TSAKER

Tsaker Chemical Group Limited
彩客化學集團有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1986)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

FINANCIAL HIGHLIGHTS

- For the year ended 31 December 2016, revenue of the Group amounted to approximately RMB1,041.1 million, representing an increase of approximately RMB160.9 million or 18.3% comparing with that in the same period of 2015.
- For the year ended 31 December 2016, gross profit of the Group amounted to approximately RMB293.6 million, representing an increase of approximately RMB26.3 million or 9.8% comparing with that in the same period of 2015.
- For the year ended 31 December 2016, net profit of the Group amounted to approximately RMB120.9 million, representing an increase of approximately RMB23.5 million or 24.1% comparing with that in the same period of 2015.
- For the year ended 31 December 2016, basic and diluted earnings per share of the Group amounted to approximately RMB0.24, representing an increase of approximately RMB0.02 or 9.1% comparing with that in the same period of 2015.
- The Board recommended the declaration of a final dividend of RMB0.073 per share, subject to the Shareholders' approval at the AGM.
- The Board recommended to issue bonus shares on the basis of one new share credited as fully paid for every one share held by the Shareholders, subject to the Shareholders' approval at the AGM.

The board (the "**Board**") of directors (the "**Director(s)**") of Tsaker Chemical Group Limited ("**Tsaker Chemical**" or the "**Company**" or "**we**" or "**our**") is pleased to announce the consolidated results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2016 (the "**Reporting Period**" or the "**Review Year**") together with the comparative figures for the year ended 31 December 2015 (Restated) as are follows.

Upon completion of the acquisition of Shandong Tsaker Dongao Chemicals Co., Ltd. (formerly known as Shengli Oil Field Dongao Chemicals Co., Ltd.（勝利油田東奧化工有限責任公司）(“**Tsaker Dongao**”)) by the Group in July 2016, the Group’s comparative figures for the year ended 31 December 2015 are restated, in accordance with the requirements under Accounting Guideline 5 “Merger Accounting for Common Control Combinations”, to include the operating results of Tsaker Dongao as if the current group structure had been in existence throughout the year since the date when Tsaker Dongao became under common control with the Group.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Notes	**2016** ***RMB’000***	2015 *RMB’000* (Restated)
REVENUE	*6*	**1,041,142**	880,270
Cost of sales		**(747,537)**	(612,939)
Gross profit		**293,605**	267,331
Other income and gains	*6*	**19,848**	19,094
Selling and distribution expenses		**(38,947)**	(34,115)
Administrative expenses		**(90,635)**	(97,940)
Other expenses		**(3,701)**	(1,439)
Finance costs	*7*	**(10,317)**	(7,334)
Exchange losses, net		**(15,395)**	(4,244)
PROFIT BEFORE TAX	*8*	**154,458**	141,353
Income tax expense	*9*	**(33,537)**	(43,883)
PROFIT FOR THE YEAR		**120,921**	97,470
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**25,943**	23,528
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**146,864**	120,998
Profit attributable to:			
Owners of the parent		**120,921**	97,470
Total comprehensive income attributable to:			
Owners of the parent		**146,864**	120,998
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT			
Basic and diluted (expressed in RMB per share)	*12*	**0.24**	0.22

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Notes	31 December 2016 RMB'000	31 December 2015 RMB'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment	*13*	**882,002**	733,012
Prepaid land lease payments	*14*	**85,207**	89,780
Other intangible assets		**114**	–
Investment in joint ventures		**900**	–
Available-for-sale investments	*15*	**18,300**	–
Deferred tax assets		**26,963**	26,748
Other non-current assets		**–**	15
Total non-current assets		**1,013,486**	849,555
CURRENT ASSETS			
Inventories	*16*	**81,765**	79,169
Trade receivables	*17*	**206,623**	164,268
Notes receivable	*18*	**74,406**	71,311
Prepayments and other receivables		**94,249**	67,754
Prepaid income tax		**–**	13,817
Restricted cash	*19*	**72,461**	300,516
Cash and cash equivalents	*19*	**396,743**	194,192
Total current assets		**926,247**	891,027
CURRENT LIABILITIES			
Trade payables	*20*	**256,523**	250,447
Other payables and accruals		**199,168**	301,907
Interest-bearing bank borrowings	*21*	**181,622**	317,320
Income tax payable		**19,634**	–
Current portion of long-term borrowings	*21*	**60,000**	–
Total current liabilities		**716,947**	869,674
NET CURRENT ASSETS		**209,300**	21,353
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,222,786**	870,908

	Notes	**31 December 2016** ***RMB'000***	31 December 2015 *RMB'000* (Restated)
NON-CURRENT LIABILITIES			
Deferred income		**21,001**	6,806
Deferred tax liabilities		**800**	1,550
Interest-bearing bank borrowings	*21*	**240,000**	–
Total non-current liabilities		**261,801**	8,356
Net assets		**960,985**	862,552
EQUITY			
Equity attributable to owners of the parent			
Share capital	*22*	**30,649**	30,649
Reserves		**930,336**	831,903
		960,985	862,552
Total equity		**960,985**	862,552

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2016

	Notes	**2016** **RMB'000**	2015 RMB'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax:		**154,458**	141,353
Adjustments for:			
Finance costs	*7*	**10,317**	7,334
Exchange gains, net		**(9,067)**	(5,442)
Interest income	*6*	**(9,876)**	(2,557)
Loss on disposal of items of property, plant and equipment	*8*	**1,023**	–
Depreciation	*13*	**54,269**	44,047
Amortisation of prepaid land lease payments	*14*	**4,573**	4,036
Amortization of other intangible assets		**3**	–
Amortisation of other non-current assets		**15**	10
Amortisation of deferred income		**(2,645)**	(1,297)
Recovery of assets written off	*8*	**–**	(3,443)
Impairment of inventories	*8*	**1,833**	1,788
		204,903	185,829
Increase in inventories		**(4,430)**	(4,369)
Increase in trade and notes receivables		**(45,451)**	(79,712)
Increase in prepayments and other receivables		**(17,451)**	(11,976)
Increase in trade payables		**18,705**	30,769
Increase in other payables and accruals		**14,784**	52,469
Increase in restricted cash		**(562)**	(2)
Cash generated from operations		**170,498**	173,008
Interest received		**12,180**	2,557
Interest paid		**(10,317)**	(7,386)
Income tax paid		**(1,051)**	(80,662)
Net cash flows from operating activities		**171,310**	87,517

	Notes	**2016**	2015
		RMB'000	*RMB'000*
			(Restated)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(229,577)**	(291,882)
Purchase of other intangible assets		**(117)**	(32,729)
Proceeds on disposal of items of property, plant and equipment		**1,323**	2,317
Capital contributions to joint ventures		**(900)**	–
Purchase of an available-for-sale investment	*15*	**(18,300)**	–
Acquisition of a subsidiary		**(17,361)**	–
Proceeds from governments grants		**16,840**	882
Net cash flows used in investing activities		**(248,092)**	(321,412)
CASH FLOWS FROM FINANCING ACTIVITIES			
Funding from related parties		**27,006**	89,048
Funding to related parties		**(118,589)**	(77,738)
Proceeds from bank loans		**499,942**	412,320
Decrease/(increase) in time deposits for bank loans		**228,617**	(300,000)
Repayment of bank loans		**(335,640)**	(176,000)
Dividend paid		**(31,070)**	–
Proceeds from issue of shares		**–**	378,841
Net cash flows from financing activities		**270,266**	326,471
NET INCREASE IN CASH AND CASH EQUIVALENTS		**193,484**	92,576
Cash and cash equivalents at beginning of year		**194,192**	96,174
Effect of foreign exchange rate changes, net		**9,067**	5,442
CASH AND CASH EQUIVALENTS AT END OF YEAR	*19*	**396,743**	194,192

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS:

1. CORPORATE AND GROUP INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands. The registered office address of the Company is P.O. Box 472, 2nd Floor, Harbour Place, 103 South Church Street, George Town, Grand Cayman, KY1-1106, Cayman Islands.

The Company is an investment holding company. During the year, the Company's subsidiaries were involved in the following principal activities:

- manufacture and sale of pigment intermediates
- manufacture and sale of dye intermediates
- manufacture and sale of mononitrotoluene (comprising para-nitrotoluene ("**PNT**"), ortho-nitrotoluene ("**ONT**") and meta-nitrotoluene ("**MNT**")) as well as ortho-toluidine ("**OT**") and others.

In the opinion of the Directors, the ultimate holding company and parent of the Company is Cavalli Enterprises Inc., a company registered in the British Virgin Islands and controlled by Mr. Ge Yi ("**Mr. Ge**").

2. BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand except when otherwise indicated.

Comparative information

Certain comparative amounts have been restated to conform with the current year's presentation and disclosures. In addition, certain items in the consolidated financial statements have been restated due to business combinations under common control, further summary details of which are included in Note 4 below.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

3.1 The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	*Investment Entities: Applying the Consolidation Exception*
Amendments to HKFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*
HKFRS 14	*Regulatory Deferral Accounts*
Amendments to HKAS 1	*Disclosure Initiative*
Amendments to HKAS 16 and HKAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*
Amendments to HKAS 16 and HKAS 41	*Agriculture: Bearer Plants*
Amendments to HKAS 27 (2011)	*Equity Method in Separate Financial Statements*
Annual Improvements 2012-2014 Cycle	Amendments to a number of HKFRSs

Except for the amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011), amendments to HKFRS 11, HKFRS 14, amendments to HKAS 16 and HKAS 41, and certain amendments included in the *Annual Improvements 2012-2014 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the amendments are described below:

(a) Amendments to HKAS 1 include narrow-focus improvements in respect of the presentation and disclosure in financial statements. The amendments clarify: (i) the materiality requirements in HKAS 1; (ii) that specific line items in the consolidated statement of profit or loss and other comprehensive income and the consolidated statement of financial position may be disaggregated; (iii) that entities have flexibility as to the order in which they present the notes to financial statements; and (iv) that the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss. Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the consolidated statement of financial position and the consolidated statement of profit or loss and other comprehensive income. The amendments have had no significant impact on the Group's financial statements.

