	100%
Mr. Xu Congcai (Appointed on 01.08.2017)	1/1	N/A	0/0	N/A
Mr. Ge Jun (Appointed on 15.01.2017 and resigned on 05.05.2017)	3/4	75%	0/0	N/A
Mr. Woo Che-wor, Alex (Resigned on 15.01.2017)	3/3	100%	0/0	N/A
Mr. Sun Tongchuan (Resigned on 15.01.2017)	3/3	100%	0/0	N/A

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. Li Ciping, 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.

Corporate Governance Practices

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 two meetings 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)	2/2	100%
Mr. Shi Lei (Appointed on 15.01.2017)	2/2	100%
Mr. Xu Congcai (Appointed on 01.08.2017)	0/0	N/A
Mr. Sun Tongchuan (Resigned on 15.01.2017)	0/0	N/A
Mr. Ge Jun (Appointed on 15.01.2017 & resigned on 05.05.2017)	N/A	N/A
Mr. Shi Lei (Appointed on 15.01.2017)	N/A	N/A
Non-Executive Director		
Mr. Zhang Fubo	2/2	100%
Executive Director		
Ms. Chi Chuan (Resigned on 15.01.2017)	0/0	N/A

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

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

NOMINATION OF DIRECTORS

Nomination Committee was established in January 2005 and two meetings 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. Sun Tongchuan (Chairman) (Resigned on 15.01.2017)	N/A	N/A
Mr. Ge Jun (Appointed on 15.01.2017 and resigned on 05.05.2017)	1/1	100%
Mr. Woo Che-wor, Alex (Resigned on 15.01.2017)	0/0	N/A
Mr. Hu Xiaoping	2/2	100%
Mr. Xu Congcai (Appointed on 01.08.2017)	0/0	100%
Non-Executive Director		
Mr. Zhang Fubo (Chairman)	2/2	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. Zhang Fubo and Mr. Xu Congcai will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

Corporate Governance Practices

The Independent Non-Executive Directors of the Company are appointed with specific terms inside the letter of appointment for initial fixed terms of two years. Pursuant to A.4.3 of the Corporate Governance Code (the "Corporate Governance Code") set out in Appendix 14 of the Listing Rules, any further appointment of an Independent Non-Executive Director in excess of nine years should subject to a separate resolution to be approved by shareholders. Mr. Hu Xiaoping was appointed as Independent Non-Executive Director in June 2003 and will severe on the Board for more than fifteen years in June 2018. Therefore, Mr. Hu Xiaoping should retire and re-election at the forthcoming annual general meeting.

AUDIT COMMITTEE

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

Attendants	Number of meetings attended/total	Attendance percentage
Independent Non-Executive Directors		
Mr. Woo Che-wor, Alex (Chairman) (Resigned on 15.01.2017)	0/0	N/A
Mr. Shi Lei (Chairman) (Appointed on 15.01.2017)	4/4	100%
Mr. Hu Xiaoping	4/4	100%
Mr. Sun Tongchuan (Resigned on 15.01.2017)	0/0	N/A
Mr. Xu Congcai (Appointed on 01.08.2017)	2/2	100%
Mr. Ge Jun (Appointed on 15.01.2017 and resigned on 05.05.2017)	2/2	100%
Non-Executive Director		
Mr. Zhang Fubo (Appointed on 15.01.2017)	4/4	100%

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

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

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 2017.

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

INDEPENDENT EXTERNAL AUDITORS

In 2017, the total remuneration charged by to the independent external auditors amounted to approximately RMB1.5 million, which was all for the audit services provided by the independent external auditors. The audit fees have been approved by the Audit Committee and the Board.

The statement of the independent external auditors of the Company about their reporting responsibilities on the consolidated financial statements is set out on pages 58 and 62 of this annual report.

The audit committee has resolved the re-appointment of ZHONGHUI ANDA CPA Limited for the financial year 2017. 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 61 to 121, which comprise the consolidated statement of financial position as at 31 December 2017, 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 2017, 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 incurred a loss of approximately RMB454,433,000 (including the loss on fair value changes on derivative financial assets of a total amount of approximately RMB185,708,000) for the year ended 31 December 2017 and as at 31 December 2017, the Group's current liabilities exceeded its current assets by approximately RMB2,029,259,000, despite the Group had a net operating cash inflow of approximately RMB144,913,000 during the year. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

KEY AUDIT MATTERS

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

PROPERTY, PLANT AND EQUIPMENT

Refer to Note 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 RMB3,066,352,000 as at 31 December 2017 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.

Independent Auditor's Report

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 RMB297,300,000 as at 31 December 2017 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 communicating with the external valuer to discuss and challenge the valuation process, methodologies used and market evidence to support significant judgments and assumptions applied in the valuation model;

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

— Checking arithmetical accuracy of the valuation model; and

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

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

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 RMB41,670,000 as at 31 December 2017 and the fair value loss of approximately RMB185,708,000 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 communicating with the external valuer to discuss and challenge the valuation process, methodologies used and market evidence to support significant judgments and assumptions applied in the valuation model;

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

— Checking arithmetical accuracy of the valuation model; and

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

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.

