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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 0827)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31ST DECEMBER 2015

HIGHLIGHTS

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

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

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

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

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

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

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 31st December 2015.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2015

	Notes	**2015** *RMB'000*	2014 *RMB'000*
Revenue	*3*	**1,928,147**	1,369,590
Cost of sales		**(1,955,537)**	(1,357,771)
Gross (loss)/profit		**(27,390)**	11,819
Distribution costs		**(37,631)**	(68,268)
Administrative expenses		**(105,155)**	(218,399)
Other income/(loss) — net	*4*	**217,338**	(172,739)
Other expenses		**(112,581)**	–
Operating loss		**(65,419)**	(447,587)
Finance income	*5*	**19,976**	36,011
Finance expenses	*5*	**(103,924)**	(113,163)
Loss before tax		**(149,367)**	(524,739)
Income tax credit	*6*	**43,094**	34,050
Loss and total comprehensive loss for the year		**(106,273)**	(490,689)
Attributable to:			
Equity holders of the Company		**(105,646)**	(490,047)
Non-controlling interests		**(627)**	(642)
		(106,273)	(490,689)
Loss per share attributable to the equity holders of the Company during the year (expressed in RMB per share)			
— Basic	*7*	**(0.0270)**	(0.2973)
— Diluted	*7*	**(0.0270)**	(0.2973)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2015

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

	Notes	**2015** ***RMB'000***	2014 *RMB'000*
LIABILITIES			
Non-current liabilities			
Long-term borrowings		**634,960**	648,822
Convertible bonds	*11*	**124,835**	147,629
Deferred subsidy income		**2,584**	3,238
Deferred income tax liabilities		**71,563**	80,867
		833,942	880,556
Current liabilities			
Trade and other payables	*12*	**890,042**	690,430
Short-term borrowings		**1,588,225**	1,719,041
Current portion of long-term borrowings		**281,680**	286,572
		2,759,947	2,696,043
Total liabilities		**3,593,889**	3,576,599
Total equity and liabilities		**5,334,231**	5,333,257
Net current liabilities		**(1,408,091)**	(803,855)
Total assets less current liabilities		**2,574,284**	2,637,214

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

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. SIGNIFICANT ACCOUNTING POLICIES

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

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

The preparation of financial statements in conformity with HKFRSs requires the use of certain key assumptions and estimates. It also requires the directors to exercise its judgements in the process of applying the accounting policies.

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

Subsidiaries

Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(a) Business combinations

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

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

Acquisition-related costs are expensed as incurred.

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

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

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

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

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

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

(c) Disposal of subsidiaries

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

Segment reporting

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

Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

Property, plant and equipment

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

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

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

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

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

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

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

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

Investment properties

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

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

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

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

Mining right

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

Land use rights

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

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

Non-current assets held-for-sale

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

Intangible assets other than mining right and land use rights

(a) Goodwill

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

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

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

(b) Construction permits

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

Impairment of non-financial assets

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

Financial assets

(a) Classification

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

Financial assets at fair value through profit or loss

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

Loans and receivables

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

(b) Recognition and measurement

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

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

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

Derivative financial instruments

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

Offsetting financial instruments

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

Impairment of financial assets carried at amortised cost

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

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

The Group first assesses whether objective evidence of impairment exists.

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

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

Inventories

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

Trade and other receivables

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

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

Cash and cash equivalents

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

Share capital

Ordinary shares are classified as equity.

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

Trade payables

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

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

Borrowings

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

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

Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

Current and deferred income tax

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

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

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

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

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

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

Employee benefits

(a) Employee leave entitlements

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

(b) Pension obligations

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

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

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

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

Share-based payment transactions

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

(a) Share options

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

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

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

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

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

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

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

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

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

Provisions

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

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

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

Contingent liabilities

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

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

Revenue recognition

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

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

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

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

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

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

Government grants

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

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

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

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

Operating leases

The Group as lessee

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

The Group as lessor

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

Events after the reporting period

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

3. REVENUE

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

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

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

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

4. OTHER INCOME/(LOSS) — NET

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

5. FINANCE EXPENSES — NET

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

6. INCOME TAX CREDIT

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

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

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

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

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

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

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

7. LOSS PER SHARE

Basic

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

Diluted

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

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

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

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

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

8. DIVIDEND

The directors do not recommend the payment of a final dividend for the year ended 31 December 2015 (2014: nil).

