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Ko Yo Chemical (Group) Limited

玫源化工(集團)有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 0827)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

HIGHLIGHTS

- For the year ended 31 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 31 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 in 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 31 December 2017.
- The net asset value per share was approximately RMB0.22 as at 31 December 2017.
- For the year ended 31 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:

Type	Sales amount <i>(million RMB)</i>	Sales quantities <i>(tonnes)</i>	% change compare with year 2016	
			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 31 December 2017.

The board of directors (the “Board”) is pleased to present the audited annual results of Ko Yo Chemical (Group) Limited (the “Company”) and its subsidiaries (collectively the “Group”) for the year ended 31 December 2017.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For The Year Ended 31 December 2017

	<i>Notes</i>	2017 RMB'000	2016 RMB'000
Revenue	8	3,678,169	1,947,027
Cost of sales		<u>(3,643,775)</u>	<u>(1,988,713)</u>
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	<u>(286)</u>	<u>(44,514)</u>
Operating loss		(308,369)	(277,175)
Finance income	11	1,234	2,753
Finance expenses	11	<u>(164,035)</u>	<u>(142,617)</u>
Loss before tax		(471,170)	(417,039)
Income tax credit	12	<u>16,737</u>	<u>9,054</u>
Loss and total comprehensive loss for the year	13	<u>(454,433)</u>	<u>(407,985)</u>
Attributable to:			
Equity holders of the Company		(454,339)	(407,154)
Non-controlling interests		<u>(94)</u>	<u>(831)</u>
		<u>(454,433)</u>	<u>(407,985)</u>
Loss per share attributable to the equity holders of the Company during the year (expressed in RMB per share)			
— Basic	15	<u>(0.1057)</u>	<u>(0.0972)</u>
— Diluted	15	<u>(0.1057)</u>	<u>(0.0972)</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For The Year Ended 31 December 2017

	Attributable to equity holders of the Company											Total equity
	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	
	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	<u>367,531</u>	<u>1,406,774</u>	<u>(22,041)</u>	<u>28,269</u>	<u>227,018</u>	<u>45,273</u>	<u>1,131</u>	<u>(665,531)</u>	<u>(3,509)</u>	<u>1,384,915</u>	<u>1,976</u>	<u>1,386,891</u>
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	<u>368,394</u>	<u>1,409,065</u>	<u>(22,041)</u>	<u>28,269</u>	<u>224,903</u>	<u>45,273</u>	<u>1,131</u>	<u>(1,119,870)</u>	<u>(3,509)</u>	<u>931,615</u>	<u>1,882</u>	<u>933,497</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As At 31 December 2017

	<i>Notes</i>	2017 RMB'000	2016 <i>RMB'000</i>
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
		<u>3,597,800</u>	<u>3,828,828</u>
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
		<u>357,071</u>	<u>665,301</u>
Total assets		<u>3,954,871</u>	<u>4,494,129</u>
EQUITY			
Equity attributable to owners of the Company			
Share capital	28	368,394	367,531
Reserves	30	563,221	1,017,384
		<u>931,615</u>	<u>1,384,915</u>
Non-controlling interest		<u>1,882</u>	<u>1,976</u>
Total equity		<u>933,497</u>	<u>1,386,891</u>

	<i>Notes</i>	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
		<u>635,044</u>	<u>755,123</u>
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
		<u>2,386,330</u>	<u>2,352,115</u>
Total liabilities		<u>3,021,374</u>	<u>3,107,238</u>
Total equity and liabilities		<u>3,954,871</u>	<u>4,494,129</u>
Net current liabilities		<u>(2,029,259)</u>	<u>(1,686,814)</u>
Total assets less current liabilities		<u>1,568,541</u>	<u>2,142,014</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 31 December 2017

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.
- (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.

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.

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.

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.

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.

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.

Trade and other payables

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

Equity instruments

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

Share-based payment transactions

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

(a) *Share options*

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

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

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

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

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

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

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

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

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

Revenue 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.

(b) Pension obligations

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

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

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

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

Borrowing costs

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

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

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

Government grants

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

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

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

Government grants relating to the purchase of assets are 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.

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.

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.

(c) Income taxes

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

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

6. FINANCIAL RISK MANAGEMENT

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

(a) Foreign exchange risk

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

(b) Cash flow and fair value interest rate risk

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

(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 <i>RMB'000</i>	Between 1 and 2 years <i>RMB'000</i>	Between 2 and 5 years <i>RMB'000</i>	Over 5 years <i>RMB'000</i>
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 through an adequate amount of available financing, including short-term borrowings, long-term borrowings and capital contribution from investors. Due to the dynamic nature of the underlying businesses, management of the Group maintains flexibility in funding by maintaining adequate amount of cash and cash equivalents and flexibility in funding through having available sources of financing.