Independent Auditor's Report

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

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

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

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, 29 March 2018

Consolidated Statement Of Profit Or Loss And Other Comprehensive Income

For The Year Ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
Revenue	8	**3,678,169**	1,947,027
Cost of sales		**(3,643,775)**	(1,988,713)
Gross profit/(loss)		**34,394**	(41,686)
Distribution costs		**(42,265)**	(8,087)
Administrative expenses		**(126,908)**	(207,617)
Other (loss)/income — net	9	**(173,304)**	24,729
Other expenses	10	**(286)**	(44,514)
Operating loss		**(308,369)**	(277,175)
Finance income	11	**1,234**	2,753
Finance expenses	11	**(164,035)**	(142,617)
Loss before tax		**(471,170)**	(417,039)
Income tax credit	12	**16,737**	9,054
Loss and total comprehensive loss for the year	13	**(454,433)**	(407,985)
Attributable to:			
Equity holders of the Company		**(454,339)**	(407,154)
Non-controlling interests		**(94)**	(831)
		(454,433)	(407,985)
Loss per share attributable to the equity holders of the Company during the year (expressed in RMB per share)			
— Basic	15	**(0.1057)**	(0.0972)
— Diluted	15	**(0.1057)**	(0.0972)

Consolidated Statement Of Financial Position

As At 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
ASSETS			
Non-current assets			
Land use rights	*16*	**114,460**	117,143
Property, plant and equipment	*17*	**3,066,352**	3,320,658
Investment properties	*18*	**11,618**	12,127
Mining right	*19*	**297,300**	289,298
Other intangible assets	*20*	**8,619**	8,889
Deferred income tax assets	*34*	**99,451**	80,713
		3,597,800	3,828,828
Current assets			
Inventories	*23*	**70,824**	92,464
Trade and other receivables	*24*	**216,669**	308,060
Derivative financial assets	*25*	**41,670**	227,378
Pledged bank deposits	*26*	**11,596**	12,922
Cash and cash equivalents	*27*	**16,312**	24,477
		357,071	665,301
Total assets		**3,954,871**	4,494,129
EQUITY			
Equity attributable to owners of the Company			
Share capital	*28*	**368,394**	367,531
Reserves	*30*	**563,221**	1,017,384
		931,615	1,384,915
Non-controlling interest		**1,882**	1,976
Total equity		**933,497**	1,386,891

Consolidated Statement Of Financial Position

As At 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
LIABILITIES			
Non-current liabilities			
Long-term borrowings	*31*	**437,961**	568,282
Convertible bonds	*32*	**124,191**	115,296
Deferred subsidy income	*33*	**1,276**	1,930
Deferred income tax liabilities	*34*	**71,616**	69,615
		635,044	755,123
Current liabilities			
Trade and other payables	*35*	**736,364**	814,310
Provision for tax		**1,152**	1,152
Short-term borrowings	*31*	**1,302,854**	1,316,013
Current portion of long-term borrowings	*31*	**345,960**	220,640
		2,386,330	2,352,115
Total liabilities		**3,021,374**	3,107,238
Total equity and liabilities		**3,954,871**	4,494,129
Net current liabilities		**(2,029,259)**	(1,686,814)
Total assets less current liabilities		**1,568,541**	2,142,014

The consolidated financial statements on pages 61 to 121 were approved and authorised for issue by Board of Directors on 29 March 2018 and are signed on behalf of the Board by:

Director *Director*

Consolidated Statement Of Changes In Equity

For The Year Ended 31 December 2017

	Attributable to equity holders of the Company											
	Share capital	Share premium	Merger reserve	Share-based compensation reserve — share options	Share-based compensation reserve — convertible bonds	Reserve fund	Enterprise expansion fund	Accumulated loss	Transaction with non-controlling interests	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 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
Balance 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
Balance at 1 January 2017	**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**
Total comprehensive loss for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(454,339)**	**–**	**(454,339)**	**(94)**	**(454,433)**
Issue of shares:												
— Conversion of bonds	**863**	**2,291**	**–**	**–**	**(2,115)**	**–**	**–**	**–**	**–**	**1,039**	**–**	**1,039**
At 31 December 2017	**368,394**	**1,409,065**	**(22,041)**	**28,269**	**224,903**	**45,273**	**1,131**	**(1,119,870)**	**(3,509)**	**931,615**	**1,882**	**933,497**

Consolidated Statement Of Cash Flows

For The Year Ended 31 December 2017

	2017 RMB'000	2016 RMB'000
Cash flows from operating activities		
Loss before tax	(471,170)	(417,039)
Adjustments for:		
Depreciation of property, plant and equipment	220,284	172,983
Depreciation of investment properties	509	509
Amortisation of land use rights	2,683	2,186
Amortisation of intangible assets	270	270
Loss on disposal of property, plant and equipment	4,673	68
Provision for impairment loss on trade receivables	286	–
Interest income	(920)	(2,753)
Interest expense	164,035	142,178
Exchange (gain)/loss	(314)	32
Share-based payment	–	6,067
Impairment loss on other receivables	–	13,991
(Reversal of impairment loss)/impairment loss on mining right	(8,002)	7,793
Impairment loss on property, plant and equipment	–	22,523
Impairment loss on goodwill	–	207
Fair value change of derivative financial assets	185,708	(12,556)
Operating cash flows before working capital changes	98,042	(63,541)
Decrease/(increase) in inventories	21,640	(13,977)
Decrease in trade and other receivables	91,105	26,097
Increase in trade and other payables	113,441	23,965
Decrease in deferred subsidy income	(654)	(654)
Cash generated from/(used in) operations	323,574	(28,110)
Interest paid	(178,661)	(71,493)
Income tax refund	–	4,714
Net cash generated from/(used in) operating activities	144,913	(94,889)

