玖源化工(集團)有限公司

Ko Yo Chemical (Group) Limited

(incorporated in the Cayman Islands with limited liability)

(Stock code: 00827)

Annual Report 2012

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Corporate Information

DIRECTORS

Executive Directors

Mr. Li Weiruo
Mr. Yuan Bai
Ms. Chi Chuan
Ms. Man Au Vivian
Mr. Li Shengdi

Independent Non-Executive Directors

Mr. Hu Xiaoping
Mr. Woo Che-wor, Alex
Mr. Qian Laizhong

COMPANY SECRETARY

Mr. Chung Tin Ming, HKICPA, FCCA

QUALIFIED ACCOUNTANT

Mr. Chung Tin Ming, HKICPA, FCCA

AUDIT COMMITTEE

Mr. Hu Xiaoping
Mr. Woo Che-wor, Alex
Mr. Qian Laizhong

AUTHORIZED REPRESENTATIVES

Mr. Li Weiruo
Ms. Man Au Vivian

COMPLIANCE OFFICER

Ms. Chi Chuan

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite No. 02, 31st Floor, Sino Plaza
255–257 Gloucester Road
Causeway Bay
Hong Kong

SHARE REGISTRAR

Union Registrars Limited
18th Floor, Fook Lee Commercial Centre, Town Place,
33 Lockhart Road
Wanchai
Hong Kong

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants
22nd Floor
Prince's Building
Central
Hong Kong

PRINCIPAL BANKERS

China Construction Bank Corporation
— Dazhou Branch

Ping An Bank
— Chengdu City Wan Fu Branch

Bank of Dalian
— Chengdu Branch

China Mingsheng Banking Corp.
— Chengdu Branch

Huaxia Bank Co., Ltd.
— Chengdu Tianfu Branch

China Merchants Bank
— Chengdu Longhu Branch

STOCK CODE

827

WEBSITE

www.koyochem.com

Highlights

— For the year ended 31st December 2012, the profit attributable to shareholders was approximately RMB101.6 million, which represents an increase of 1.4% as compared to RMB100.2 million in year 2011.

— Basic profit per share was approximately RMB1.4 cents for the year ended 31st December 2012.

— For the year ended 31st December 2012, sale turnover was approximately RMB1,347 million, which represents a decrease of approximately 5.6% as compared to year 2011.

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

			% change compare with year 2011	
Type	**Sales amount** (million RMB)	**Sales quantities** (tonnes)	**Sales amount**	**Sales quantities**
BB & compound fertilizers	153	77,891	(8.4)	(12.6)
Urea	919	421,678	1.3	(0.3)
Ammonia	205	83,334	(1.9)	4.9

— The Directors do not recommend the payment of any final dividend for the year ended 31st December 2012.

Chairman's Statement

TO SHAREHOLDERS

It's my honour to report the results of Ko Yo Chemical (Group) Limited (the "Company") together with its subsidiaries (collectively, the "Group") for the year ended 31st December 2012 to you. I wish to express appreciation on behalf of the Board of Directors to all shareholders and our friends from all sectors of the society who concern for the development of the Group.

During the year under review, the Group maintained stable production and managed to make profit for two consecutive years. For the year ended 31st December 2012, the audited profit attributable to shareholders of the Group amounted to approximately RMB101.6 million, representing an increase of 1.4% as compared to RMB100.2 million last year. Basic earnings per share amounted to RMB1.41 cents (2011: earnings of RMB1.40 cents). The Group's turnover amounted to approximately RMB1,347 million, representing a decrease of 5.6% as compared to RMB1,427 million of the same period in last year. The Group's sales volume excluding trading portion amounted to approximately 585,000 tonnes, representing a decrease of approximately 13.2% as compared to 674,000 tonnes of last year.

Facing unfavourable factors such as volatile global economy and the slowing PRC economy growth in 2012, the Group managed to maintain stable production and made profit for two consecutive years, for the following main reasons:

1. The stable operation of Dazhou Plant contributed substantial profit to the Company. Through over two years of operation, the operating status of the production equipment of Dazhou Plant continued to be optimised and gradually met our standards. Together with the fact that the supply of production materials remained basically stable for the full year, it enabled the production equipment to operate at a high utilization rate. The annual average operating rate of the production equipment for synthetic ammonia and urea exceeded 85%, up approximately 5% from last year;

2. The constant improvement in product quality and brand reputation strongly supported the increase in the prices and market share of the Company's products. The percentage of top quality products produced by Dazhou Plant throughout the full year maintained stable at over 99%, the selling prices of Company's products in target market and district market are in a leading position. The sales volume of Ko Yo's urea products under "Hu Guang" brand has occupied the leading position in Yunnan, and their market share in other major markets were also increased.

3. Further reduction in loss of profit thanks to the temporarily suspension of operation at Dazhu Plant.

During the period under review, the Group basically met its operational targets for the full year. Its overall operational profit significantly improved from last year, though its growth did not met its expectations, which was primarily attributable to the following adverse factors:

1. Sharp decrease in the market prices of its products in the second half of the year owing to depressed industry sentiment. Since May 2012, the market price of liquid ammonia and urea products decreased due to the slack season and weak demand, and did not stabilise and rebound until December 2012. As a result, the selling prices of the Company's products were lowered accordingly, which caused its results of operation for the second half of the year to fail to meet targets and in turn hampered its growth for the full year.