9. MINING RIGHT

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

The Group has not commenced any mining activities, therefore no amortisation was charged in this year.

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

10. TRADE AND OTHER RECEIVABLES

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

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

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

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

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

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

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

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

11. CONVERTIBLE BONDS

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

Convertible bonds 1

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

	Liability component	**Equity component**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Fair value of convertible bonds on grant date	214,988	567,778	782,766
Interest expense accrued	19,651	–	19,651
Converted during the year	(87,010)	(222,001)	(309,011)
At 31 December 2014	147,629	345,777	493,406
At 1 January 2015	**147,629**	**345,777**	**493,406**
Interest expense accrued	**27,542**	**–**	**27,542**
Interest expense paid	**(20,711)**	**–**	**(20,711)**
Converted during the year	**(40,155)**	**(93,399)**	**(133,554)**
At 31 December 2015	**114,305**	**252,378**	**366,683**

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

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

Convertible bonds 2

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

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

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

12. TRADE AND OTHER PAYABLES

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

(a) Trade payables

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

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

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

13. COMMITMENTS

(a) Capital commitments

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

(b) Commitments under operating leases

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

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

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

(c) Operating leases rental receivables

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

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

14. EVENT AFTER THE REPORTING PERIOD

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

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

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

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

Emphasis of matter

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

CHAIRMAN'S STATEMENT

TO SHAREHOLDERS

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

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

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

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

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

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

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

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

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

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

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

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

PROSPECT

Industry Review

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

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

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

OBJECTIVES AND STRATEGIES

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

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

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

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

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

   As to the production:

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

As to the market:

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

As to management:

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

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

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

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

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

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

APPRECIATION

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

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

Li Weiruo
Chairman

30th March 2016

BUSINESS REVIEW

FINANCIAL PERFORMANCE

Results

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

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

Cost and profit margin

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

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

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

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

The Group's income tax benefit in 2015 amounted to approximately RMB43.1 million. Details of tax schemes are set out in Note 6 to consolidated financial statements.

Dividends

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

PRODUCTS

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

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

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

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

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

CAPITAL COMMITMENTS

As at 31st December 2015, the Group had outstanding capital commitments of approximately RMB197,348,000. Details of the Group's capital commitments are set out in Note 13 to the consolidated financial statements.

FINANCIAL RESOURCES

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

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

GEARING RATIO

The Group's gearing ratios were approximately 54% and 48% as at 31st December 2015 and 31st December 2014 respectively. The gearing ratios were calculated as net debt divided by total capital.

CONTINGENT LIABILITIES

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

MATERIAL ACQUISITION/DISPOSAL

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

SEGMENTAL INFORMATION

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

DETAILS OF FUTURE PLANS FOR MATERIAL INVESTMENT OR CAPITAL ASSETS

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

CHARGES ON THE GROUP'S ASSETS

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

DIVIDEND

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

NUMBER OF EMPLOYEES

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

MANAGEMENT CONTRACTS

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

AUDIT COMMITTEE

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

The audit committee has reviewed with management the accounting principles and practices adopted by the Company and the Group and discussed internal controls and financial reporting matters including a review of the audited financial statements of the Company and the Group for the year ended 31st December 2015.

AUDITORS' PROCEDURES PERFORMED ON THIS RESULTS ANNOUNCEMENT

The figures in respect of the announcement of the Group's results for the year ended 31 December 2015 have been agreed by the Group's auditor, ZHONGHUI ANDA CPA Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. 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 this 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, 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
Li Weiruo
Chairman

Hong Kong 30th March 2016

As at the date of this announcement, the board of Directors comprises seven executive directors, being Mr. Li Weiruo, Mr. Yuan Bai, Ms Chi Chuan, Ms Man Au Vivian, Mr. Li Shengdi, Mr. Li Feng and Mr. Li Ciping, one non-executive director being Mr. Zhang Fubo and four independent non-executive Directors of Mr. Hu Xiaoping, Mr. Woo Che-Wor, Alex, Mr. Qian Laizhong and Mr. Sun Tongchuan.