The Group has been investing in the construction of new production lines and a significant amount of the financing was obtained from short-term borrowings. As a result, the Group had net current liabilities of approximately RMB2,029 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 <i>RMB'000</i>	2016 <i>RMB'000</i>
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	<u>2,640,424</u>	<u>2,872,696</u>

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.

- (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 RMB'000	Fair value 2016 RMB'000
Derivative financial assets	Binomial tree method	Historical volatility	Increase	<u>41,670</u>	<u>227,378</u>

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.

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
	<u>(173,304)</u>	<u>24,729</u>

10. OTHER EXPENSES

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
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)
	<u>(286)</u>	<u>(44,514)</u>

11. FINANCE EXPENSES — NET

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Finance income:		
Exchange gain	(314)	–
Interest income	(920)	(2,753)
	<u>(1,234)</u>	<u>(2,753)</u>
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)
	<u>164,030</u>	<u>142,178</u>
Exchange loss	–	32
Others	5	407
	<u>164,035</u>	<u>142,617</u>
Finance expenses — net	<u>162,801</u>	<u>139,864</u>

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	<u>(16,737)</u>	<u>(9,054)</u>
	<u>(16,737)</u>	<u>(9,054)</u>

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	<u>(471,170)</u>	<u>(417,039)</u>
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	<u>(10)</u>	<u>(3,006)</u>
Income tax credit	<u>(16,737)</u>	<u>(9,054)</u>

13. LOSS FOR THE YEAR

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

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
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
	<u>76,575</u>	<u>80,144</u>

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 <i>RMB'000</i>	Salaries, allowances and benefits in-kind <i>RMB'000</i>	Contributions to pension schemes <i>RMB'000</i>	Share options <i>RMB'000</i>	Total <i>RMB'000</i>
Executive directors					
Mr. Li Weiruo	1,345	780	–	–	2,125
Mr. Yuan Bai	252	942	28	–	1,222
Mr. Wu Tianran (<i>Note ix</i>)	1,293	780	–	–	2,073
Mr. Wan Congxin (<i>Note x</i>)	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 (<i>Note xi</i>)	168	–	–	–	168
Mr. Ge Jun (<i>Note xii</i>)	52	–	–	–	52
Mr. Xu Congcai (<i>Note xiii</i>)	70	–	–	–	70
Total for 2017	<u>4,010</u>	<u>3,640</u>	<u>28</u>	<u>–</u>	<u>7,678</u>

	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 (<i>Note i</i>)	270	642	–	–	912
Mr. Li Shengdi (<i>Note ii</i>)	90	214	–	–	304
Ms. Man Au, Vivian (<i>Note iii</i>)	270	433	–	–	703
Mr. Li Feng (<i>Note iv</i>)	150	659	–	–	809
Mr. Li Ciping (<i>Note v</i>)	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 (<i>Note vi</i>)	108	–	–	–	108
Mr. Qian Laizhong (<i>Note vii</i>)	36	–	–	–	36
Mr. Sun Tong Chuan (<i>Note viii</i>)	108	–	–	–	108
Total for 2016	<u>4,920</u>	<u>4,262</u>	<u>56</u>	<u>54</u>	<u>9,292</u>

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	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Loss		
Loss for the purpose of calculating basic and diluted earnings per share	<u>(454,339)</u>	<u>(407,154)</u>
	2017	2016
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic and diluted earnings per share	<u>4,297,751</u>	<u>4,189,013</u>

16. LAND USE RIGHTS

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

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

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.

17. PROPERTY, PLANT AND EQUIPMENT

	Buildings <i>RMB'000</i>	Plant and machinery <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Office equipment and others <i>RMB'000</i>	Construction- in-progress <i>RMB'000</i>	Total <i>RMB'000</i>
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

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 <i>RMB'000</i>	2016 <i>RMB'000</i>
Cost		
As at 1 January and 31 December	<u>13,862</u>	<u>13,862</u>
Accumulated depreciation and impairment loss		
As at 1 January	(1,735)	(1,226)
Charge for the year	<u>(509)</u>	<u>(509)</u>
As at 31 December	<u>(2,244)</u>	<u>(1,735)</u>
Net book value		
As at 31 December	<u><u>11,618</u></u>	<u><u>12,127</u></u>
Fair value as at 31 December	<u><u>23,892</u></u>	<u><u>23,892</u></u>

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).