(b) Amendments to HKAS 16 and HKAS 38 clarify the principle in HKAS 16 and HKAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are to be applied prospectively. The amendments have had no impact on the financial position or performance of the Group as the Group has not used a revenue-based method for the calculation of depreciation of its noncurrent assets.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

3.1 The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. (continued)

(c) The HKAS 27 (2011) Amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying HKFRSs and electing to change to the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements are required to apply the change retrospectively. The amendments have had no impact on the financial position or performance of the Group as the Group did not elect to apply the change.

(d) The *Annual Improvements to HKFRSs 2012-2014 Cycle* issued in October 2014 sets out amendments to a number of HKFRSs. Details of the amendments that are effective for the current year are as follows:

- HKFRS 7 *Financial Instruments*: *Disclosures:* Clarifies that the disclosures in respect of the offsetting of financial assets and financial liabilities in HKFRS 7 are not required in the condensed interim financial statements, except where the disclosures provide a significant update to the information reported in the most recent annual report, in which case the disclosures should be included in the condensed interim financial statements. The amendments have had no significant impact on the Group's financial statements.

- HKFRS 7 *Financial Instruments: Disclosures:* Clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance for continuing involvement in HKFRS 7 in order to assess whether the HKFRS 7 disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures need not be provided for any period beginning before the annual period in which the entity first applies the amendments. The amendments have had no impact on the Group as the Group does not have any servicing contracts.

- HKAS 19 *Employee Benefits*: Clarifies that market depth of high quality corporate bonds used for discounting the post-employment benefit obligation for defined benefit plans is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. The amendment has had no impact on the Group as the Group does not have any defined benefit plans.

- HKAS 34 *Interim Financial Reporting*: Clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report. The amendment also specifies that the information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. The amendment is not applicable to the Group's annual consolidated financial statements.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

3.2 Issued but not yet effective Hong Kong Financial Reporting Standards

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*[2]
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*[2]
HKFRS 9	*Financial Instruments*[2]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 15	*Revenue from Contracts with Customers*[2]
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*[2]
HKFRS 16	*Leases*[3]
Amendments to HKAS 7	*Disclosure Initiative*[1]
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*[1]

[1] Effective for annual periods beginning on or after 1 January 2017
[2] Effective for annual periods beginning on or after 1 January 2018
[3] Effective for annual periods beginning on or after 1 January 2019
[4] No mandatory effective date yet determined but available for adoption

4. RESTATEMENT

As a result of the business combination under common control of Tsaker Dongao (as detailed in Note 23) in 2016, the relevant line items in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2015, the consolidated statement of financial position as at 31 December 2015, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year ended 31 December 2015 have been restated as follows:

	The Group (as previously reported)	**Tsaker Dongao**	**The Group** (as restated)
Condensed consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2015:			
Revenue	875,711	4,559	880,270
Profit for the year	102,258	(4,788)	97,470
Other Comprehensive income for the year, net of tax	23,528	–	23,528
Total comprehensive income for the year	125,786	(4,788)	120,998
Condensed consolidated statement of financial position as at 31 December 2015:			
Non-current assets	593,697	255,858	849,555
Current assets	863,539	27,488	891,027
Total assets	1,457,236	283,346	1,740,582
Current liabilities	606,792	262,882	869,674
Non-current liabilities	8,356	–	8,356
Total liabilities	615,148	262,882	878,030

4. RESTATEMENT (CONTINUED)

	The Group (as previously reported)	Tsaker Dongao	The Group (as restated)
Net assets	842,088	20,464	862,552
Equity attributable to the owners of the parent	842,088	–	842,088
Deemed contribution	–	24,626	24,626
Total comprehensive income in 2014	–	626	626
Total comprehensive income for the year	–	(4,788)	(4,788)
Total equity	842,088	20,464	862,552
Consolidated statement of changes in equity for the year ended 31 December 2015:			
Equity attributable to the owners of the parent	842,088	–	842,088
Deemed contribution from the then shareholder	–	24,626	24,626
Total comprehensive income in 2014	–	626	626
Total comprehensive income for the year	–	(4,788)	(4,788)
Total equity	842,088	20,464	862,552
Consolidated statement of cash flows for the year ended 31 December 2015:			
Net cash flow from/(used in) operating activities	39,305	48,212	87,517
Net cash flow from/(used in) investing activities	(214,035)	(107,377)	(321,412)
Net cash flow from/(used in) financing activities	266,690	59,781	326,471
Effect of foreign exchange rate changes, net	5,442	–	5,442

5. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and has three reportable operating segments as follows:

(a) the pigment intermediates segment produces pigment intermediates products for use in the production of pigment;

(b) the dye intermediates segment produces dye intermediates products for use in the production of dye related products; and

(c) the mononitrotoluene, OT and other segment produces PNT, ONT, MNT, OT and others.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated mainly based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax. The adjusted profit/(loss) before tax is measured consistently with the Group's profit before tax except the profit or loss for the Company are excluded from such measurement.

The measurement of segment assets and liabilities are same as total assets and total liabilities for the consolidated statement of financial position, excluding assets and liabilities related to the Company.

5. OPERATING SEGMENT INFORMATION (CONTINUED)

For the year ended 31 December 2016

	Pigment Intermediates *RMB'000*	Dye Intermediates *RMB'000*	Mononitrotoluene, OT and others *RMB'000*	Consolidated *RMB'000*
Segment revenue:				
Revenues from external customers	197,444	482,235	361,463	1,041,142
Intersegment sales	171,406	313,854	66,301	551,561
	368,850	796,089	427,764	1,592,703
Reconciliation:				
Elimination of intersegment sales				(551,561)
Revenue from continuing operations				1,041,142
Segment results	286,263	110,021	35,203	431,487
Reconciliation				
Elimination of other income due to unrealised gains				(807)
Elimination of investment income				(262,000)
Corporate and other unallocated expenses				(14,222)
Profit before tax				154,458
Segment assets	522,078	1,029,140	522,850	2,074,068
Reconciliation				
Elimination of intersegment receivables				(705,374)
Corporate and other unallocated assets				571,287
Elimination of unrealised profit in inventories				(248)
Total assets				1,939,733
Segment liabilities	205,865	804,036	469,748	1,479,649
Reconciliation				
Elimination of intersegment payables				(705,374)
Corporate and other unallocated liabilities				204,473
Total liabilities				978,748
Other segment information				
Impairment losses recognised in profit and loss for inventories	–	–	1,833	1,833
Depreciation and amortisation	12,796	24,373	18,842	56,011
Capital expenditure	12,857	127,754	63,912	204,523

5. OPERATING SEGMENT INFORMATION (CONTINUED)

For the year ended 31 December 2015 (Restated)

	Pigment Intermediates *RMB'000*	Dye Intermediates *RMB'000*	Mononitrotoluene, OT and others *RMB'000*	Consolidated *RMB'000*
Segment revenue:				
Revenues from external customers	185,527	552,079	142,664	880,270
Intersegment sales	93,337	204,584	45,710	343,631
	278,864	756,663	188,374	1,223,901
Reconciliation:				
Elimination of intersegment sales				(343,631)
Revenue from continuing operations				880,270
Segment results	45,536	161,268	(19,041)	187,763
Reconciliation				
Elimination of intersegment transactions				(654)
Corporate and other unallocated expenses				(45,756)
Profit before tax				141,353
Segment assets	426,194	1,048,927	362,287	1,837,408
Reconciliation				
Elimination of intersegment receivables				(646,594)
Corporate and other unallocated assets				549,821
Elimination of unrealised profit in inventories				(53)
Total assets				1,740,582
Segment liabilities	364,977	590,715	354,400	1,310,092
Reconciliation				
Elimination of intersegment payables				(646,594)
Corporate and other unallocated liabilities				214,532
Total liabilities				878,030
Other segment information				
Impairment losses recognised in profit or loss for inventories	–	–	1,788	1,788
Depreciation and amortisation	9,935	20,332	13,727	43,994
Capital expenditure	13,934	28,017	248,541	290,492

5. OPERATING SEGMENT INFORMATION (CONTINUED)

Geographical information

(a) Revenue from external customers

	2016	2015
	RMB'000	*RMB'000*
		(Restated)
Mainland China	**706,646**	496,815
India	**107,570**	119,076
Germany	**51,415**	55,440
United States	**48,486**	51,295
Indonesia	**29,633**	42,503
Taiwan	**28,617**	31,735
Italy	**23,281**	20,996
Spain	**14,193**	20,995
Japan	**12,989**	15,730
Brazil	**9,661**	16,414
Turkey	**3,135**	4,017
Korea	**3,007**	2,284
Other countries	**2,509**	2,970
	1,041,142	880,270

Revenue information above is based on the locations of the customers.

The Group's non-current assets are substantially located in Mainland China.