2. Temporary adjustment to its natural gas supply plan by Sinopec, the production plan of Dazhou Plant for the full year was revised accordingly. The Dazhou Plant underwent overhaul at the beginning of December 2012 for approximately 20 days causing the Company to fail to capture favourable market conditions in December 2012, which in turn affected the sales volume of its products.

In order to maintain its continuous and steady growth and achieve the operational targets for the coming year, the Company intends to adopt the following strategies:

As to the production: We will actively coordinate the supply of production materials to enable the production equipment to operate at a high utilization rate; improve the standardised management of safety and environment protection and further optimise the operating conditions of the production equipment so as to reduce energy consumption, to ensure the long-term, stable operation of the production equipment, and to fully achieve the operational efficiency of Dazhou Plant. We will make thoughtful preparations for the construction and production of the 1st Phase of the Project in Guangan to ensure it successfully commences operation in 2013.

As to the market: 1. We will build our brand to become the top one brand for urea and enhance our brand influence and brand premiums by way of making product quality our top priority, while maintaining its market share; 2. We will facilitate the strategic planning and channel building in respect of the products of Guangan Project and the 2nd Phase of the Project in Dazhou. The Company is in negotiation with international methanol purchases with respect to potential cooperation in order to establish a long-term strategic partnership in supply and purchase and establish effective channels for future product sales.

As to the management: Through the building of the ERP management system and taking the opportunities arising from the construction of Guangan Project, we will make reasonable adjustments to and allocate the Company's organisational structure and human resources composition, streamline the management process, and realise the centralised management and control of human resources and assets, for the purpose of reducing the Company's labour and administrative costs and raising its overall productivity.

Considering the Group's result during the year under review, the directors of the Company (the "Directors") do not recommend the payment of any final dividend for the year ended 31 December 2012. The Group has not declared any dividend for the year ended 31st December 2012 (2011: Nil).

PROSPECT

Industry Review

Steady domestic economic growth will be of benefit to the continuous development of chemical and fertilizer industry

In 2012, the European sovereign debt crisis continued to develop, global economy remained weak, and various countries continued to strengthen their trade protectionism. China's economic growth slowed down, and domestic demand for primary energy and raw materials such as electricity, steel and cement significantly dropped, causing the profits of many industrial enterprises to plunge. Fertilizer industry which serves agriculture, however, maintained relatively steady growth. According to the National Bureau of Statistics of China, the operating income of China's nitrogen fertilizer industry amounted to RMB206.02 billion from January to September 2012, a year-on-year increase of 13.8%, generating a profit of RMB10.16 billion, a year-on-year increase of 13.8%. Its profit growth was leading in chemical industries. As with 2011, urea prices experienced wide fluctuations in the domestic urea market, but its overall trend remained positive.

Chairman's Statement

Looking into 2013, from domestic perspective, 2013 is the first year to follow the guiding principles set out at the Eighteenth CPC National Congress. In order to maintain economic growth, the political environment for economic growth in the coming year will no doubt be better than in 2012. The Eighteenth CPC National Congress requires "the ensuring of the national food security and the effective supply of important agricultural products", which is set to encourage farmers to grow grains and develop modern agriculture and in turn enable the demand for fertilizers to grow steadily. According to the Ministry of Agriculture, the sown area of winter wheat alone increased by 1 million mus from last year, and that of oil crops also increased by 1.8 million mus. It is anticipated that total domestic agricultural demand for fertilizers will reach 63 million tonnes in 2013, with an apparent consumption growth of 5%. Of which, the apparent consumption of nitrogen fertilizers is expected to reach 39.50 million tonnes, an increase of 5%. Further, the Central Economic Work Conference specifically set forth the goal in 2013 to actively yet prudently carry forward the urbanization, which represents the biggest potential for boosting domestic demand. Faster growth of fixed assets investments will inevitably stimulate the demand for primary energy and raw materials such as electricity, steel and cement, which will in turn drive up coal prices and support the prices of chemical and fertilizer products.

Benefiting from government policies on agriculture, rural areas and farmers, continuous increase in the minimum purchase price for grain, raised morale of farmers to grow crops and loose policies on fertilizer tariffs, the Directors believe that the fertilizer industry will maintain a positive momentum of growth in 2013.

OBJECTIVES AND STRATEGIES

The 1st Phase of the Project in Guangan proceeds smoothly, and will be completed and commence operation in 2013

A project of the Company with an annual production of 300,000 tonnes of synthetic ammonia and 500,000 tonnes of methanol which commenced construction in 2012 (the "1st Phase of the Project in Guangan"), is another planned new chemical production base following the close of the production equipment at Xindu by the Company upon receiving the government's relocation order. The project is located in Xinqiao Energy and Chemical Park (新橋能源化工園區) in Guangan, which is a national economic and technological development zone approve by the State Council an enjoys a number of preferential policies and funding support from the state. The synthetic ammonia and methanol cogeneration equipment required by the project was jointly purchased by Guangan Koyo Chemical Industry Co., Ltd and Guangan Lotusan Natural Gas Chemical Industry Co., Ltd from Canada, which represents advanced processes and has good conditions.