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 <i>RMB'000</i>	Construction permits <i>RMB'000</i>	Total <i>RMB'000</i>
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).

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%

Name (Note i)	Place of incorporation/ establishment	Principal activities and place of operation	Particulars of issued share capital	Interest held
Guangan Ko Yo Chemical Industry Co., Ltd (“Ko Yo GuangAn”) (Note ii)	Mainland China	Manufacture and sale of chemical products, Mainland China	RMB160,000,000	100%
Chengdu Dayuan Chemical Industry Co., Ltd (“Ko Yo Dayuan”)	Mainland China	Investment holding, Mainland China	RMB100,000	100%
Chengdu Meiyuan Chemical Industry Co., Ltd (“Ko Yo Meiyuan”)	Mainland China	Investment holding, Mainland China	RMB100,000	100%
Guangan Lotusan Natural Gas Chemicals Co., Ltd (“Ko Yo Lotusan”) (Note ii)	Mainland China	Manufacture and sale of chemical products, Mainland China	RMB43,000,000	100%
Sichuan Ko Chang Technology Co., Ltd (“Ko Yo Ko Chang”)	Mainland China	Development of phosphoric acid production technology, 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.

23. INVENTORIES

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Raw materials	57,629	68,200
Finished goods	13,195	24,264
	<u>70,824</u>	<u>92,464</u>

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

24. TRADE AND OTHER RECEIVABLES

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
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
	<u>216,669</u>	<u>308,060</u>

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.

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 <i>RMB'000</i>	2016 <i>RMB'000</i>
Less than 3 months	16,424	36,106
More than 1 year	—	7,153
	<u>16,424</u>	<u>43,259</u>
Less: provision for impairment of trade receivables	(7,153)	(6,867)
	<u>9,271</u>	<u>36,392</u>

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 RMB'000	2016 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 '000	2016 '000	2017 HKD'000	2016 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 '000	2016 '000	2017 RMB'000	2016 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 (<i>Note a</i>)	9,688	210,193	863	17,749
At the end of the year	<u>4,298,043</u>	<u>4,288,355</u>	<u>368,394</u>	<u>367,531</u>

(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	<u>3,116,555</u>	<u>3,569,723</u>
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	<u>800,000</u>
1 January 2017	800,000
Lapsed	<u>(800,000)</u>
31 December 2017	<u>–</u>

(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	<u>4,700,000</u>	<u>1,600,000</u>	<u>10,000,000</u>	<u>1,900,000</u>	<u>18,200,000</u>
1 January 2017 and 31 December 2017	<u>4,700,000</u>	<u>1,600,000</u>	<u>10,000,000</u>	<u>1,900,000</u>	<u>18,200,000</u>

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 RMB'000	Contributed surplus RMB'000	Share-based compensation reserve — share options RMB'000	Share-based compensation reserve — convertible bonds RMB'000	Accumulated losses RMB'000	Total 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	<u>1,406,774</u>	<u>37,162</u>	<u>28,269</u>	<u>227,018</u>	<u>(681,839)</u>	<u>1,017,384</u>
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	<u>2,291</u>	—	—	(2,115)	—	<u>176</u>
At 31 December 2017	<u>1,409,065</u>	<u>37,162</u>	<u>28,269</u>	<u>224,903</u>	<u>(1,136,178)</u>	<u>563,221</u>

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

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 <i>RMB'000</i>	2016 <i>RMB'000</i>
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

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 <i>RMB'000</i>	2016 <i>RMB'000</i>
At fixed rates in HKD*	6,664	7,200
At fixed 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 <i>RMB'000</i>	2016 <i>RMB'000</i>
Liability component		
Convertible bonds 1	113,403	106,516
Convertible bonds 2	10,788	8,780
	<u>124,191</u>	<u>115,296</u>

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 <i>RMB'000</i>	Equity component <i>RMB'000</i>	Total <i>RMB'000</i>
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	<u>(15,581)</u>	<u>(31,316)</u>	<u>(46,897)</u>
At 31 December 2016	<u>106,516</u>	<u>221,062</u>	<u>327,578</u>
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	<u>(1,039)</u>	<u>(2,115)</u>	<u>(3,154)</u>
At 31 December 2017	<u>113,403</u>	<u>218,947</u>	<u>332,350</u>

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

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 <i>RMB'000</i>	Equity component <i>RMB'000</i>	Total <i>RMB'000</i>
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	<u>8,780</u>	<u>5,956</u>	<u>14,736</u>
At 1 January 2017	8,780	5,956	14,736
Interest expense accrued	2,008	–	2,008
At 31 December 2017	<u>10,788</u>	<u>5,956</u>	<u>16,744</u>