Consolidated Statement Of Cash Flows

For The Year Ended 31 December 2017

	2017 RMB'000	2016 RMB'000
Cash flows from investing activities		
Purchases of property, plant and equipment and payments for construction-in-progress	(138,410)	(64,931)
Proceeds from disposal of property, plant and equipment	932	–
Interest received	920	2,753
Net cash used in investing activities	(136,558)	(62,178)
Cash flows from financing activities		
Exercise of share options	–	10,510
Issuance of convertible bonds	–	19,081
Decrease in pledged bank deposits	1,326	492,133
Proceeds from borrowings	1,037,854	1,276,960
Repayments of borrowings	(1,056,014)	(1,676,890)
Net cash (used in)/generated from financing activities	(16,834)	121,794
Net decrease in cash and cash equivalents	(8,479)	(35,273)
Cash and cash equivalents at beginning of year	24,477	59,782
Exchange gain/(losses)	314	(32)
Cash and cash equivalents at end of year	16,312	24,477

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 incurred a loss of approximately RMB454,433,000 (including the loss on fair value changes on derivative financial assets of a total amount of approximately RMB185,708,000 for the year 31 December 2017 and as at 31 December 2017, the Group's current liabilities exceeded its current assets by approximately RMB2,029,259,000, despite the Group had a net operating cash inflow of approximately RMB144,913,000 during the year. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group' s ability to continue as a going concern.

In addition, the Group has contracted capital commitments of approximately RMB127 million as at 31 December 2017.

The Group had a net operating cash flow of approximately RMB145 million during the year. The directors of the Company have reviewed the Group's cash flow projections, which cover a period of twelve months from 31 December 2017. 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 2017 in light of the Group' s plans and measures described below to improve its cash flows:

(a) As at 31 December 2017 the Group's total borrowings amounted to approximately RMB2,087 million, of which approximately RMB1,649 million will be due within twelve months from 31 December 2017. As at that date, the Group's bank deposits pledged for short-term borrowings amounted to approximately RMB12 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.

Notes To The Consolidated Financial Statements

For The Year Ended 31 December 2017

2. GOING CONCERN BASIS *(Continued)*

(b) As at 31 December 2017, the contracted capital expenditure committed by the Group amounted to approximately RMB127 million, of which approximately RMB127 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.

(c) 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 GuangAn plants.

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 2017. 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; and generate adequate operating cash inflows. Should the Group be unable to achieve the above plans and measures such that it would not be able to operate as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amounts, to provide for any future liabilities which might arise, and to reclassify non-current assets and non- current liabilities as current assets and current liabilities, respectively. The effect of these adjustments has not been reflected in these consolidated financial statements.

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

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are relevant to its operations and effective for its accounting year beginning on 1 January 2017. 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.

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Consolidation *(Continued)*

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

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

Business combination and goodwill

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

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

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

If the changes in the value of the previously held equity interest in the subsidiary were recognised in other comprehensive income (for example, 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combination and goodwill *(Continued)*

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.

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.

Notes To The Consolidated Financial Statements

For The Year Ended 31 December 2017

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

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

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

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

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

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

Investment properties

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

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

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

Mining rights

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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.

Notes To The Consolidated Financial Statements

For The Year Ended 31 December 2017

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Trade and other payables

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

Equity instruments

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

Share-based payment transactions

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

(a) Share options

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

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

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

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

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

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

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

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

Notes To The Consolidated Financial Statements

For The Year Ended 31 December 2017

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Employee benefits *(Continued)*

(b) Pension obligations

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

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

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

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

Borrowing costs

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

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

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

Notes To The Consolidated Financial Statements

For The Year Ended 31 December 2017

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Government grants

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

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

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

Government grants relating to the purchase of assets are 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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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

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

Related parties

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

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

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

(ii) has significant influence over the Group; or

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

(b) An entity is related to the Group (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.

Notes To The Consolidated Financial Statements

For The Year Ended 31 December 2017

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.

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.

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.

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 2017 and 2016, 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 2017, 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 RMB1,568,000 (2016: post-tax loss increased/decreased by approximately RMB1,578,000), mainly as a result of higher/lower interest expense on floating rate borrowings.

(c) Credit risk

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

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

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

6. FINANCIAL RISK MANAGEMENT *(Continued)*

(d) Liquidity risk

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

The table below analyses the Group'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 2017				
Trade and other payables	**429,508**	**–**	**–**	**–**
Short-term borrowings	**1,302,854**	**–**	**–**	**–**
Long-term borrowings	**345,960**	**162,961**	**275,000**	**–**
Convertible bonds	**–**	**13,360**	**–**	**256,685**
Interest payment on borrowings and convertible bonds	**131,862**	**41,606**	**82,806**	**35,934**
At 31 December 2016				
Trade and other payables	652,465	–	–	–
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

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.

6. FINANCIAL RISK MANAGEMENT *(Continued)*

(d) Liquidity risk *(Continued)*

The Group has been investing in the construction of new production lines and a significant amount of the financing was obtained from short-term borrowings. As a result, the Group had net current liabilities of approximately RMB2,029 million as at 31 December 2017 (2016: approximately RMB1,687 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.

(e) Categories of financial instruments

	2017 RMB'000	2016 RMB'000
Financial assets:		
Loan and receivables (including cash and cash equivalents)	**67,430**	125,063
Derivative financial assets (held for trading)	**41,670**	227,378
Financial liabilities:		
Financial liabilities at amortised cost	**2,640,474**	2,672,696

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.