Currently the underground pipe work and road construction at the site of the project has been completed, and the instalment of the synthetic ammonia and methanol production equipment has started. Its construction is expected to be completed in the middle of the year and it is expected to commence operation within the year as scheduled. In order for the project to be successfully completed and commence operation, the Company, learning from its experience in the commencement of operation of Dazhou urea plant, set up a production preparation department for Guangan Project responsible for preliminary production preparation, organisational structure and the allocation and training of human resources for the project. The indicated use in natural gas of 650 million cubic meters in total per year that is required by the project has obtained approval from the People's Government of Guangan, PetroChina Southwest Oil & Gasfield Company and PetroChina Nanchong City Gas Company Limited. After the fully commence production of 1st Phase of the Project in Guangan, its expected profit will be greater that of Dazhou plant.

As to the financing and funding support for the project, the Company entered into a subscription agreement with PA International Opportunity VII Limited and Asian Equity Special Opportunities Portfolio Master Fund Limited (the "Subscribers") on 29 June 2012 regarding the proposed issue of HK$140,000,000 9% senior bonds due in 2015. The estimated net proceeds from the bonds issue is approximately HK$138,000,000, and has been used as the general working capital of Guangan Project in Sichuan, China and the general working capital of the Group. In addition, the Guangan Project Company obtained a project loan of RMB600 million with a term of 5 years in December 2012 to ensure the smooth completion of the project.

In accordance with the overall development strategy as planned by the Group, the Company will transform this relocation into a new development opportunity. By leveraging on the resources, such as salt mines, natural gas and coal in Guangan, Sichuan, the Company will set up a new chemical production base, which will lay a solid foundation for its future expansion into refined chemicals and new materials from base chemicals.

The 2nd Phase of the Project in Dazhou will commence in due course

During the period under review, in order to further optimise the production equipment of Dazhou Plant, maintain stable production and focus on the development of the 1st Phase of the Project in Guangan, the Company delayed the progress of the project with an annual production of 300,000 tonnes of synthetic ammonia and 40,000 tonnes of melamine (the 2nd Phase of the Project in Dazhou). In the coming year, the Company will commence the construction of the 2nd Phase of the Project in Dazhou in view of the actual progress of the construction and commencement of operations of Guangan Project.

Melamine is a downstream product for urea. The production of melamine will further extend the product chain, enhance the added value of products, and optimise the Company's product mix and profitability. Through the expansion in capacity and technology upgrade at the 2nd Phase of the Project, it is expected that the annual productivity of Dazhou plant will finally reach 500,000 tonnes of synthetic ammonia, 800,000 tonnes of urea, and 40,000 tonnes of melamine respectively.

Progress on project of phosphate mine

We have obtained the mining rights in relation to a phosphate mine located at Qingping Township, Mianzhu City, Sichuan Province and owned by Sichuan Chengyuan Chemical Industry Co., Ltd. ("Sichuan Cuyo"), a wholly-owned subsidiary of the Group, with the approval of the Ministry of Land and Resources in 2010. In order to carry out the phosphate mine project, the Group established a new holding company named Sichuan Ko Chang Technology Co., Ltd. (四川玖長科技有限公司) in May 2012, which will focus on the research and development of technology for using medium- and low-grade phosphate as materials to produce industrial-grade phosphoric acid. The mining and related work will remain the responsibility of Sichuan Chengyuan. The purpose of the project is to promote circular economy, save energy and protect the environment. If the research and development of phosphoric acid production technology proves successful, the Company will obtain a patented technique with owned intellectual property rights, which will pave the way for the Group's sustainable industrial development in the future.

APPRECIATION

Looking back to the past year, amid the weak global economy and the slowing Chinese economy, the Group not only withstood challenging tests brought by the ups and downs of the market under the leadership of management, as evidenced by maintaining safe and stable production and meeting its profit targets for the full year, but also recorded a smooth progress for the 1st Phase of the Project in Guangan, which marks another major step forward to support the Group's future growth and expansion.

I would like to take this opportunity to express appreciation on behalf of the Board to our clients, the management and the staff. I wish to retain support from our shareholders and hope the management and the staff will continue to work hard to achieve great results.

Li Weiruo
Chairman

25th March 2013

Business Review

FINANCIAL PERFORMANCE

Results

For the year ended 31st December 2012, the Group remained focused on manufacture and distribution of chemical fertilizers and chemical products, including BB Fertilizers and complex fertilizers, urea, ammonium bicarbonate and ammonia.

During the year under review, the Group recorded turnover of approximately RMB1,347 million, a decrease of 5.6% over the previous year. The profit attributable to shareholders of the Company amounted to approximately RMB101.6 million, representing an increase of approximately 1.4% as compared to last year. Basic profit per share amounted to approximately RMB1.4 cents.

Cost and profit margin

Cost of sales of the Group amounted to approximately RMB1,020 million, representing a decrease of 10.9% as compared to the figure in 2011. The reason of decrease in cost of sales was decrease in sales quantities.