(b) Information about major customers

In 2016, the Group did not have any revenue from sales to a single customer which accounted for 10% or more of the Group's total revenue.

In 2015, revenue of approximately RMB89,108,000 was derived from sales by the dye intermediates segment to a single customer.

6. REVENUE, OTHER INCOME AND GAINS

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts during the year.

An analysis of revenue, other income and gains is as follows:

	2016	2015
	RMB'000	*RMB'000*
		(Restated)
Revenue		
Sale of goods	**1,041,142**	880,270
	1,041,142	880,270
Other income and gains		
Bank interest income	**9,876**	2,557
Government grants*	**2,645**	4,797
Sale of materials and scrap	**6,724**	11,068
Others	**603**	672
	19,848	19,094
	1,060,990	899,364

* Government grants included subsidies granted by governmental units to support qualified research programs and rewards for the listing ("**Listing**") of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), which are recognised as income during the relevant period when such expenses were incurred and the conditions for the grants were fulfilled. Government grants also included grants that are related to qualified long-lived assets and such grants were deferred and released to profit or loss as other income over the expected useful lives of the relevant assets. There are no unfulfilled conditions on contingencies attached to the grants.

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2016	2015
	RMB'000	*RMB'000*
		(Restated)
Interest on bank loans	**21,500**	8,788
Other financial costs	**1,659**	5,651
Less: Interest capitalised	**(12,842)**	(7,105)
	10,317	7,334

The weighted average interest rate of capitalisation for the year ended 31 December 2016 was 5.10% (for the year ended 31 December 2015: 6.41%).

8. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

		2016	2015
	Notes	***RMB'000***	*RMB'000*
			(Restated)
Cost of inventories sold		**747,537**	612,939
Depreciation	*13*	**54,269**	44,047
Research and development costs		**9,710**	15,136
Amortisation of land lease payments	*14*	**4,573**	4,036
Auditor's remuneration		**3,100**	4,165
Employee benefit expense (excluding directors' and chief executive's remuneration):			
Wages, salaries and welfare		**79,629**	75,994
Pension and other social insurances		**17,900**	24,167
Exchange losses, net		**15,395**	4,244
Loss on disposal of items of property, plant and equipment		**1,023**	–
Write-down of inventories to net realisable value		**1,833**	1,788
Recovery of impairment of trade receivables	*17*	**–**	(3,443)

9. INCOME TAX

Cayman Islands

Under the current income tax laws of the Cayman Islands, the Company is not subject to tax on any income or capital gain.

Hong Kong

Under the current income tax laws of Hong Kong, companies are subject to Hong Kong profits tax at 16.5% on assessable profits arising in or derived from Hong Kong.

Singapore

Under the current income tax laws of Singapore, companies are subject to Singapore profits tax at 17% on assessable profits arising in or derived from Singapore.

Mainland China

The Company subsidiaries in Mainland China are subject to income tax at 25% unless otherwise specified.

Pursuant to the PRC Corporate Income Tax Law and related laws and regulations, Tsaker Chemical (Cangzhou) Co., Ltd. (彩客化學(滄州)有限公司) ("**Tsaker Cangzhou**") withholds corporate income tax at the rate of 5% when it distributes dividends to Tsaker Chemical (Hong Kong) Company Limited ("**Tsaker Hong Kong**") in respect of earnings generated commencing from 1 January 2008.

	2016 ***RMB'000***	2015 *RMB'000* (Restated)
Current – PRC		
Charge for the year	**34,502**	44,233
Deferred	**(965)**	(350)
Total tax charge for the year	**33,537**	43,883

9. INCOME TAX (CONTINUED)

Reconciliation of the tax expense applicable to profit before tax at the statutory rate for Mainland China, in which the majority of the Company's subsidiaries are domiciled to the tax expense at the effective tax rate, is as follows:

	2016	2015
	RMB'000	*RMB'000*
		(Restated)
Profit before tax	**154,458**	141,353
Tax at the statutory income tax rate (25%)	**38,615**	35,338
Tax loss not recognised	**–**	4,015
The effect of different tax rates	**1,056**	60
Non-deductible expenses	**1,317**	4,312
Income not subject to tax	**(1,944)**	(358)
Additional deduction of research and development costs	**(1,153)**	(1,034)
Tax losses utilised from previous periods	**(3,604)**	–
Withholding tax	**(750)**	1,550
Total income tax expense	**33,537**	43,883

10. ARRANGEMENTS WITH CHINA CHEM CO., LTD.

The Group entered into various arrangements with China Chem Co., Ltd. ("**China Chem**"), an unrelated party, for sale of products and purchase of raw materials. Based on these arrangements, China Chem is considered as the agent for and on behalf of the Group in the respective sale and purchase transactions.

In the sale arrangements, the Group has latitude in establishing prices, and the primary responsibility for providing the goods to the customer, bears inventory risk during shipment, and credit risk for the amount receivable from end customers. Accordingly, the Group recognises revenue from sale of products based on the respective amounts billed to end customers. Under all the above-mentioned arrangements, China Chem provides certain administrative work and financing service (on improving the Group's working capital management) in return for service and interest charges, respectively. The financing service under arrangements of sale of products is related to expediting settlement of receivables while the financing service under arrangement of purchase of raw materials is related to delaying settlement of payables. The service charges paid on administrative work relating to sale of products form part of selling and distribution expenses of the Group while those relating to purchase of raw materials are considered as part of purchase cost of the related raw materials. Financing charges are recognised during the year ended 31 December 2016 and 2015 as other finance cost in profit or loss.

11. DIVIDEND

The Directors recommend a final dividend at RMB0.073 (2015: RMB0.062) per ordinary share in respect of the year ended 31 December 2016. The dividend was not recognised as a liability as at the end of the Reporting Period.

The Directors also recommend a bonus issue of shares on the basis of one new share credited as fully paid for every one share held by the shareholders of the Company (the "**Shareholders**"), subject to the Shareholders' approval at the annual general meeting (the "**AGM**") to be held on 16 June 2017.

12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic and diluted earnings per share attributable to ordinary equity holders of the parent is based on the following data:

	2016	2015 (Restated)
Earnings		
Profit for the year attributable to ordinary equity holders of the parent *(RMB'000)*	**120,921**	97,470
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic and diluted earnings per share calculation *(RMB'000)*	**501,125**	437,290
Earnings per share		
Basic and diluted *(RMB)*	**0.24**	0.22

The Group did not have any dilutive potential ordinary shares in issue during the years ended 31 December 2016 and 2015.

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings *RMB'000*	Machinery and equipment *RMB'000*	Office equipment *RMB'000*	Motor vehicles *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
31 December 2016						
At 31 December 2015 and 1 January 2016 (restated):						
Cost	**231,108**	**371,420**	**9,714**	**2,252**	**318,296**	**932,790**
Accumulated depreciation and impairment	**(41,789)**	**(152,051)**	**(4,651)**	**(1,287)**	**–**	**(199,778)**
Net carrying amount	**189,319**	**219,369**	**5,063**	**965**	**318,296**	**733,012**
At 1 January 2016, net of accumulated depreciation and impairment	**189,319**	**219,369**	**5,063**	**965**	**318,296**	**733,012**
Additions	**2,415**	**204**	**315**	**648**	**202,023**	**205,605**
Disposals	**(1,066)**	**(1,276)**	**(4)**	**–**	**–**	**(2,346)**
Depreciation provided during the year	**(14,494)**	**(37,660)**	**(1,622)**	**(493)**	**–**	**(54,269)**
Transfers	**93,881**	**79,713**	**80**	**–**	**(173,674)**	**–**
At 31 December 2016, net of accumulated depreciation and impairment	**270,055**	**260,350**	**3,832**	**1,120**	**346,645**	**882,002**
At 31 December 2016:						
Cost	**326,173**	**449,461**	**10,074**	**2,900**	**346,645**	**1,135,253**
Accumulated depreciation and impairment	**(56,118)**	**(189,111)**	**(6,242)**	**(1,780)**	**–**	**(253,251)**
Net carrying amount	**270,055**	**260,350**	**3,832**	**1,120**	**346,645**	**882,002**

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Buildings *RMB'000*	Machineries and equipment *RMB'000*	Office equipment *RMB'000*	Motor vehicles *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
31 December 2015 (Restated)						
At 31 December 2014 and 1 January 2015:						
Cost	197,323	333,045	8,212	2,249	124,662	665,491
Accumulated depreciation and impairment	(31,406)	(120,820)	(3,790)	(836)	(1,615)	(158,467)
Net carrying amount	165,917	212,225	4,422	1,413	123,047	507,024
At 1 January 2015, net of accumulated depreciation and impairment	165,917	212,225	4,422	1,413	123,047	507,024
Additions	440	5,402	1,704	3	265,032	272,581
Disposals	(2,466)	(24)	(56)	–	–	(2,546)
Depreciation provided during the year	(11,341)	(31,248)	(1,007)	(451)	–	(44,047)
Transfers	36,769	33,014	–	–	(69,783)	–
At 31 December 2015, net of accumulated depreciation and impairment	189,319	219,369	5,063	965	318,296	733,012
At 31 December 2015:						
Cost	231,108	371,420	9,714	2,252	318,296	932,790
Accumulated depreciation and impairment	(41,789)	(152,051)	(4,651)	(1,287)	–	(199,778)
Net carrying amount	189,319	219,369	5,063	965	318,296	733,012

As at 31 December 2016 and 2015, certain of the Group's buildings with aggregate net book value of RMB 62,689,000 and RMB12,237,000 were pledged to secure bank loans of RMB80,000,000 and RMB20,000,000, respectively (Note 21).