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 <i>RMB'000</i>	2016 <i>RMB'000</i>
At 1 January	1,930	2,584
Subsidy income recognised	(654)	(654)
At 31 December	<u>1,276</u>	<u>1,930</u>

34. DEFERRED INCOME TAX

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

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

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

Deferred income tax assets:

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

Deferred income tax liabilities:

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

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 <i>RMB'000</i>	2016 <i>RMB'000</i>
Trade payables (<i>Note a</i>)	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
	<u>736,364</u>	<u>814,310</u>

(a) Trade payables

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

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
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
	<u>61,006</u>	<u>154,249</u>

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

36. COMMITMENTS

(a) Capital commitments

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Constructions-in-progress: Contracted but not provided for	<u>127,285</u>	<u>226,255</u>

(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 <i>RMB'000</i>	2016 <i>RMB'000</i>
Not later than 1 year	242	882
More than 1 year but not exceeding 2 years	<u>–</u>	<u>242</u>
Total operating commitments	<u>242</u>	<u>1,124</u>

(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 <i>RMB'000</i>	2016 <i>RMB'000</i>
Not later than 1 year	2,410	2,084
More than one year but not exceeding five years	<u>7,296</u>	<u>9,029</u>
	<u>9,706</u>	<u>11,113</u>

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
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
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

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

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
ASSETS		
Non-current assets		
Interests in subsidiaries	218,279	255,717
Loan to subsidiaries	939,872	1,101,072
	<u>1,158,151</u>	<u>1,356,789</u>
Current assets		
Other receivables	489	404
Derivative financial assets	41,670	227,378
Cash and cash equivalents	19	70
	<u>42,178</u>	<u>227,852</u>
Total assets	<u><u>1,200,329</u></u>	<u><u>1,584,641</u></u>
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	<u>931,615</u>	<u>1,384,915</u>
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
	<u>144,523</u>	<u>84,430</u>
Total liabilities	<u><u>268,714</u></u>	<u><u>199,726</u></u>
Total equity and liabilities	<u><u>1,200,329</u></u>	<u><u>1,584,641</u></u>
Net current (liabilities)/assets	<u><u>(102,345)</u></u>	<u><u>143,422</u></u>
Total assets less current liabilities	<u><u>1,055,806</u></u>	<u><u>1,500,211</u></u>

41. APPROVAL OF FINANCIAL STATEMENTS

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

EXTRACT OF INDEPENDENT AUDITOR’S REPORT

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

Opinion

We have audited the consolidated financial statements of Ko Yo Chemical (Group) Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”), which comprise the consolidated statement of financial position as at 31 December 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 (“HKSA”) 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.

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.

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.

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.

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.

BUSINESS REVIEW

FINANCIAL PERFORMANCE

Results

For the year ended 31 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 31 December 2017. The Group has not declared any dividend for the year ended 31 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
	RMB'000	Composite %	RMB'000	Composite %	Change in turnover %
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
Methanol	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 31 December 2017, the Group had net current liabilities of approximately RMB2,029,259,000. Current assets as at 31 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 31 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 31 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.

FINANCIAL RESOURCES

As at 31 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 31 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 31 December 2017 and 31 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 31 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 22 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 31 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 31 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.

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.

AUDITORS' PROCEDURES PERFORMED ON THIS RESULTS ANNOUNCEMENT

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and the related notes thereto for the year ended 31 December 2017 as set out in the preliminary announcement have been agreed by the Group's auditors, ZHONGHUI ANDA CPA Limited, to the amounts set out in the Group's audited consolidated financial statements for the year ended 31 December 2017. The work performed by ZHONGHUI ANDA CPA Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by ZHONGHUI ANDA CPA Limited on the preliminary announcement.

CORPORATE GOVERNANCE PRACTICES

The board of directors ("Board") believes that by adopting high standard of corporate governance practices can improve the transparency and accountability of the Company, and instill confidence of shareholders and the public in the Group. Throughout the year under review, 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.

PURCHASE, SALE OR REDEMPTION OF SHARES

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

By Order of the Board
Ko Yo Chemical (Group) Limited
Wu Tianran
Chairman

Hong Kong 29 March 2018

As at the date of this announcement, the Board comprises four executive directors, being Mr. Wu Tianran, Mr. Li Weiruo, Mr. Yuan Bai and Mr. Wan Congxin, one non-executive director being Mr. Zhang Fubo and three independent non-executive directors being, Mr. Hu Xiaoping, Mr. Shi Lei and Mr. Xu Congcai.