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7. FAIR VALUE ESTIMATION *(Continued)*

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

	2017			
	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	**–**	**–**	**41,670**	**41,670**

	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

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

	2017 Derivative financial assets — Put options of convertible bonds RMB'000	2016 Derivative financial assets — Put options of convertible bonds RMB'000
Opening balance	**227,378**	214,822
Fair value change recognised in profit or loss	**(185,708)**	12,556
Closing balance	**41,670**	227,378
Total (loss)/gains for the period included in profit or loss for assets and liabilities held at the end of the reporting period	**(185,708)**	12,556

The total gains or losses recognised in profit or loss including those for assets held at end of reporting period are presented in other (loss)/income in the statement of profit or loss.

7. FAIR VALUE ESTIMATION *(Continued)*

(c) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements at 31 December 2017:

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 expert 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.

Level 3 fair value measurements

Description	Valuation technique	Unobservable inputs	Effect on fair value for increase of inputs	**Fair value 2017**	Fair value 2016
				RMB'000	RMB'000
Derivative financial assets	Binomial tree method	Historical volatility	Increase	**41,670**	227,378

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 8.8% (2016: 9.7%) and 8.1% (2016: 8.8%) respectively of the Group's revenue during the year.

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For The Year Ended 31 December 2017

9. OTHER (LOSS)/INCOME — NET

	2017 RMB'000	2016 RMB'000
Deferred subsidy income recognised	**654**	654
Subsidy income	**1,401**	9,495
Rental income, net	**1,567**	1,464
Reversal of impairment loss on mining right	**8,002**	–
Fair value changes on derivative financial assets	**(185,708)**	12,556
Others, net	**780**	560
	(173,304)	24,729

10. OTHER EXPENSES

	2017 RMB'000	2016 RMB'000
Provision for impairment loss on trade receivables	**(286)**	–
Impairment losses on other receivables	**–**	(13,991)
Impairment losses on mining rights	**–**	(7,793)
Impairment losses on property, plant and equipment	**–**	(22,523)
Impairment losses on goodwill	**–**	(207)
	(286)	(44,514)

11. FINANCE EXPENSES — NET

	2017 RMB'000	2016 RMB'000
Finance income:		
Exchange gain	**(314)**	–
Interest income	**(920)**	(2,753)
	(1,234)	(2,753)
Finance expenses:		
Interest expense:		
— bank borrowings	**136,859**	116,288
— convertible bonds	**27,901**	27,478
Less: capitalisation in construction-in-progress	**(730)**	(1,588)
	164,030	142,178
Exchange loss	**–**	32
Others	**5**	407
	164,035	142,617
Finance expenses — net	**162,801**	139,864

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 2016 and 2017.

The applicable income tax rate of other subsidiaries located in Mainland China in 2017 and 2016 is 25%.

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

	2017 RMB'000	2016 RMB'000
CIT for Mainland China		
— under-provision in prior years	**–**	–
Deferred income tax	**(16,737)**	(9,054)
	(16,737)	(9,054)

Notes To The Consolidated Financial Statements

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12. INCOME TAX CREDIT *(Continued)*

The taxation on the Group's loss before income tax differs from the theoretical amount that would arise using the taxation rate of 25% (2016:25%). The difference is analysed as follows:

	2017 **RMB'000**	2016 RMB'000
Loss before tax	**(471,170)**	(417,039)
Tax calculated at a taxation rate of 25% (2016: 25%)	**(117,793)**	(104,260)
Tax rate difference	**19,896**	10,580
Expenses not deductible for tax purposes	**38,587**	23,663
Tax losses for which no deferred income tax was recognised	**42,512**	52,818
Temporary differences for which no deferred income tax was recognised	**71**	11,151
Income not subject to tax	**(10)**	(3,006)
Income tax credit	**(16,737)**	(9,054)

13. LOSS FOR THE YEAR

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

	2017 **RMB'000**	2016 RMB'000
Raw materials and consumables used	**1,092,114**	548,610
Depreciation of property, plant and equipment	**220,284**	172,983
Depreciation of investment properties	**509**	509
Amortisation of land use rights	**2,683**	2,186
Amortisation of other intangible assets	**270**	270
Auditors' remuneration — Audit services	**1,513**	1,620
Operating lease payments	**917**	850
Loss on disposal of property, plant and equipment	**4,673**	68
Staff costs including directors' emoluments		
Salaries, bonus and allowances	**74,293**	67,789
Equity-settled share-based payments	**–**	6,067
Retirement benefits scheme contributions	**2,282**	6,288
	76,575	80,144

Cost of inventories sold includes staff costs, depreciation and operating lease charges of approximately RMB77,986,000 (2016: approximately RMB71,082,000) which are included in the amounts disclosed separately above.

14. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The remuneration of every director for the years ended 31 December 2017 and 2016 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	1,345	780	–	–	2,125
Mr. Yuan Bai	252	942	28	–	1,222
Mr. Wu Tianran *(Note ix)*	1,293	780	–	–	2,073
Mr. Wan Congxin *(Note x)*	242	1,138	–	–	1,380
Name of non-executive directors					
Mr. Zhang Fubo	420	–	–	–	420
Name of independent non-executive directors					
Mr. Hu Xiaoping	168	–	–	–	168
Mr. Shi Lei *(Note xi)*	168	–	–	–	168
Mr. Ge Jun *(Note xii)*	52	–	–	–	52
Mr. Xu Congcai *(Note xiii)*	70	–	–	–	70
Total for 2017	4,010	3,640	28	–	7,678

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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	1,440	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 directors					
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

14. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(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.