During the year ended 31 December 2016, no impairment loss was incurred.

Included in the property, plant and equipment as at 31 December 2016 and 2015 were certain buildings with net book values of RMB 2,825,000 and RMB7,715,000 respectively of which the property certificates have not been obtained.

The Directors are of the view of the Group is entitled to lawfully and validly occupy and use the above mentioned buildings. The Directors are also of the opinion that the aforesaid matter will not have any significant impact on the Group's financial position for the year.

14. PREPAID LAND LEASE PAYMENTS

	31 December 2016	31 December 2015
	RMB'000	*RMB'000* (Restated)
Carrying amount at 1 January	**94,148**	64,788
Addition	**–**	33,396
Amortisation during the year	**(4,573)**	(4,036)
Carrying amount at 31 December	**89,575**	94,148
Current portion (included in prepayments, and other receivables)	**(4,368)**	(4,368)
Non-current portion	**85,207**	89,780

As at 31 December 2016 and 2015, the pledged prepaid land lease payments amounted to RMB34,597,000 and RMB24,734,000, respectively, to secure bank loans granted to the Group (Note 21).

15. AVAILABLE-FOR-SALE INVESTMENTS

	31 December 2016	31 December 2015
	RMB'000	*RMB'000*
Non-publicly traded investments, at cost:		
Private equity fund in Tibet Winshare Equity Venture Capital Fund Partnership (Limited Partnership) ("**Winshare Equity**")	**18,300**	–
	18,300	–

As at 31 December 2016, an unlisted equity investment with a carrying amount of RMB18,300,000 (2015: Nil) was stated at cost less impairment because the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair value cannot be measured reliably. The Group does not intend to dispose of them in the near future.

16. INVENTORIES

	31 December 2016 *RMB'000*	31 December 2015 *RMB'000* (Restated)
Raw materials	**30,350**	27,132
Work in progress	**15,433**	11,386
Finished goods	**37,815**	42,439
	83,598	80,957
Less: impairment provision	**(1,833)**	(1,788)
	81,765	79,169

As at 31 December 2016, none of the Group's inventories was pledged as security for the Group's bank loans (2015: Nil).

17. TRADE RECEIVABLES

	31 December 2016 *RMB'000*	31 December 2015 *RMB'000* (Restated)
Trade receivables	**206,623**	164,268
	206,623	164,268

The Group's trading terms with its customers are mainly on credit, except for new customers and small-sized customers, where payment in advance is normally required. The credit period is generally one month for domestic customers, extending up to three months for overseas customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control on certain of its outstanding receivables.

Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

17. TRADE RECEIVABLES (CONTINUED)

An aging analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

	31 December 2016	31 December 2015
	RMB'000	*RMB'000*
		(Restated)
Within 1 month	**98,412**	76,717
1 month to 2 months	**55,084**	51,887
2 months to 3 months	**25,091**	22,027
3 months to 4 months	**11,395**	4,274
Over 4 months	**16,641**	9,363
	206,623	164,268

The movements in provision for impairment of trade receivables are as follows:

	2016	2015
	RMB'000	*RMB'000*
		(Restated)
At 1 January	**–**	3,443
Impairment loss reversed	**–**	(3,443)
At 31 December	**–**	–

As at 31 December 2014, provision for impairment of trade receivables was a provision for individually impaired trade receivables with a carrying amount before provision of RMB3,443,000. The individually impaired receivables mainly relate to customers which were in unexpected difficult economic situations and it was expected that these receivables would not be recovered. The previously fully impaired trade receivables of RMB3,443,000 were recovered during the year ended 31 December 2015.

17. TRADE RECEIVABLES (CONTINUED)

The aging analysis of the trade receivables that are not individually nor collectively considered to be impaired is as follows:

	31 December 2016	31 December 2015
	RMB'000	*RMB'000*
		(Restated)
Neither past due nor impaired	**152,430**	136,225
Less than 1 month past due	**31,822**	12,545
1 to 3 months past due	**13,744**	8,351
Over 3 months past due	**8,627**	7,147
	206,623	164,268

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the Directors are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

18. NOTES RECEIVABLE

Notes receivable of the Group are all bank acceptance notes and are usually settled within six months from their respective dates of issue. None of the notes receivable as at the end of the years ended 31 December 2016 and 2015 was past due or impaired.

Transferred financial assets that are not derecognised in their entirety:

The Group endorsed certain notes receivable accepted by banks in Mainland China (the "**Endorsed Notes**") with aggregate carrying amount of RMB52,305,000 and RMB47,415,000 as at 31 December 2016 and 2015, respectively, to certain of its suppliers in order to settle trade payables due to such suppliers (the "**Endorsement**"). In the opinion of the Directors, the Group has retained the substantial risks and rewards, which include default risks relating to such Endorsed Notes, and accordingly, it continued to recognise the full carrying amounts of the Endorsed Notes and the associated other payables. Subsequent to the Endorsement, the Group did not retain any rights on the use of the Endorsed Notes, including the sale, transfer or pledge of the Endorsed Notes to any other third parties. None of the Endorsed Notes settled during the year have been recoursed as at the end of the year.

18. NOTES RECEIVABLE (CONTINUED)

Transferred financial assets that are derecognised in their entirety:

The Group endorsed certain notes receivable accepted by banks in Mainland China (the "**Derecognised Notes**") to certain of its suppliers in order to settle the trade payables due to such suppliers with aggregate carrying amount of RMB240,410,000 and RMB290,655,000 (Restated) as at 31 December 2016 and 2015, respectively. The Derecognised Notes have a maturity from one to six months at the end of the respective reporting periods. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Notes have a right of recourse against the Group if the PRC banks default (the "**Continuing Involvement**"). In the opinion of the Directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Notes. Accordingly, it has derecognised the full carrying amounts of the Derecognised Notes and the associated trade payables. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Notes and the undiscounted cash flows to repurchase these Derecognised Notes is equal to their carrying amounts. In the opinion of the Directors, the fair values of the Group's Continuing Involvement in the Derecognised Notes are not significant.

For the years ended 31 December 2016 and 2015, the Group has not recognised any gain or loss on the dates of transfer of the Derecognised Notes. No gains or losses were recognised from the Continuing Involvement, both during the years ended 31 December 2016 and 2015 or cumulatively.

19. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

	Notes	**31 December 2016** *RMB'000*	31 December 2015 *RMB'000* (Restated)
Cash and bank balances		**407,421**	194,708
Time deposits		**61,783**	300,000
Less: Restricted cash	*(a)*	**(51,078)**	(516)
Pledged time deposits for short term bank loans	*(b)*	**(21,383)**	(300,000)
Cash and cash equivalents		**396,743**	194,192
Denominated in RMB	*(c)*	**191,803**	140,071
Denominated in other currencies		**204,940**	54,121
Cash and cash equivalents		**396,743**	194,192

19. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH (CONTINUED)

Notes:

(a) As at 31 December 2016 and 2015, the Group's bank balances of approximately RMB518,000 and RMB516,000, respectively, were deposited at banks as a safety production guarantee fund pursuant to the related government regulations. As at 31 December 2016, the Group's bank balances of approximately RMB560,000 were deposited as a guarantee fund for the salary of rural workers pursuant to the related government regulations. As at 31 December 2016, the Group's bank balances of approximately RMB50,000,000 were deposited to secure subsidiaries' bank loans.

(b) As at 31 December 2016 and 2015, restricted cash of RMB21,383,000 and RMB300,000,000 was deposited to secure subsidiaries' bank loans.

(c) RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances and restricted bank deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents and the restricted bank deposits approximate to their fair values.

20. TRADE PAYABLES

An aging analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	31 December 2016	31 December 2015
	RMB'000	*RMB'000*
		(Restated)
Within 1 month	**76,871**	160,816
1 month to 2 months	**56,146**	34,325
2 months to 3 months	**22,092**	22,943
Over 3 months	**101,414**	32,363
	256,523	250,447

The trade payables are non-interest-bearing and are normally settled on 30-day to 90-day terms.

21. INTEREST-BEARING BANK BORROWINGS

	31 December 2016			31 December 2015		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans – unsecured	HIBOR+2.7	2017	26,832	–	–	–
Bank loans – secured	3.92-7.60	2017	214,790	4.35-8.40	2016	317,320
			241,622			317,320
Non-current						
Bank loans – secured	5.23-6.98	2018-2019	240,000	–	–	–
			240,000			–
Total			481,622			317,320
Analysed into:						
Bank loans repayable:						
Within one year			241,622			317,320
In the second year to fifth years, inclusive			240,000			–
			481,622			317,320

21. INTEREST-BEARING BANK BORROWINGS (CONTINUED)

Notes:

The Group had banking facilities amounting to RMB17,890,000 for the year ended 31 December 2016 (31 December 2015: RMB200,000,000).