Gross profit margin of the Group increased approximately from 19.8% in 2011 to 24.3% in 2012. The increase in the gross profit margin was due to the smooth production of the Dazhou plant and the temporary closure of Dazhu plant.

During the year under review, distribution costs increased approximately by 22.9% as compared with last year. The ratio of the distribution costs over sales was 4.0% in 2012 which was higher than 3.1% in 2011.

In comparison with last year, there was a decrease in administrative expenses of the Group by approximately 28.8% from RMB89.9 million in 2011 to RMB64.0 million in 2012. The decrease in administrative expenses is mainly due to the temporary closure of Dazhu plant and the closure of Xindu plant since lower half of 2011.

The Group prepaid income tax in 2012 amounting to approximately RMB4.5 million. Details of tax schemes are set out in Note 29 to consolidated financial statements.

Dividends

Considering the Group's result during the year under review, the Directors do not recommend the payment of any final dividend for the year ended 31st December 2012. The Group has not declared any dividend for the year ended 31st December 2012 (2011: Nil).

Business Review

PRODUCTS

Sales of the Group's products for the year 2011 and 2012 are as follows:

	Turnover in year 2012		Turnover in year 2011		**Percentage Change in turnover**
	RMB'000	**Composite %**	RMB'000	Composite %	**%**
BB & compound fertilizers	**153,000**	**11.4**	167,000	11.7	(8.4)
Sodium carbonate	**–**	**–**	60,000	4.2	(100.0)
Ammonium chloride	**–**	**–**	20,000	1.4	(100.0)
Urea	**919,000**	**68.2**	907,000	63.6	1.3
Ammonia	**205,000**	**15.2**	209,000	14.6	(1.9)
Ammonium bicarbonate	**2,000**	**0.1**	9,000	0.6	(77.8)
Others	**68,000**	**5.1**	55,000	3.9	23.6

During the year under review, due to the closure of Xindu plant, the production of sodium carbonate and ammonium chloride had been stopped. The temporary closure of Dazhu plant affected the production of ammonium bicarbonate.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31st December 2012, the Group had net current liabilities of approximately RMB432,081,000. Current assets as at 31st December 2012 comprised cash and bank deposits of approximately RMB350,752,000, pledged bank deposits of approximately RMB1,228,847,000, inventories of approximately RMB58,631,000, trade receivables of approximately RMB5,953,000 and prepayments and other current assets of approximately RMB310,275,000. Current liabilities as at 31st December 2012 comprised short-term borrowings of approximately RMB1,933,961,000, short-term portion for long-term borrowings of approximately RMB129,098,000, trade and notes payables of approximately RMB78,706,000, advances from customers of approximately RMB212,309,000 and accrued charges and other payables of approximately RMB32,465,000. Details of the Group's adoption of going concern basis in preparing the consolidated financial statements is set out in Note 2.1 to the consolidated financial statements.

CAPITAL COMMITMENTS

As at 31st December 2012, the Group had outstanding capital commitments of approximately RMB278 million. Details of the Group's capital commitments are set out in Note 34 to the consolidated financial statements.

FINANCIAL RESOURCES

As at 31st December 2012, the Group had cash and bank deposits of approximately RMB350,752,000 and pledged bank deposits of approximately RMB1,228,847,000. The Company intends to finance the Group's future operations, capital expenditure and other capital requirements with the existing bank balances and the capital market.

As at 31st December 2012, the total borrowings and notes payable balances of the Group amounted to RMB2,871,383,000.

GEARING RATIO

The Group's gearing ratios were approximately 54% and 47% as at 31st December 2012 and 31st December 2011 respectively. The gearing ratios were calculated as net debt divided by total capital. Details of the Group's gearing ratio is set out in Note 3.2 to the consolidated financial statements.

CONTINGENT LIABILITIES

The Group had no significant contingent liabilities as at 31st December 2012.

MATERIAL ACQUISITION/DISPOSAL

There was no material acquisition or disposal in the year 2012 which would have been required to be disclosed under the Rules Governing the Listing of Securities ("Listing Rules") on Stock Exchange.

SEGMENTAL INFORMATION

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

DETAILS OF FUTURE PLANS FOR MATERIAL INVESTMENT OR CAPITAL ASSETS

Other than the phase II of the new urea plant with an annual ultimate production capacity of 500,000 tonnes of ammonia, 800,000 tonnes of urea and 40,000 tonnes of melamine in Dazhou, Sichuan Province, the PRC as per interim report dated 20th August 2010 and the relocation of Xindu plant to Guangan, as per the announcement dated 16th June 2011, the Directors do not have any future plans for material investment or capital assets.

EXPOSURE ON EXCHANGE RATE FLUCTUATION

Details of the Group's foreign currency exchange risk are set out in Note 3.1 to the consolidated financial statements.

CHARGES ON THE GROUP'S ASSETS

As at 31st December 2012, certain land use rights and buildings with a total net book value of approximately RMB85,659,000 (2011: RMB158,869,000), plant and machinery, construction in progress with a total net book value of approximately RMB1,408,084,000 (2011: RMB786,030,000) and bank deposits approximately RMB1,228,847,000 (2011: RMB789,009,000) were pledged as collateral for the Group's borrowings and notes payable.