(ix) Mr. Wu Tianran was appointed as an executive director on 15 January 2017.

(x) Mr. Wan Congxin was appointed as an executive director on 15 January 2017.

(xi) Mr. Shi Lei was appointed as an independent non-executive director on 15 January 2017.

(xii) Mr. Ge Jun was appointed and resigned as an independent non-executive director on 15 January 2017 and 5 May 2017 respectively.

(xiii) Mr. Xu Congcai was appointed as an independent non-executive director on 1 August 2017.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include five (2016: five) directors whose emoluments are reflected in the analysis presented above.

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

15. LOSS PER SHARE

Basic

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

Diluted

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

Potential ordinary shares arising from the assumed conversion of convertible bonds and the assumed exercise of share options have not been included in the calculation of diluted loss per share because they are anti-dilutive for the years ended 31 December 2016 and 2017.

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

	2017 **RMB'000**	2016 RMB'000
Loss		
Loss for the purpose of calculating basic and diluted earnings per share	**(454,339)**	(407,154)

	2017 **'000**	2016 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic and diluted earnings per share	**4,297,751**	4,189,013

16. LAND USE RIGHTS

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

	2017 RMB'000	2016 RMB'000
Cost		
At 1 January	127,969	59,289
Transfer from Construction-in-progress	–	68,680
At 31 December	127,969	127,969
Accumulated amortisation		
At 1 January	10,826	8,640
Amortisation charge for the year	2,683	2,186
At 31 December	13,509	10,826
Net book amount		
At 31 December	114,460	117,143

All the Group's land use rights are located in Mainland China. The remaining lease periods of the land use rights are between 41 to 47 years (2016: 42 to 48 years).

As at 31 December 2017, land use rights with a total net book value of approximately RMB60,223,000 (2016: approximately RMB61,664,000) 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 2016	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**
Additions	**–**	**6,326**	**8**	**380**	**21,962**	**28,676**
Disposals	**(65,785)**	**–**	**(1,431)**	**(81)**	**–**	**(67,297)**
Transferred from/(to) construction-in-progress	**5,933**	**–**	**–**	**–**	**(5,933)**	**–**
At 31 December 2017	**1,046,180**	**2,368,981**	**13,071**	**23,180**	**424,300**	**3,875,712**
Accumulated depreciation and impairment loss						
At 1 January 2016	(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)**
Depreciation	**(23,905)**	**(194,771)**	**(746)**	**(862)**	**–**	**(220,284)**
Disposals	**3,773**	**–**	**756**	**70**	**–**	**4,599**
At 31 December 2017	**(85,802)**	**(693,305)**	**(8,172)**	**(22,081)**	**–**	**(809,360)**
Net book amount						
At 31 December 2017	**960,378**	**1,675,676**	**4,899**	**1,099**	**424,300**	**3,066,352**
At 31 December 2016	1,040,362	1,864,121	6,312	1,592	408,271	3,320,658

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

Impairment loss of nil (2016: approximately RMB22,523,000) 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 2017, property, plant and equipment with a total net book value of approximately RMB1,168,227,000 (2016: approximately RMB1,329,423,000) were pledged as collateral for the Group's bank borrowings.

For the year ended 31 December 2017, borrowing costs of approximately RMB730,000 (2016: approximately RMB1,588,000) have been capitalised in the construction-in-progress.

18. INVESTMENT PROPERTIES

	2017	2016
	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	**(1,735)**	(1,226)
Charge for the year	**(509)**	(509)
As at 31 December	**(2,244)**	(1,735)
Net book value		
As at 31 December	**11,618**	12,127
Fair value as at 31 December	**23,892**	23,892

All the Group's investment properties are located in Mainland China. As at 31 December 2017, investment properties with a total net book value of approximately RMB11,618,000 (2016: approximately RMB12,127,000) were pledged as collateral for the Group's bank borrowings.

The fair values of the investment properties as at 31 December 2017 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 2017 of approximately RMB1,965,000 (2016: approximately RMB1,973,000) and depreciation charges are included in other income.

As at 31 December 2017, the Group had no unprovided contractual obligations for future repairs and maintenance (2016: Nil).

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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 22 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 2017, the mining right with a total net book value of approximately RMB297,300,000 (2016: approximately RMB289,298,000) were pledged as collateral for the Group's bank borrowings.

20. OTHER INTANGIBLE ASSETS

	Goodwill	Construction permits	Total
	RMB'000	RMB'000	RMB'000
Cost			
At 1 January 2016, 31 December 2016 and 31 December 2017	8,900	2,700	11,600
Accumulated amortisation and impairment loss			
At 1 January 2016	(992)	(1,242)	(2,234)
Amortisation charge	–	(270)	(270)
Impairment loss	(207)	–	(207)
At 31 December 2016	**(1,199)**	**(1,512)**	**(2,711)**
Amortisation charge	**–**	**(270)**	**(270)**
At 31 December 2017	**(1,199)**	**(1,782)**	**(2,981)**
Net book amount			
At 31 December 2017	**7,701**	**918**	**8,619**
At 31 December 2016	7,701	1,188	8,889

Construction permits represent the permissions granted by the government for the construction of GuangAn Project. Amortisation charge of approximately RMB270,000 (2016: approximately RMB270,000) is included in administrative expenses.

21. IMPAIRMENT OF GOODWILL AND MINING RIGHT

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

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

	2017	2016
Growth rate	**3%**	3%
Discount rate (post-tax discount rate applied to the cash flow projections)	**16.00%**	15.51%
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. Reversal of impairment losses of approximately RMB8,002,000 was provided on mining right for the year ended 31 December 2017 (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).