Certain of the Group's bank loans are secured by:

	Notes	**31 December 2016** *RMB'000*	31 December 2015 *RMB'000*
1) certain of the Group's land use rights (with a net carrying amount of RMB22,421,000 and RMB15,000,000 as at 31 December 2016 and 31 December 2015, respectively);		**15,000**	15,000
2) the Company's letter of credit;	*(i)*	**48,000**	270,320
3) joint guarantees by Tsaker Cangzhou and Tsaker Chemical (Dongguang) Co., Ltd.（彩客化學（東光）有限公司）(**"Tsaker Dongguang"**);		**12,000**	12,000
4) certain of the Group's land use rights (with aggregate net carrying amounts of RMB8,425,000 and RMB9,734,000 as at 31 December 2016 and 31 December 2015, respectively) and certain of the Group's buildings (with aggregate net carrying amounts of RMB10,284,000 and RMB12,237,000 as at 31 December 2016 and 31 December 2015, respectively);		**20,000**	20,000
5) certain of the Group's buildings (with an aggregate net carrying amount of RMB50,590,000 as at 31 December 2016);		**30,000**	–
6) certain of the Group's land use rights (with an aggregate net carrying amount of RMB3,751,000 as at 31 December 2016), and certain of the Group's buildings (with an aggregate net carrying amount of RMB1,815,000 as at 31 December 2016);		**30,000**	–
7) the Group's fixed term deposits (with a net carrying amount of US$3,082,000 at 31 December 2016); and		**19,790**	–
8) certain of the Group's land use rights (with an aggregate net carrying amount of RMB56,769,000 as at 31 December 2016), and certain of the Group's buildings (with an aggregate net carrying amount of RMB20,608,000 as at 31 December 2016), and joint guarantees by Tsaker Cangzhou, Tsaker Dongguang, Tsaker Hong Kong, Tsaker Technology (Beijing) Co., Ltd.（彩客科技（北京）有限公司）, Tsaker Dongao and the Company, and the Company's letter of credit.	*(ii)*	**280,000**	–
Total		**454,790**	317,320

21. INTEREST-BEARING BANK BORROWINGS (CONTINUED)

(i) The Company deposited RMB50,000,000 at the bank in order to obtain the letter of credit.

(ii) The Company deposited US$29,233,000 at the bank in order to obtain the letter of credit on 27 January 2017. The buildings and land use rights were pledged on 13 February 2017.

Except for a bank loan of RMB26,832,000 which is denominated in HKD, all borrowings are in RMB.

22. SHARE CAPITAL

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 29 October 2014 with initial authorised share capital of US$50,000 divided into 5,000,000 shares of a par value of US$0.01 each.

The movements in share capital of the Company are as follows:

Shares	**Number of shares**	**Share capital** *US$*	**Issued share capital equivalent of** *RMB'000*
Authorised:			
As at 31 December 2015 at US$0.01 each	1,000,000,000	10,000,000	
As at 31 December 2016 at US$0.01 each	1,000,000,000	10,000,000	
Issued and fully paid:			
At 1 January 2015 at US$0.01 each	100,000	1,000	6
Capitalization upon listing	374,900,000	3,749,000	22,929
Issue of shares	126,125,000	1,261,250	7,714
At 31 December 2015, at US$0.01 each	501,125,000	5,011,250	30,649
At 31 December 2016, at US$0.01 each	501,125,000	5,011,250	30,649

Pursuant to the written resolutions of the shareholders of the Company passed on 12 June 2015, the sum of US$3,749,000 standing to the credit of the share premium account of the Company was capitalised and applied towards paying up in full at par 374,900,000 shares of the Company upon Listing.

The Company's shares were listed on the Stock Exchange on 3 July 2015 and in connection with the Company's Global Offering and the completion of the over-allotment, 126,125,000 ordinary shares of the Company of US$0.01 each were issued at a price of HK$4.01 per share for a total cash consideration, before expenses, of approximately HK$505,761,250 (equivalent to RMB398,944,307). Share issue expense charged to equity was RMB20,103,153.

23. BUSINESS COMBINATION

During the year ended 31 December 2016, the Company completed a business combination of Tsaker Dongao under common control of Mr. Ge Yi. Tsaker Dongao was established on 15 March 2014. Huage Holdings Group Co., Ltd. (華戈控股集團有限公司) ("**Huage Holdings**"), controlled by Mr Ge Yi, acquired the entire equity interests in Tsaker Dongao from an independent third party on 11 September 2014. After the acquisition, Tsaker Dongao is principally engaged in the leasing of its assets to the Group under asset leasing agreements for the production of mononitrotoluene (consisting of PNT, ONT and MNT) as well as OT and NMP. Before the commencement of the asset leasing agreement in January 2015 with Tasker Chemical (Dongying) Co., Ltd. (彩客化學(東營)有限公司) ("**Tasker Dongying**"), an indirectly wholly-owned subsidiary of the Company, Tsaker Dongao was principally engaged in the production of mononitrotoluene as well as OT and NMP, which was ceased after entering into the asset leasing agreement with Tsaker Dongying.

The following table summarises the fair values of assets and liabilities of Tsaker Dongao when they were acquired by Huage Holdings on 11 September 2014:

	RMB'000
Property, plant and equipment	181,489
Prepaid land lease payments	26,259
Inventory	5,206
Other current assets	4,872
Trade Payables	(79,440)
Other payables and accruals	(113,760)
Fair value recognised by Huage Holdings	24,626
Purchase price paid to an unrelated third party	(24,626)

On 4 May 2016, Tsaker Dongying and Huage Holdings entered into a sale and purchase agreement (the "**SPA**"). According to the SPA, Huage Holdings agreed to sell and Tsaker Dongying agreed to purchase the entire equity interests in the Tsaker Dongao, a directly wholly-owned subsidiary of Huage Holdings at an aggregate cash consideration of RMB17,361,000. The acquisition was completed on 18 July 2016.

As the Group and Tsaker Dongao were under common control of Mr. Ge Yi, the acquisition is considered as a combination of entities under common control. Accordingly, the assets and liabilities of Tsaker Dongao have been accounted for at the fair value recognised by Huage Holdings when it acquired Tsaker Dongao and the consolidated financial statements of the Group prior to the business combination have been restated to include the results of operations of Tsaker Dongao commencing from the date when Tsaker Dongao became under control of Huage Holdings. The consideration paid by the Company for the acquisition has been accounted for as an equity transaction in the consolidated statement of changes in equity.

The Group incurred transaction costs of RMB520,000 for this acquisition. These transaction costs have been expensed and are included in other expenses in profit or loss.

24. CONTINGENT LIABILITIES

As at 31 December 2016, the Group had no contingent liabilities.

25. OPERATING LEASE ARRANGEMENTS

As lessee

The Group leases certain of its premises under operating lease arrangement with a term commencing on 3 July 2015 and ending on 31 December 2017.

As at 31 December 2016, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	31 December 2016 *RMB'000*	31 December 2015 *RMB'000* (Restated)
Within one year	**5,276**	1,578
In the second to fifth years, inclusive	**7,397**	1,578
	12,673	3,156

26. COMMITMENTS

In addition to the operating lease commitments detailed in Note 25 above, the Group had the following capital commitments at the end of the reporting period:

	31 December 2016 *RMB'000*	31 December 2015 *RMB'000* (Restated)
Contracted, but not provided for		
Plant and machinery	**182,200**	118,556

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group produces a number of fine chemicals, such as dye, pigment and agricultural chemical intermediates. During the Review Year, the Group leased assets for the production of optical brightening agents ("**OBA**") from Xiajin Zhenhua Chemical & Technology Company Limited (夏津縣振華化學科技有限公司) ("**Xiajin Zhenhua**"). Such assets have already been put into operation in January 2017, which marked the Group's official entry into the market of OBA for textile printing and dyeing and OBA for detergent.

To enlarge market share and enhance the Group's market position, the Group has doubled the production capacity for mononitrotoluene, from 40,000 tons to 80,000 tons and became the world's third mononitrotoluene producer, accounting for about 18.8% of the market share. The Group also completed the production capacity expansion for DMAS in the year, a yellow pigment intermediates, to satisfy the market demand and bring greater revenue growth for the Company.

As the nature and quality of the dye and pigment intermediates directly affect the colour of end products, such products cannot be easily replaced in the supply chain of international chemicals producers. By virtue of the consistently high quality of its products, the Group has maintained good business relationship with its customers which is over ten years on average.

The key customers of the Group were international chemical producers and the top five largest customers of the Group accounted for a total of approximately 28.9% of the revenue of the Group for the Review Year (2015 (Restated): approximately 32.5%). The Group has a well-established sales network, which covers Asia, Europe, North and South Americas. For the Review Year, revenue derived from the Group's sales in China accounted for approximately 67.9%; India accounted for approximately 10.3%; Germany accounted for approximately 4.9%; the United States of America , Indonesia and other regions accounted for approximately 4.7%, 2.8% and 9.4% respectively, by regional distribution.

PERFORMANCE REVIEW

During the Review Year, revenue of the Group increased by 18.3% to approximately RMB1,041.1 million (2015 (Restated): RMB880.3 million). The increase in revenue was mainly due to the increase in sales volume and unit price of agricultural chemical intermediates. Tsaker Chemical increased its investment in agricultural chemical intermediates sector during the Review Year, with sectoral production capacity increasing to 80,000 tons, so as to satisfy the market demands. The additional production capacity was almost fully utilised, which led to a significant increase in the sales volume and revenue of agricultural chemical intermediates. Meanwhile, as the fourth quarter was traditionally a sales peak season, coupled with the early arrival of the Lunar New Year in 2017 as compared with previous years, customers increased their product purchase much earlier than before, leading to a significant increase in the sales of agricultural chemical intermediates in December 2016.

As for gross profit, since the revenue percentage of mononitrotoluene has increased, and its gross profit is lower than that of dye and pigment intermediates, leading to the decrease of the average gross profit. Together with the rising prices of the raw materials in the second half of 2016, the production cost increased. However, since our sales contracts were signed quarterly, the unit price increase of the raw materials was not reflected in the performance for the Review Year. So the gross profit of the Group increased by approximately 9.8%, amounting to RMB293.6 million (2015 (Restated): approximately RMB267.3 million), while gross profit margin decreased to approximately 28.2% compared to approximately 30.4% for the same period of last year.