DIVIDEND

After considering of the heavy capital expenditure of the Guangan plant, the Directors do not recommend the payment of any final dividend for the year ended 31st December 2012.

NUMBER OF EMPLOYEES

As at 31 December 2012, the Group had 875 (2011: 1,080) employees, comprising 6 (2011: 6) in management, 104 (2011: 124) in finance and administration, 718 (2011: 898) in production, 47 (2011: 48) in sales and marketing and 0 (2011: 4) in research and development, 869 (2011: 1,074) of these employees were located in the PRC and 6 (2011: 6) were located in Hong Kong.

Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Li Weiruo, aged 59, is the Chairman of the Board and the founder of the Group. He graduated from Sichuan Institute of Finance and Economics with a certificate in economics in 1985. Mr. Li has over 20 years' experience in corporate management in the PRC. He was awarded a certificate for "Chief Economists of Large-to-Medium Sized Enterprises in the PRC" after completing "The Study Course for Chief Economists of Large-to-Medium Sized Enterprises" commissioned by the State Economics Commission at the Southwest University of Finance and Economics in 1986. He is one of the authors of "Modern Corporate Management" which was published by the Sichuan Education Publisher. Mr. Li was the former Vice-director of China Nonferrous Metal Corporation in Chengdu. Mr. Li moved to Hong Kong in 1994 and became a permanent resident of Hong Kong in 2001. He was appointed as a member of the Chinese People's Political Consultative Conference of Sichuan Province in 2003. Mr. Li was appointed as the vice chairman of the China Association for Quality Inspection in August 2005. In May 2006, Mr. Li was awarded the "Outstanding Entrepreneur of Privately-owned Petroleum and Chemical Enterprises in China 2006" (二零零六全國石油和化工優秀民營企業家) by the China Petroleum and Chemical Industry Association. In September 2007, Mr. Li received the "Asia 10 Brand Innovative Personality Award" (亞洲品牌十大創新人物獎) by the Asia Brand Ceremony Organizing Committee (亞洲品牌盛典委會). In December 2008, he was accredited the award of "World Economy Top 10 Outstanding Chinese Entrepreneurs" (世界十大華人傑出企業家獎) by the "2008 Asia Pacific Annual Chinese-Economy Council for Investment & Financing" (2008 亞太(投融資)華人經濟年會). Mr. Li is responsible for the overall management, strategic planning and business development of the Group.

Mr. Yuan Bai, aged 54, is the Chief Executive Officer of the Group. Mr. Yuan is responsible for the general operations and capital management of the Group. Mr. Yuan graduated from Northeast Institute of Technology with a bachelor degree in engineering in 1982 and obtained a certificate as Senior Engineer in 1992. Mr. Yuan studied economy management in Qinghua University from September 1995 to March 1996. Prior to joining the Group in August 1999, Mr. Yuan was the Deputy General Manager of Chongqing Sanjiu Industrial Co., Ltd., which focused on the manufacture and trading of non-ferrous metal. Mr. Yuan was elected as a people's delegate of the first session of the People's Congress of Chongqing in 1997.

Ms. Chi Chuan, aged 57, is the Compliance Officer of the Group. She graduated from Sichuan Normal College with a bachelor degree in science in 1982. Ms. Chi has over 10 years' experience in finance and accounting. Prior to joining the Group in July 1999, Ms. Chi was the finance manager of Leshan Economic and Trade General Company, a trading company in the PRC. Ms. Chi is primarily responsible for the financial management of the Group since she joined the Group in July 1999.

Ms. Man Au Vivian, aged 49, is responsible for general administration outside mainland China of the Group. Ms. Man graduated from the University of International Business and Economics with a bachelor degree in economics in 1986. Ms. Man has over 15 years' experience in international trade. She formerly worked for China National Light Industrial Products Import and Export Corporation of MOFTEC. She joined the Group in January 1997.

Mr. Li Shengdi, aged 60, responsible for the construction and administrations of phase II of the Group's new urea plant in Dazhou and the relocation of the urea plant in Xindu. Mr. Li graduated from Chinese Communist Party School and North China University of Technology studying industrial enterprise management with a degree majoring economics and was entitled as an economist. Prior to joining the Group, he was the deputy manager of China Nonferrous Huludao Zinc Corporation, from 1983 to 1993, general manager of Hainan Hui Yuantang Medicine Co., Ltd. from 1996 to 1999 and general manager of Shanghai Haos Water Rectified Co., Ltd., a Sino-US joint venture from 2000 to 2002. Mr. Li joined the Group in October 2002 and was appointed as a Director of the Company on 29th April 2004.

Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Hu Xiaoping, aged 62, is an Independent Non-Executive Director. He obtained a bachelor degree in Economics from Sichuan Institute of Finance and Economics in 1982 and a master degree in Economics from Southwest University of Finance and Economics in 1987. Mr. Hu is currently a professor of the Southwest University of Finance and Economics. Mr. Hu has been involved in various research projects at both the provincial and state level and has published numerous articles in financial and economics publications in the PRC. He was appointed as an Independent Non- Executive Director in June 2003.