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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%
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%

22. SUBSIDIARIES

Name (Note i)	Place of incorporation/ establishment	Principal activities and place of operation	Particulars of issued share capital	Interest held
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, Mainland China	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

	2017 RMB'000	2016 RMB'000
Raw materials	**57,629**	68,200
Finished goods	**13,195**	24,264
	70,824	92,464

There is no inventory written down as at 31 December 2017 (2016: Nil).

24. TRADE AND OTHER RECEIVABLES

	2017 RMB'000	2016 RMB'000
Trade receivables	**16,424**	43,259
Less: provision for impairment of trade receivables	**(7,153)**	(6,867)
Trade receivables — net	**9,271**	36,392
Note receivables	**5,095**	–
Prepayments for raw materials	**117,381**	105,705
Other tax receivables	**59,766**	114,691
Due from employees	**12,305**	12,759
Others	**12,851**	38,513
	216,669	308,060

As at 31 December 2017 and 2016, the fair value of trade and other receivables of the Group approximated to their carrying amounts.

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

24. TRADE AND OTHER RECEIVABLES *(Continued)*

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

	2017 RMB'000	2016 RMB'000
Less than 3 months	**16,424**	36,106
More than 1 year	**–**	7,153
	16,424	43,259
Less: provision for impairment of trade receivables	**(7,153)**	(6,867)
	9,271	36,392

As of 31 December 2017, trade receivables of approximately RMB9,271,000 (2016: approximately RMB36,392,000) that are under credit term were fully performing.

As at 31 December 2017, approximately RMB286,000 provision for impairment of trade receivables was made. No movement of provision for impairment of trade receivables was incurred for the year ended 31 December 2016.

As at 31 December 2017, trade receivables of approximately RMB7,153,000 (2016: approximately RMB6,867,000) were impaired and a total provision of approximately RMB7,153,000 (2016: 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 2017, trade receivables of nil (2016: approximately RMB286,000) 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:

	2017 RMB'000	2016 RMB'000
More than 1 year	**–**	286

25. DERIVATIVE FINANCIAL ASSETS

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

	2017	2016
	RMB'000	RMB'000
Opening balance at 1 January	**227,378**	214,822
Fair value (debited)/credited to profit or loss	**(185,708)**	12,556
At 31 December	**41,670**	227,378

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% (2016: 0.15% to 2.80%).

27. CASH AND CASH EQUIVALENTS

The weighting average effective interest rate on cash at bank at 31 December 2017 is 0.35% (2016: 0.3%).

28. SHARE CAPITAL

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

	Number of shares		Share capital	
	2017	2016	**2017**	2016
	'000	'000	**HKD'000**	HKD'000
Authorised				
(Ordinary share of HK$0.10 each):				
At the beginning and the end of the year	**8,000,000**	8,000,000	**800,000**	800,000

Ordinary shares, issued and fully paid:

	Number of shares		Share capital	
	2017	2016	**2017**	2016
	'000	'000	**RMB'000**	RMB'000
At the beginning of the year	**4,288,355**	3,998,162	**367,531**	342,822
Issue of shares:				
— Employee share option scheme	**–**	80,000	**–**	6,960
— Conversion of bonds *(Note a)*	**9,688**	210,193	**863**	17,749
At the end of the year	**4,298,043**	4,288,355	**368,394**	367,531

28. SHARE CAPITAL *(Continued)*

(a) Conversion of bonds

During the year, the convertible bonds holders exercised certain convertible bonds to subscribe 9,687,500 ordinary shares (2016: 210,193,000 ordinary shares) at an exercise price at HKD0.32 (2016: 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 2017 was as follows:

	2017 RMB'000	2016 RMB'000
Short-term borrowings	1,302,854	1,316,013
Long-term borrowings	783,921	788,922
Convertible bonds	124,191	115,296
Total borrowings	2,210,966	2,220,231
Less:		
Cash and cash equivalents	(16,312)	(24,477)
Pledged bank deposits	(11,596)	(12,922)
Net debt	2,183,058	2,182,832
Total equity	933,497	1,386,891
Total capital	3,116,555	3,569,723
Gearing ratio	70%	61%

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.

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	**10 September 2007**
Exercise price (HKD per option)	0.58
Remaining life	N/A
Granted to	7 employees
1 January 2016 and 31 December 2016	800,000
1 January 2017	800,000
Lapsed	(800,000)
31 December 2017	–

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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**	**22 June 2016**	**Total**
Exercise price (HKD per option)	1.15	1.1	0.595	0.151	
Remaining life	2.04 year	2.90 year	5.24 year	8.47 years	
Granted to	5 executive directors and 8 employees	3 independent directors	4 executive directors and 2 independent directors and 21 employees	1 executive directors and 3 employees	
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
1 January 2017 and 31 December 2017	4,700,000	1,600,000	10,000,000	1,900,000	18,200,000

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 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
At 1 January 2017	**1,406,774**	**37,162**	**28,269**	**227,018**	**(681,839)**	**1,017,384**
Total comprehensive loss for the year	**–**	**–**	**–**	**–**	**(454,339)**	**(454,339)**
Issue of shares:						
— Conversion of bonds	**2,291**	**–**	**–**	**(2,115)**	**–**	**176**
At 31 December 2017	**1,409,065**	**37,162**	**28,269**	**224,903**	**(1,136,178)**	**563,221**

30. RESERVES *(Continued)*

(b) Company *(Continued)*

(i) Merger reserve

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

(ii) Reserve fund

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

(iii) Contributed surplus

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

(iv) Transfer of equity interest to 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.