On the other hand, due to the more rapid depreciation of the Renminbi during the Reporting Period, leading to an exchange loss of approximately RMB15.4 million, which had a negative impact on net profit. Net profit of the Group for the whole year increased by approximately 24.1% to approximately RMB120.9 million (2015 (Restated): approximately RMB97.5 million); net profit margin remained stable at approximately 11.6% (2015 (Restated): approximately 11.1%); basic earnings per share was approximately RMB0.24 (2015 (Restated): RMB0.22).

DSD Acid and other dye intermediates – accounting for approximately 46.3% of total revenue (2015 (Restated): approximately 62.7%)

According to the data compiled by Frost & Sullivan, the Group is the largest manufacturer of DSD acid in the world in terms of production capacity in 2016 with a market share of approximately 53.0% by production volume in 2016.

During the Review Year, the price of raw material of DSD acid has increased along with the oil price. As the Group adopted a pricing model of cost markup and sales contracts were signed on a quarterly basis, it was unable to raise the unit price in time to compensate the increase in production costs. With the sales contract renewed, the Group will increase the price of DSD acid gradually.

Besides, there was an oversupply of PNT in the market, which is the raw material of DSD acid. As the largest purchaser of PNT in the world, since the Group started to produce mononitrotoluene, demand for PNT has declined in the market, which led to overstocking of PNT and some producers had to sell their PNT at much lower prices. Since PNT is an upstream product of DSD acid, a drop in PNT price would lead to lower DSD acid cost. In order to maintain its product competitiveness, the selling price of DSD acid was adjusted downward by the Group accordingly. Meanwhile, although the PNT price maintained relatively low, the Group has gained more revenue and profit from higher priced ONT. It proves that the Group’s strategy can bring more benefit for the Shareholders.

In light of the above factors, revenue derived from the sale of DSD acid and other intermediates decreased by approximately 12.7% to approximately RMB482.2 million as compared to the restated figure in 2015, accounting for approximately 46.3% of total revenue. Due to the pressure on product price, gross profit margin of the sector also dropped to approximately 25.9% (2015 (Restated): 35.3%). During the Review Year, sales volume in the sector remained stable, amounting to 33,018 tons (2015 (Restated): 33,304 tons).

The purchase prices of the major raw materials of DSD acid were affected by the movement in the price of petroleum. The fluctuation in the price of petroleum will also affect the sale prices of DSD acid. Benefitted from the agreement reached among members of the Organisation of Petroleum Exporting Countries ("**OPEC**") to cut oil production in November 2016, WTI oil price was maintained at around US$53 per barrel at the end of 2016. As the oil price has stablised gradually, the Group has increased the sales price for DSD acid and other dye intermediates at the beginning of 2017 to reflect the price growth in raw materials.

DMSS and other pigment intermediates – accounting for 19.0% of total revenue (2015 (Restated): 21.1%)

According to Frost & Sullivan, the Group is the world's largest DMSS manufacturer in terms of production capacity in 2016, accounting for approximately 42.7% of the market share by production volume in 2016. The Group is also the major producer of pigment intermediate, namely Dimethyl acetylsuccinate ("**DMAS**"), with production capacity ranking second in the world.

During the Review Year, as the purchase cost decreased steadily, the average price of DMSS and other pigment intermediate decreased by approximately 6.6% from approximately RMB32,606 (Restated) per ton in 2015 to approximately RMB30,460 per ton. The increased market share of the Group resulting in an increase in the sales volume to approximately 6,482 tons (2015 (Restated): 5,690 tons) during the Review Year, which offset the impact of the decline in selling price. Revenue of the sector in 2016 was approximately RMB197.4 million, representing an increase of approximately 6.4% as compared with last year. Also, the reduction in cost was more than that of the increase in selling price, which led to an increase of the average gross profit margin by approximately 3.9 percentage points to approximately 40.4% (2015 (Restated): 36.5%).

The Group has completed the production capacity expansion of DMAS to 4,500 tons in the Review Year. It enhanced the product's profitability and well prepared for the Group's market expansion.

Mononitrotoluene, OT and others – accounting for approximately 34.7% of total revenue (2015 (Restated): 16.2%)

In order to achieve the upstream and downstream product integration, the Group began to produce mononitrotoluene in 2015, and quickly secured an important position in the agricultural chemical intermediates market. The Group increased the production capacity of mononitrotoluene to 80,000 tons in March 2016. With smooth production and operation, the profitability of the product met the expectation of the Group. Sales volume of mononitrotoluene during the Review Year increased significantly by approximately 116.3% to approximately 37,851 tons.

After the Group began to produce mononitrotoluene on its own, external purchase of PNT by the Group decreased by approximately 85%, which led to an oversupply of PNT in the market since the Group was the largest purchaser in the world. Thus, some enterprises have to reduce or cease their production or withdraw from business, which speeded up the process of integration of the industry, and at the same time expanded the Group's market share, enhanced its status in the industry as well as increased its bargaining power. Benefitting from industry integration, the Group raised the selling price of ONT, OT and others during the Review Year by approximately 17.1% from approximately RMB8,153 per ton (Restated) in 2015 to approximately RMB9,550 per ton, which increased the sector's profitability.

With the increase in sales volume and selling price, the agricultural chemical intermediates sector had an excellent performance with revenue surging increased approximately 153.4% to approximately RMB361.5 million compared with that of the same period in 2015 (Restated). The segment revenue as a proportion to the total revenue increased significantly by approximately 18.5 percentage points to approximately 34.7%. On the other hand, gross profit margin of the sector was low at the early stage of production, and with further optimisation of the production process, gross profit margin has resumed back to normal in 2016 at approximately 26.1% (2015 (Restated): 8.6%).

EXPORT

In 2016, the export revenue of the Group amounted to approximately RMB334.5 million, representing a decrease of approximately RMB49.0 million or 12.8% as compared to the export revenue of approximately RMB383.5 million in 2015 (Restated). The decrease in export revenue of the Group was mainly due to the decrease in average sales price of DSD acid and other dye intermediates.

In 2016, the export revenue attributed approximately 32.1% to the total revenue of the Group, representing a decline as compared to approximately 43.6% (Restated) in 2015, mainly due to the fact that the revenue of mononitrotoluene, OT and other new products amounting to approximately RMB361.5 million were all derived from domestic sales in 2016.

RESEARCH AND DEVELOPMENT

The Group has been adhered to the philosophy of production empowered by research and development and to this end, it actively input resources and maintained a leading position in technological aspects in the industry. In 2016, the Group completed (i) the subsequent process development of small-scale pilot test and mid-scale pilot test for DSD acid's by-product; (ii) optimisation and upgrade of the three existing waste treatment process to reduce the processing costs; and (iii) a number of safety and environmental protection projects to improve the level of safety and environmental protection, and fulfill the regulatory requirements of upgrading of emission standards.

As for new product development, the Group continued to carry out research and development on downstream products in the industrial chain to strengthen the technological capability for future development. At the same time, in accordance with the established development strategy, the Group actively invested in new energy industry which has a great prospect, by introducing new talent and technology, and completing research and development on lithium cathode materials, which provided strong technical support to the Company to enter the emerging industry and expand its product mix.

The Group believes that the continuous effort in research and development and implementation of environmental friendly production processes will effectively sustain the competitiveness of the Group in the market and become the driving force for future growth and development.

OUTLOOK

During the Review Year, the Group continued to seek different development opportunities and actively enriched product type and to expand both upstream and downstream. Looking forward into 2017, due to the volatility of raw material prices and the advancement of environment protection measures, it is anticipated that the business environment would be unstable. The Group believes that by virtue of its high quality products, advanced technology, together with the experienced management, the Group will continue to grow steadily. In the future, the Group will continue to broaden its sales network, optimise the production process, increase production capacity and enrich product categories to seek longer and sustainable development.

Firstly, the Group will focus on expanding the sales network of mononitrotoluene. At present, mononitrotoluene that is produced by the Group is mainly sold in Mainland China. In order to solicit more orders, it is expected that the sales network could be expanded to higher growth regions, such as India, Russia and North and South Americas. During the Review Year, the Group has sent product samples to overseas customers to perform various tests, and the feedback from customers were satisfactory. This enables us to broaden our customer base, and at the same time expand our revenue sources.

On the other hand, the Group puts much emphasis on environmental protection and will continue to develop more environmental friendly production processes. Investment in environmental technology not only can reduce production costs, but also make contribution to environmental protection. As a leading fine chemical enterprise, we hope that we can strike balance between business development and environmental protection, while setting an example for other companies to reduce pollution to the environment in order to maintain the sustainable development of the fine chemical industry.

Besides the strategies above, the Group is keen to extend the production chain vertically and horizontal. The Goup has announced in December 2016 that it has leased relevant assets from Xiajin Zhenhua for OBA production which is used for dyeing and detergent. It has enabled the Group to extend one of its core products DSD acid production chain to the downstream industry, the OBA industry. In February 2017, the Group announced its intention to acquire 75% equity interest in Ynnovate Sanzheng (Yingkou) Fine Chemicals Co. Ltd ("**Ynnovate Sanzheng**") for RMB567.0 million to produce cyanuric chloride. Cyanuric chloride has great connection with the Group's current products. It is mainly used for herbicide which belongs to the same kind of product with our product ONT/OT. Along with DSD acid, they are both the key raw materials for OBA production. These two cooperations and acquisitions are not only intended to explore new products strategically, but also to further implement our long-term objective of integration of upstream and downstream products, and enhance the Group's position as a leading fine chemicals producer in the world. The Group expects that the two new products would be able to make positive financial contribution in 2017.