Mr. Woo Che-wor, Alex, aged 60, is an Independent Non-Executive Director. Mr. Woo has been the Chairman and Chief Executive Director of STI Certified Products Inc., a private company in California, U.S.A. since February 1988. From January 1976 to December 1988, Mr. Woo was the corporate treasurer of Fairchild Semiconductor Corporation, a multi-national semiconductor company with its headquarters in California, U.S.A.. Mr. Woo is qualified as Certified Management Accountant from Chartered Institute of Management Accountants of England and obtained an M.B.A. from San Jose State University of the U.S.A. in 1987. He was appointed as an Independent Non-Executive Director in June 2003.

Mr. Qian Laizhong, aged 70, is an Independent Non-Executive Director. Mr. Qian graduated from Sichuan Fine Arts Institute in 1968. Over the past 20 years, Mr. Qian actively participated in cultural and economical researches and publishes in Sichuan province, the PRC. Currently, Mr. Qian is a member of Sichuan Provincial Committee of Chinese Peoples Political Consultative Conference. He was appointed as an Independent Non-Executive Director on 16th August 2004.

SENIOR MANAGEMENT

Mr. Jiao Kang Di, aged 61, the vice president of the Group and responsible person of the project of relocation of Xindu plant to Guangan. Mr. Jiao is responsible for managing and coordinating the Group's large-scale chemical engineering projects. He graduated from Sichuan University of Science and Engineering (四川輕化工業院) in 1980, and further studied Economics at Sichuan Professional College of Finance & Economics (四川財經學院) in 1983. Mr. Jiao was given the name "Excellent Entrepreneur" (優秀企業家) by the People's Government of Zigong City (自貢市人民政府); he became a Senior Engineer in 1993; he was given the name "Labour Model" (勞動模範) by the Human Resources Department of the National Light Industry Department (國家輕工部人事部). Mr. Jiao joined the Koyo Group in 2005, before joining the Group, he was the Chief Executive Officer of Zigong Tongming Lighting Appliances Company Limited (自貢通明照具有限公司), and has outstanding ability in cost control and corporate management experiences.

Mr. Li Ciping, aged 48, is the vice president of the Group and the general manager of Sichuan Ko Yo Agruchem Co., Ltd. He is principally responsible for the human resources, marketing and trading of the Group's products. He graduated from Fuzhou University in 1985, majoring in Chemistry and Chemical Engineering. Mr. Li joined Koyo Group in 2008. Before joining Koyo Group, he was the director and general manager of Max Giant International Group Limited in Hong Kong. He had an extensive experience in corporate management.

Mr. Chang Chongde, aged 49, is the vice president of the Group. He is principally responsible for the purchasing and supply of raw material of the Group. He graduated from Southwestern University of Finance and Economics in 1984, majoring in Industrial Organization. Mr. Chang joined Koyo Group in 1999. Before joining Koyo Group, he was the officer of Planning and Construction Office of Chemical Industrial Company under Sichuan Province Chemical Industrial Hall.

Directors and Senior Management

SENIOR MANAGEMENT

Mr. Chung Tin Ming, aged 42, is the company secretary and qualified accountant of the Group and is responsible for financial management of the Group. He graduated from Chinese University of Hong Kong with a bachelor degree in science and City University of Hong Kong with a master degree each of in financial engineering and electronic engineering. He also obtained a master degree of law in international corporate and financial law from University of Wolverhampton. He is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellowship member of Association of Chartered Certified Accountants. Prior to joining the Group in January 2006, he was a director of Keen Ocean Industrial Limited in Hong Kong.

Ms. Shu Jing, aged 42, is the vice president of the Group, who is mainly responsible for the Group's legal & administrative Affairs. She obtained a master degree in laws from Peking University in 2003. Ms Shu joined Koyo Group in 2009, before joining the Group, she was the assistant to the general manager of Tibet Rhodiola Pharmaceutical Holding Co. (西藏諾迪康葯業股份有限公司).

Mr. Wen Jinfu, aged 51, is the president of the Group, who is mainly responsible for the production, safety, environmental and operational management affairs of the Group. He was a senior engineer who graduated from The Communist Party of China Sichuan Provincial Committee Party School (中國共產黨四川省委員會黨校) majoring in economic management in 1996. Mr. Wen joined Koyo Group in 1999, before that, he was appointed as the deputy general manager of Xindu Nitrogen Fertilizer Plant (新都氮肥廠).

Report of the Directors

The Directors have the pleasure of presenting their report together with the audited financial statements of the Company and its subsidiaries for the year ended 31st December 2012.

GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 11th February 2002 as an exempted company with limited liability under the Companies Law Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

The Group reorganized its structure on 10th June 2003 in preparation for the listing of the Company's shares on Growth Enterprise Market ("GEM") of the Stock Exchange. The Company became the holding company of the companies now comprising the Group. Details of the reorganization are set out in the prospectus of the Company dated 30th June 2003. The shares of the Company were listed on GEM of the Stock Exchange on 10th July 2003. On 25th August 2008, the Company had transferred of listing to the main board of the Stock Exchange.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Its subsidiaries are principally engaged in the research and development, manufacture, marketing and distribution of chemical products, chemical fertilizers and bulk blending fertilizers ("BB Fertilizers").