31. BORROWINGS

	2017 RMB'000	2016 RMB'000
Non-current portion of long-term bank borrowings *(Note a)*	**437,961**	568,282
Current portion of long-term bank borrowings *(Note a)*	**345,960**	220,640
Short-term borrowings *(Note b)*	**1,302,854**	1,316,013
	2,086,775	2,104,935

The borrowings are secured by bank deposits of approximately RMB11,596,000 (2016: approximately RMB12,922,000), property, plant and equipment with a total net book value of approximately RMB1,168,227,000 (2016: approximately RMB1,329,423,000), investment properties with a total net book value of approximately RMB11,618,000 (2016: approximately RMB12,127,000), mining right with a total net book value of approximately RMB297,300,000 (2016: approximately RMB289,298,000), land use rights with total net book value of approximately RMB60,223,000 (2016: approximately RMB61,664,000), 100% equity interest in Guangan New Material (2016: 100% equity interest in Dazhou Ko Yo Chemical, Sichuan Cuyo, Guangan New Material, Ko Yo GuangAn and Ko Yo Lotusan) and guaranteed by Mr. Li Weiruo and the Company.

(a) Long-term bank borrowings

The average effective interest rate of bank borrowings as at 31 December 2017 is 6.03% (2016: 5.65%).

As at 31 December 2017 and 2016, the Group's long-term bank borrowings were repayable as follows:

	2017 RMB'000	2016 RMB'000
Within 1 year	**345,960**	220,640
Between 1 and 2 years	**162,961**	128,320
Between 2 and 3 years	**105,000**	159,962
Between 3 and 5 years	**170,000**	190,000
Over 5 years	**–**	90,000
	783,921	788,922
Within 1 year included in current liabilities	**(345,960)**	(220,640)
	437,961	568,282

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31. BORROWINGS *(Continued)*

(a) Long-term bank borrowings *(Continued)*

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.

(b) Short-term borrowings

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

	2017 RMB'000	2016 RMB'000
At fixed rates in HKD*	6,664	7,200
At flxed rates in RMB	1,296,190	1,308,813
	1,302,854	1,316,013

* 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% (2016: 4.35% to 15.00%) per annum. The fair value of short-term borrowings approximate to their carrying amounts.

32. CONVERTIBLE BONDS

	2017 RMB'000	2016 RMB'000
Liability component		
Convertible bonds 1	113,403	106,516
Convertible bonds 2	10,788	8,780
	124,191	115,296

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 2016	114,305	252,378	366,683
Interest expense accrued	25,933	–	25,933
Interest expense paid	(18,141)	–	(18,141)
Converted during the year	(15,581)	(31,316)	(46,897)
At 31 December 2016	106,516	221,062	327,578
At 1 January 2017	**106,516**	**221,062**	**327,578**
Interest expense accrued	**25,893**	**–**	**25,893**
Interest expense charged to accrued expense	**(17,967)**	**–**	**(17,967)**
Converted during the year	**(1,039)**	**(2,115)**	**(3,154)**
At 31 December 2017	**113,403**	**218,947**	**332,350**

The principal amount of the convertible bonds as at 31 December 2017 is approximately RMB256,685,000 (2016: approximately RMB259,165,000).

32. CONVERTIBLE BONDS *(Continued)*

Convertible bonds 2

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
At 1 January 2017	**8,780**	**5,956**	**14,736**
Interest expense accrued	**2,008**	**–**	**2,008**
At 31 December 2017	**10,788**	**5,956**	**16,744**

The principal amount of the convertible bonds as at 31 December 2017 is approximately RMB13,360,000 (2016:approximately RMB13,360,000).

33. DEFERRED SUBSIDY INCOME

Government grant for production facilities

	2017	2016
	RMB'000	RMB'000
At 1 January	**1,930**	2,584
Subsidy income recognised	**(654)**	(654)
At 31 December	**1,276**	1,930

34. DEFERRED INCOME TAX

There were no offsetting of deferred income tax assets and liabilities in 2017 and 2016.

	2017	2016
	RMB'000	RMB'000
Deferred tax assets:		
— To be recovered after more than 12 months	**99,399**	80,661
— To be recovered within 12 months	**52**	52
	99,451	80,713
Deferred tax liabilities		
— To be settled after more than 12 months	**(71,616)**	(69,615)
— To be settled within 12 months	**–**	–
	(71,616)	(69,615)

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

Deferred income tax assets:

	Tax losses	**Deferred subsidy income**	**Total**
	RMB'000	RMB'000	RMB'000
At 1 January 2016	73,343	264	73,607
Credited to profit or loss	7,158	(52)	7,106
At 31 December 2016	80,501	212	80,713
At 1 January 2017	**80,501**	**212**	**80,713**
Credited to profit or loss	**18,790**	**(52)**	**18,738**
At 31 December 2017	**99,291**	**160**	**99,451**

34. DEFERRED INCOME TAX *(Continued)*

Deferred income tax liabilities:

	Mining right
	RMB'000
At 1 January 2016	(71,563)
Credited to profit or loss	1,948
At 31 December 2016	(69,615)
At 1 January 2017	**(69,615)**
Charged to profit or loss	**(2,001)**
At 31 December 2017	**(71,616)**

As at 31 December 2017, the Group had total unused tax losses of approximately RMB939,108,000 (2016: approximately RMB738,142,000). No deferred tax asset has been recognised in respect of tax losses of certain subsidiaries of approximately RMB541,944,000 (2016: approximately RMB416,138,000) due to the unpredictability of future profit streams of these subsidiaries. Deferred tax asset of approximately RMB99,291,000 (2016: approximately RMB80,501,000) has been recognised in respect of the tax losses of certain subsidiaries of approximately RMB397,164,000 (2016: approximately RMB322,004,000) as management considered it is probable that these subsidiaries can generate sufficient taxable profit to utilise the above tax loss of approximately RMB397,164,000.