With the steady development of the existing business sectors, the Group will actively explore new sectors with the help of the research and development advantage and accumulated production experiences in the fine chemical industry. With the arising environmental protection awareness in and outside China, the demand for materials in the new energy area has been increased rapidly. The Group planned to extend business to manufacture materials in the new energy industry to further broaden the Company's business, maintain fast growth of the Group and create more value for the Shareholders.

FINANCIAL REVIEW

REVENUE AND GROSS PROFIT

In 2016, the revenue and gross profit amounted to approximately RMB1,041.1 million and approximately RMB293.6 million, respectively, representing an increase of approximately RMB160.9 million and approximately RMB26.3 million or 18.3% and 9.8% from approximately RMB880.3 million (Restated) and approximately RMB267.3 million (Restated), respectively, in 2015. In 2016, the gross profit margin of the Group was approximately 28.2%, as compared to approximately 30.4% in 2015. The decrease in the Group's gross profit margin was mainly due to the price of raw materials of DSD acid and other dye intermediates rose in the second half of 2016 but the sales price did not reflect the price increase of raw materials, and the revenue proportion of mononitrotoluene, OT and others (the gross profit margins of which were relatively lower) in the Group's overall revenue enlarged.

NET PROFIT AND NET PROFIT MARGIN

In 2016, the net profit of the Group was approximately RMB120.9 million, representing an increase of approximately RMB23.5 million or 24.1%, as compared to approximately RMB97.5 million (Restated) for 2015. In 2016, the net profit margin of the Group was approximately 11.6%, as opposed to approximately 11.1% (Restated) for 2015.

SELLING AND DISTRIBUTION EXPENSES

In 2016, selling and distribution expenses amounted to approximately RMB38.9 million, representing an increase of approximately RMB4.8 million, as compared to approximately RMB34.1 million (Restated) in 2015. The increase in selling and distribution expenses was mainly attributable to the significant increase in the sales volume of mononitrotoluene, OT and others, leading to higher transportation fees, packaging fees and handling fees.

In 2016, selling expenses represented approximately 3.7% of the Group's revenue (2015 (Restated): approximately 3.9%)

ADMINISTRATIVE EXPENSES

In 2016, administrative expenses amounted to approximately RMB90.6 million, representing a decrease of approximately RMB7.3 million, as compared to approximately RMB97.9 million (Restated) in 2015. The decrease in administrative expenses was mainly due to the listing expenses recognised in 2015.

In 2016, administrative expenses represented approximately 8.7% of the Group's revenue (2015 (Restated): approximately 11.1%)

FINANCE COSTS

In 2016, finance costs amounted to approximately RMB10.3 million, representing an increase of approximately RMB3.0 million, as compared to approximately RMB7.3 million (Restated) in 2015, mainly attributable to the increase of bank loans.

EXCHANGE LOSS

In 2016, exchange loss of the Group amounted to approximately RMB15.4 million, representing an increase of approximately RMB11.2 million, as compared to approximately RMB4.2 million (Restated) for 2015, mainly due to the depreciation of Renminbi ("**RMB**") against United States Dollars ("**USD**") which led to an exchange loss in offshore RMB time deposits.

INCOME TAX EXPENSES

The PRC subsidiaries of the Company are generally subject to the enterprise income tax at a rate of 25%.

In 2016, income tax expenses amounted to approximately RMB33.5 million, representing a decrease of approximately RMB10.4 million, as compared to approximately RMB43.9 million (Restated) in 2015. The decrease in income tax expenses was mainly attributable to the fact that (i) Tsaker Dongying recorded profit before tax in 2016 which utilised the tax losses it generated in the previous years, resulting in a decrease in the Group's taxable profit as compared with 2015; and (ii) profit before tax in 2016 attributed by Tsaker Cangzhou and Tsaker Dongguang decreased as compared with the same in 2015.

CASH FLOWS

In 2016, net cash flows from operating activities of the Group amounted to approximately RMB171.3 million, as compared with approximately RMB87.5 million (Restated) in 2015, representing an increase of approximately RMB83.8 million. Such increase was mainly due to in 2015, the Group prepaid income tax and settled income tax for the year 2014, and the profit before taxation recorded by Tsaker Dongying compensated loss in the previous year, resulting income tax expense for 2016 decreased by approximately RMB79.6 million as compared with 2015. In addition, interest income incurred from foreign RMB time deposits in 2016 increased by approximately RMB9.6 million as compared with that of 2015.

In 2016, net cash flows from investing activities of the Group amounted to approximately RMB248.1 million, as compared with approximately RMB321.4 million (Restated) in 2015, representing a decrease of approximately RMB73.3 million, mainly due to the reduced expenses on the new production plant built by Tsaker Dongying and the purchase of machinery and equipment.

In 2016, net cash flows from financing activities of the Group amounted to approximately RMB270.3 million, as compared with approximately RMB326.5 million (Restated) in 2015, representing a decrease of approximately RMB56.2 million, mainly due to (i) the net amount of proceeds from bank borrowings and external guarantees increased by approximately RMB77.8 million in 2016, as compared with 2015; (ii) the net amount of funds paid to related parties increased by approximately RMB102.9 million in 2016, as compared with 2015; and (iii) payment of dividend of approximately RMB31.1 million in 2016.

LIQUIDITY AND CAPITAL STRUCTURE

In 2016, the daily working capital of the Group primarily derived from internal cash flow generated from operations and bank borrowings. As at 31 December 2016, the Group had (i) cash and cash equivalents of approximately RMB396.7 million, in which approximately RMB191.8 million was denominated in RMB and approximately RMB204.9 million in other currencies (USD and HKD) (as at 31 December 2015 (Restated): approximately RMB194.2 million, in which approximately RMB140.1 million was denominated in RMB and approximately RMB54.1 million in other currencies (USD and HKD)); (ii) restricted cash of RMB72.5 million (as at 31 December 2015 (Restated): approximately RMB300.5 million); and (iii) interest-bearing bank borrowings of approximately RMB481.6 million with interest rate of 3.92%-7.60% per annum, in which approximately RMB241.6 million shall be repayable within one year (as at 31 December 2015 (Restated): approximately RMB317.3 million with interest rate of 4.35%-8.40% per annum, repayable within one year). As at 31 December 2016, HK$20.0 million of banking facilities were unutilised by the Group.

In 2016, the Group did not use any risk hedging instrument or have any borrowing or hedge in its foreign currency investment.

GEARING RATIO

As at 31 December 2016, the Group's gearing ratio was approximately 43.9% as compared to approximately 36.8% as at 31 December 2015 (Restated), which is calculated at interest-bearing loans and other financial liabilities at the end of the period divided by the total equity.

CURRENT ASSETS

As at 31 December 2016, total current assets of the Group amounted to approximately RMB926.2 million (as at 31 December 2015 (Restated): approximately RMB891.0 million), primarily consisting of inventories of approximately RMB81.8 million (as at 31 December 2015 (Restated): approximately RMB79.2 million), trade receivables and bills of approximately RMB281.0 million (as at 31 December 2015 (Restated): approximately RMB235.6 million), prepayments and other receivables of approximately RMB94.2 million (as at 31 December 2015 (Restated): approximately RMB67.8 million), cash and cash equivalents of approximately RMB396.7 million (as at 31 December 2015 (Restated): approximately RMB194.2 million) and restricted cash of approximately RMB72.5 million (as at 31 December 2015 (Restated): approximately RMB300.5 million).

INVENTORIES

Inventories of the Group mainly consisted of raw materials, work-in-progress and finished products. The turnover days for inventories decreased from 46 days (Restated) for 2015 to 39 days for 2016, mainly due to enhanced ordinary management of inventory levels and proper arrangements for procurement, production, and sales.

TRADE RECEIVABLES AND BILLS

	2016	2015
	RMB'000	*RMB'000*
		Restated
Trade receivables	**206,623**	164,268
Notes receivables	**74,406**	71,311
	281,029	235,579

As at 31 December 2016, trade receivables and bills of the Group significantly increased by approximately RMB45.5 million as compared to those of last year, mainly due to the successful commencement of production of an additional production line with capacity of 40,000 tonnes of mononitrotoluene at Tsaker Dongao in March 2016 which led to a significant increase in the production and sales volume of products such as ONT/OT, in particular during the traditional peak season of ONT/OT in the fourth quarter.

The turnover days for trade receivables and bills increased from 59 days (Restated) for 2015 to 65 days for 2016.

As at 15 March 2017, approximately RMB145.0 million or 70.2% of the trade receivables outstanding as at 31 December 2016 were settled.

PREPAYMENTS AND OTHER RECEIVABLES

As at 31 December 2016, prepayments and other receivables of the Group increased by approximately RMB26.4 million from approximately RMB67.8 million (Restated) in aggregate as at 31 December 2015 to approximately RMB94.2 million in aggregate. Such increase was mainly due to an increase in the prepaid value added tax of approximately RMB25.4 million.