RESULTS AND APPROPRIATIONS

Details of the Group's profits for the year ended 31st December 2012 are set out in the consolidated statement of comprehensive income.

The Directors do not recommend the payment of any final dividend for the year ended 31st December 2012 (2011: Nil).

SHARE CAPITAL

Details of movements in share capital of the Company are set out in Note 15 to the consolidated financial statements.

RESERVES

Movements in the reserves of the Group and of the Company during the year are set out in Note 16 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31st December 2012 amounted to approximately RMB603,201,000 (2011: RMB597,060,000).

RIGHTS OF DIRECTORS AND EMPLOYEES TO ACQUIRE SHARES OR DEBENTURES

A summary of the principle terms and conditions of the share option scheme is set out in the circular of the Company dated 29th August 2008.

PRE-EMPTIVE RIGHTS

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

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out in page 98.

Report of the Directors

PROPERTY, PLANT AND EQUIPMENT

Details of movements in fixed assets of the Group during the year are set out in Note 6 to the consolidated financial statements.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The Directors who held office during the year ended 31st December 2012 and up to the date of this report are:

Executive Directors

Mr. Li Weiruo
Mr. Yuan Bai
Ms. Chi Chuan
Ms. Man Au Vivian
Mr. Li Shengdi

Independent Non-Executive Directors

Mr. Hu Xiaoping
Mr. Woo Che-wor, Alex
Mr. Qian Laizhong

In accordance with Article 87 of the articles of association of the Company, at each annual general meeting, one-third of directors for the time being shall retire from office by rotation and, will be eligible for re-election. Chairman of the Board will not be subject to retirement by rotation. As Ms. Chi Chuan and Ms. Man Au Vivian have been longest in office, Ms. Chi Chuan and Ms. Man Au Vivian will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

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

The Independent Non-Executive Directors of the Company are appointed with specific terms inside the letter of appointment for initial fixed terms of two years. Pursuant to A.4.3 of the Corporate Governance Code (the "Corporate Governance Code") set out in Appendix 14 of the Listing Rules, any further appointment of an Independent Non-Executive Director in excess of nine years should subject to a separate resolution to be approved by shareholders. Mr. Qian Laizhong was appointed as Independent Non-Executive Director in August 2004 and will severe on the Board for nine years in August 2013. Therefore, Mr. Qian Laizhong should retire and re-election at the forthcoming annual general meeting.

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

Report of the Directors

SHARE OPTIONS

On 10th June 2003, the Company adopted a share option scheme and amended at an extraordinary general meeting on 28th July 2004 (the "GEM Share Option Scheme"). The GEM Share Option Scheme was terminated on 25th August 2008. A new share option scheme (the "Existing Share Option Scheme") was adopted on 18th September 2008. A summary of the principle terms and conditions of the GEM Share Option Scheme is set out under the section headed "Share Option Scheme" in Appendix IV of the prospectus of the Company dated 30th June 2003. The amendments of the GEM Share Option Scheme are explained in the announcement and circular of the Company dated 12th July 2004. The details of the Existing Share Option Scheme can be found in the circular of the Company dated 29th August 2008. Details of the share option schemes of the Company are set out in Note 15 to the consolidated financial statement.

During the year ended 31st December 2012, the details of option outstanding and movements are disclosed in the following table:

Number of share options

	Held at 1 January 2012 ('000)	Grant during period ('000)	Exercised during period ('000)	Forfeited during period ('000)	Held at 31 December 2012 ('000)	*Share Options A ('000)	*Share Options B ('000)	*Share Options C ('000)	*Share Options D ('000)	*Share Options E ('000)	*Share Options F ('000)
Directors											
Li Weiruo	6,500	–	–	–	**6,500**	–	–	2,100	–	4,400	–
Yuan Bai	6,000	–	–	–	**6,000**	–	–	2,000	–	4,000	–
Chi Chuan	23,000	–	–	–	**23,000**	21,000	–	–	–	2,000	–
Man Au Vivian	23,000	–	–	–	**23,000**	19,000	–	–	–	4,000	–
Li Shengdi	25,000	–	–	–	**25,000**	21,000	–	–	–	4,000	–
Hu Xiaoping	6,000	–	–	–	**6,000**	2,000	–	–	–	–	4,000
Woo Che-wor Alex	6,000	–	–	–	**6,000**	2,000	–	–	–	–	4,000
Qian Laizhong	6,100	–	–	–	**6,100**	–	–	2,100	–	–	4,000
Employees	162,500	–	–	(8,000)	**154,500**	57,000	34,000	–	25,000	38,500	–
Total	264,100	–	–	(8,000)	**256,100**	122,000	34,000	6,200	25,000	56,900	12,000

* Share Options A: Grant at 23rd September 2003, exercisable from grant date until 22nd September 2013 with exercise price HK$0.124.
Share Options B: Grant at 11th April 2006, exercisable from grant date until 10th April 2016 with exercise price HK$0.150.
Share Options C: Grant at 16th May 2006, exercisable from grant date until 10th April 2016 with exercise price HK$0.150.
Share Options D: Grant at 10th September 2007, exercisable from grant date until 9th September 2017 with exercise price HK$0.116.
Share Options E: Grant at 14th January 2010, exercisable from grant date until 13rd January 2020 with exercise price HK$0.230.
Share Options F: Grant at 23rd November 2010, exercisable from grant date until 22nd November 2020 with exercise price HK$0.220.
8,000,000 of Share Options B were forfeited during the year of 2012.