35. TRADE AND OTHER PAYABLES

	2017 RMB'000	2016 RMB'000
Trade payables *(Note a)*	**61,006**	154,249
Construction payable	**246,747**	356,481
Advances from customers	**301,517**	159,437
Accrued expenses	**93,610**	62,033
Interest payables	**18,821**	61,348
Other taxes payable	**5,339**	2,408
Others	**9,324**	18,354
	736,364	814,310

(a) Trade payables

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

	2017 RMB'000	2016 RMB'000
Less than 1 year	**60,881**	87,495
More than 1 year but not exceeding 2 years	**3**	61,297
More than 2 years but not exceeding 3 years	**122**	2,084
More than 3 years	**–**	3,373
	61,006	154,249

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

36. COMMITMENTS

(a) Capital commitments

	2017 RMB'000	2016 RMB'000
Constructions-in-progress:		
Contracted but not provided for	**127,285**	226,255

(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:

	2017 RMB'000	2016 RMB'000
Not later than 1 year	**242**	882
More than 1 year but not exceeding 2 years	**–**	242
Total operating commitments	**242**	1,124

(c) Operating leases rental receivables

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

	2017 RMB'000	2016 RMB'000
Not later than 1 year	**2,410**	2,084
More than one year but not exceeding five years	**7,296**	9,029
	9,706	11,113

37. RELATED-PARTY TRANSACTIONS

At 31 December 2017, long-term borrowings of approximately RMB179,960,000 (2016: approximately RMB90,000,000) and short-term borrowings of approximately RMB712,490,000 (2016: approximately RMB374,963,000) 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)

	2017	2016
	RMB'000	RMB'000
Salaries and other short-term employee benefits	**3,303**	2,572

39. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in liabilities arising from financing activities

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

	Convertible bonds	**Long-term and short-term borrowings**	**Total liabilities from financing activities**
	RMB'000	RMB'000	RMB'000
At 1 January 2016	124,835	2,504,865	2,629,700
Changes in cash flows	19,081	(399,930)	(380,849)
Non-cash changes			
— interest charged	27,478	–	27,478
— classified as equity component	(8,636)	–	(8,636)
— reallocation to interest payables including in other payables	(18,141)	–	(18,141)
— converted during the year	(29,321)	–	(29,321)
At 31 December 2016 and 1 January 2017	**115,296**	**2,104,935**	**2,220,231**
Changes in cash flows	**–**	**(18,160)**	**(18,160)**
Non-cash changes			
— interest charged	**27,901**	**–**	**27,901**
— reallocation to interest payables including in other payables	**(17,967)**	**–**	**(17,967)**
— converted during the year	**(1,039)**	**–**	**(1,039)**
At 31 December 2017	**124,191**	**2,086,775**	**2,210,966**

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

	2017 RMB'000	2016 RMB'000
ASSETS		
Non-current assets		
Interests in subsidiaries	218,279	255,717
Loan to subsidiaries	939,872	1,101,072
	1,158,151	1,356,789
Current assets		
Other receivables	489	404
Derivative financial assets	41,670	227,378
Cash and cash equivalents	19	70
	42,178	227,852
Total assets	1,200,329	1,584,641
EQUITY		
Capital and reserves attributable to equity holders of the Company		
Share capital	368,394	367,531
Reserves	563,221	1,017,384
Total equity	931,615	1,384,915

40. STATEMENT OF FINANCIAL POSITION OF THE COMPANY AS AT 31 DECEMBER *(Continued)*

	2017 RMB'000	2016 RMB'000
LIABILITIES		
Non-current liabilities		
Convertible bonds	**124,191**	115,296
Current liabilities		
Accruals and other payables	**49,123**	30,120
Short-term borrowings	**6,663**	7,200
Financial guarantee liabilities	**88,737**	47,110
	144,523	84,430
Total liabilities	**268,714**	199,726
Total equity and liabilities	**1,200,329**	1,584,641
Net current (liabilities)/assets	**(102,345)**	143,422
Total assets less current liabilities	**1,055,806**	1,500,211

41. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved and authorised for issue by the Board of Directors on 29 March 2018.

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 2017.

	2017	2016	2015	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	**3,678,169**	1,947,027	1,928,147	1,369,590	1,339,252
Loss before taxation	**(471,170)**	(417,039)	(149,367)	(524,739)	(64,257)
Taxation	**16,737**	9,054	43,094	34,050	6,868
Minority interest	**(94)**	(831)	(627)	(642)	(333)
Loss after taxation	**(454,339)**	(407,154)	(105,646)	(490,047)	(57,056)
Total assets	**3,954,871**	4,494,129	5,334,231	5,333,257	5,443,943
Total liabilities	**(3,021,374)**	(3,107,238)	(3,593,889)	(3,576,599)	(4,371,644)
Total equity	**933,497**	1,386,891	1,740,342	1,756,658	1,072,299