CURRENT LIABILITIES

As at 31 December 2016, total current liabilities of the Group amounted to approximately RMB716.9 million (as at 31 December 2015 (Restated): approximately RMB869.7 million), primarily consisting of trade payables of approximately RMB256.5 million (as at 31 December 2015 (Restated): approximately RMB250.4 million), other payables and accruals of approximately RMB199.2 million (as at 31 December 2015 (Restated): approximately RMB301.9 million) and interest-bearing bank borrowings of approximately RMB241.6 million (as at 31 December 2015 (Restated): approximately RMB317.3 million).

TRADE PAYABLES

The turnover days for trade payables decreased from 139 days (Restated) in 2015 to 124 days in 2016, mainly due to the decrease of construction costs included in trade payables of Tsaker Dongying as at 31 December 2016, as compared to the same as at 31 December 2015.

OTHER PAYABLES AND ACCRUALS

As at 31 December 2016, other payables and accruals of the Group decreased by approximately RMB102.7 million from approximately RMB301.9 million (Restated) in aggregate as of 31 December 2015 to approximately RMB199.2 million in aggregate, mainly due to the amount due to related parties being settled after completion of the acquisition of Tsaker Dongao in 2016.

PLEDGE OF ASSETS

As at 31 December 2016, certain of the Group's buildings, lands and deposit account with a net carrying amount of approximately RMB118.7 million (as at 31 December 2015 (Restated): approximately RMB320.0 million) were pledged to secure bank loans granted to the Group.

MATERIAL ACQUISITIONS, DISPOSALS AND SIGNIFICANT INVESTMENT

On 4 May 2016, Tsaker Dongying and Huage Holdings entered into an agreement in relation to the acquisition of the entire equity interests in Tsaker Dongao, pursuant to which Tsaker Dongying has conditionally agreed to acquire and Huage Holdings has conditionally agreed to sell the entire equity interests in Tsaker Dongao at a consideration of RMB17,361,000 (equivalent to approximately HK$20,668,000). On 18 July 2016, all the approval and change in industrial and administrative registration procedures of equity transfer of Tsaker Dongao were completed.

Details of the acquisition were set out in the announcement of the Company dated on 4 May 2016.

For the year ended 31 December 2016, the Group had made an investment of approximately RMB18.3 million in private equity fund in Tibet Winshare Equity Venture Capital Fund Partnership.

CONTINGENT LIABILITIES

For the year ended 31 December 2016, the Group did not have any significant contingent liabilities.

EVENT AFTER THE REPORTING PERIOD

On 10 February 2017, the Company entered into memorandum of understanding (the "**MOU**") with legally binding with Mr. Liu Zhixun (劉至尋) and Ynnovate Sanzheng, pursuant to which the Company (or through its designated subsidiary) intends to acquire (the "**Proposed Acquisition**"), and Mr. Liu Zhixun intends to sell or procure to sell, 75% equity interest in Ynnovate Sanzheng pursuant to the terms and conditions agreed by the parties to the MOU. Subject of adjustment as stated in the announcement of the Company dated 10 February 2017 and the terms of the formal agreement, the consideration shall be RMB567.0 million, which comprises (a) RMB280.0 million in cash; and (b) RMB287.0 million to be settled by the issue of consideration shares.

Details of the MOU is set out in the announcement of the Company into dated 10 February 2017. No official agreement regarding the Proposed Acquisition has been entered into as at the date of this announcement. Further announcement(s) will be made when the official agreement is executed according to the Listing of Securities on the Stock Exchange (the "**Listing Rules**").

FOREIGN EXCHANGE RISK

The foreign exchange risk refers to the risk of loss caused by fluctuation in exchange rate. The foreign exchange risk of the Group mainly related to its operating activities. Along with the continuous expansion of the export business scale, the operation of the Group may be affected by the future fluctuation in exchange rate. The Group is closely monitoring the impact of fluctuation in currency exchange rates on the foreign exchange risk of the Group.

The Group currently does not have any hedging policy for foreign currency in place. However, the Board will remain alert to any relevant risk and, if necessary, consider to hedge any material potential foreign exchange risk.

EMPLOYEES AND REMUNERATION POLICIES

The Group has established its human resources policies and procedures with a view to deploying the incentives and rewards of the remuneration system which include a wide range of training and personal development programs to the employees.

In 2016, in order to achieve the vision and strategies of the Group, the Group implemented a talent excellence project. To raise staff awareness on safety and environmental protection and new national regulations and requirements regarding the safety and environmental protection, the Group organised relevant training to facilitate prompt deficiency identification and active measures for mitigating relevant risks and strengthening relevant management. In addition, training on supplier management and sale management sectors were provided to employees.

The remuneration package offered to the employees was in line with their duties and the prevailing market terms. Staff benefits, including pension fund, medical coverage, provident funds, etc., were also provided to employees of the Group.

As at 31 December 2016, the Group had 1,613 employees (Restated 2015: 1,442).

For the year ended 31 December 2016, the total staff costs of the Group (including salaries, bonuses, social insurances and provident funds) amounted to approximately RMB101.6 million (Restated 2015: RMB104.5 million).

APPLICATION OF PROCEEDS FROM THE LISTING

Trading of the shares of the Company on the Main Board of the Stock Exchange commenced on 3 July 2015. The net proceeds from the Listing amounted to approximately RMB378.8 million. The proceeds are used as the purposes disclosed in the prospectus of the Company dated 23 June 2015.

For the year ended 31 December 2016, the proceeds of approximately RMB37.1 million, RMB189.4 million, RMB21.2 million and RMB18.9 million have been used as the supplemental working capital, to expansion of production capacity, development of the new products and the rental payment of Phase I and Phase II of Tsaker Dongao, respectively.

FINAL DIVIDEND

The Board recommends a final dividend of RMB0.073 per ordinary share for the year ended 31 December 2016. Such final dividend is subject to the approval by the Shareholders at the annual general meeting (the "**AGM**") to be held on 16 June 2017 and will be paid to the Shareholders on 13 July 2017 whose names appear on the register of members of the Company on 30 June 2017.

BONUS SHARES

The Board also recommended to issue the bonus shares on the basis of one new share credited as fully paid for every one share held by the Shareholders whose shares are on the register of members on 30 June 2017, subject to the Shareholders' approval at the AGM which will be held on 16 June 2017, and if passed, the share certificate of the bonus issue shares will be posted on 13 July 2017.

A further announcement and a circular containing, among other things, further details of the issue of bonus shares (including a detailed timetable) will be despatched to the Shareholders as soon as possible.

CLOSURE OF THE REGISTER OF MEMBERS

The register of members of the Company will be closed from 14 June 2017 to 16 June 2017, both days inclusive, in order to determine the identity of the Shareholders who are entitled to attend the AGM, during which period no share transfers will be registered. To be eligible to attend the AGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on 13 June 2017.

The register of members of the Company will also be closed from 27 June 2017 to 30 June 2017, both days inclusive, in order to determine the entitlement of the Shareholders to receive the final dividend, and the issue of bonus shares during which period no share transfers will be registered. To qualify for the final dividend, and the issue of bonus shares, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on 26 June 2017.

CORPORATE GOVERNANCE

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of the Shareholders and to enhance corporate value and accountability. The Company has adopted the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Listing Rules as its own code of corporate governance.

During the Reporting Period, the Company has complied with all the code provisions of the CG Code set out therein except for the code provision A.2.1 of the CG Code.

In accordance with the code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The Company deviates from the code provision A.2.1 because Mr. Ge performs both the roles of the chairman and the chief executive officer of the Company. Since Mr. Ge has been with the Group for many years, he has a thorough understanding in our business, management, customers and products. With his extensive experience in business operation and management, the Board believes that vesting the two roles in the same person provides the Company with strong and consistent leadership and facilitates effective implementation and execution of our business decisions and strategies, and is beneficial to the business prospects and management of the Company.

Under the leadership of Mr. Ge, the Board works effectively and performs its responsibilities with all key and appropriate issues discussed in a timely manner. In addition, as all major decisions are made in consultation with members of the Board and relevant Board committees, and there are three independent non-executive Directors on the Board offering independent perspectives, the Board is therefore of the view that there are adequate safeguards in place to ensure sufficient balance of powers and authorities between the Board and the management of the Company. To maintain a high standard of corporate governance practices of the Company, the Board shall nevertheless review the effectiveness of the structure and composition of the Board from time to time in light of prevailing circumstances.

The Company will continue to review and monitor its corporate governance practices to ensure compliance with the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding directors' securities transactions. Having made specific enquiries to the Directors, each of the Directors has confirmed that he/she has complied with the required standards as set out in the Model Code during the Reporting Period.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the Reporting Period, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

AUDIT COMMITTEE

The audit committee of the Company, together with the Board, had reviewed the accounting standards and practices adopted by the Group and the annual results for the year ended 31 December 2016.

PUBLICATION OF THE ANNUAL RESULTS AND 2016 ANNUAL REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This annual results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.tsaker.com), and the Company's 2016 annual report containing all the information required by the Listing Rules will be despatched to the Shareholders and published on the respective websites of the Stock Exchange and the Company in due course.

By Order of the Board
Tsaker Chemical Group Limited
Ge Yi
Chairman

Hangzhou, PRC, 29 March 2017

As at the date of this announcement, the Board comprises Mr. Ge Yi, Ms. Duan Weihua, Mr. Bai Kun and Ms. Jin Ping as executive Directors, Mr. Xiao Yongzheng and Mr. Fontaine Alain Vincent as non-executive Directors, and Mr. Ho Kenneth Kai Chung, Mr. Zhu Lin and Mr. Yu Miao as independent non-executive Directors.

* *For identification purpose only*