DIRECTORS' INTERESTS IN SHARES

As at 31st December 2012, the interests and short positions of the Directors and Chief Executives in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) to be recorded in the register required to be kept under section 352 of the SFO; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in Listing Rules were as follows:

(i) Long positions in the shares and the underlying shares of the Company

Directors	Personal long position in shares (beneficial owner)	Personal long position in share options (beneficial owner)	Aggregate long position in shares and underlying shares	Total interests in the issued share capital
Li Weiruo	2,924,440,000	6,500,000	2,930,940,000	40.73%
Yuan Bai	366,464,000	6,000,000	372,464,000	5.18%
Chi Chuan	62,640,000	23,000,000	85,640,000	1.19%
Man Au Vivian	31,320,000	23,000,000	54,320,000	0.75%
Li Shengdi	–	25,000,000	25,000,000	0.35%
Hu Xiaoping	–	6,000,000	6,000,000	0.08%
Woo Che-wor, Alex	–	6,000,000	6,000,000	0.08%
Qian Laizhong	–	6,100,000	6,100,000	0.08%

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

Name of Director	Name of company	Number of non-voting deferred shares	Capacity	Type of interest	Approximate interests in holding
Li Weiruo	Ko Yo Development Co., Ltd ("Ko Yo Hong Kong") *(Note)*	2,100,000	Beneficial Owner	Personal	70%
Yuan Bai	Ko Yo Hong Kong	420,000	Beneficial Owner	Personal	14%
Chi Chuan	Ko Yo Hong Kong	120,000	Beneficial Owner	Personal	4%
Man Au Vivian	Ko Yo Hong Kong	60,000	Beneficial Owner	Personal	2%

Note: a wholly-owned subsidiary of the Company

DIRECTORS' INTERESTS IN SHARES *(Continued)*

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

Number of Director	Name of company	Name of non-voting deferred shares	Capacity	Type of interest	Approximate interests in holding of such class
Li Weiruo	Ko Yo Hong Kong	2,100,000	Beneficial Owner	Personal	70%
Yuan Bai	Ko Yo Hong Kong	420,000	Beneficial Owner	Personal	14%
Chi Chuan	Ko Yo Hong Kong	120,000	Beneficial Owner	Personal	4%
Man Au Vivian	Ko Yo Hong Kong	60,000	Beneficial Owner	Personal	2%

SUBSTANTIAL SHAREHOLDERS

As at 31st December 2012, so far as is known to any Director or Chief Executive of the Company, the following person (not being a director or a Chief Executive of the Company) had an interest or short positions in the shares or underlying shares of the Company which are required to be notified to the Company and the Stock Exchange under Divisions 2 and 3 of Part XV of the SFO and recorded in the register required to be kept under section 336 of the SFO, and who were directly or indirectly deemed to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company.

Long positions — Ordinary shares of HKD0.02 each of the Company

Name	Capacity	Number of shares	Approximate shareholding percentage
International Finance Corporation	Beneficial Owner	799,884,615	11.12%

Long positions in warrant shares of the Company *(Note)*

Name	Capacity	Number of warrant shares	Approximate shareholding percentage
International Finance Corporation	Beneficial Owner	350,115,385	4.87%

Note: Details is set out in Note 18 to the consolidated financial statements.

INTEREST OF OTHER PERSONS IN THE COMPANY

(i) Interest in the shares or underlying shares of the Company

As at 31st December 2012, so far as is known to any Director or Chief Executive of the Company and save as disclosed above, no person had an interest or short positions in the shares or underlying shares of the Company which are required to be notified to the Company and the Stock Exchange under Divisions 2 and 3 of Part XV of the SFO and recorded in the register required to be kept under section 336 of the SFO, and who were directly or indirectly deemed to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company.

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

Name	Name of company	Number and description of shares	Capacity	Type of interest	Approximate percentage of holding
Tang Shiguo *(Note)*	Ko Yo Hong Kong	300,000 non-voting deferred shares	Beneficial owner	Personal	10%

Note: Mr. Tang Shiguo ceased to be a director of the Company with effect from 29th April 2004.

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

Name	Capacity	Name of company	Number and description of shares
Tang Shiguo	Beneficial owner	Ko Yo Hong Kong	300,000 non-voting deferred shares

SUFFICIENCY OF PUBLIC FLOAT

Based on the public information available to and within the knowledge of the Directors, it is confirmed that there is sufficient public float of more than 25% of the Company's issued shares at 22nd March 2013.

DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the Directors or the management shareholders of the Company and their respective associates (as defined under the Listing Rules) had any interest in a business which competes or may compete, directly or indirectly with the business of the Company during the year under review.

Report of the Directors

DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which any of the Company's Directors or members of its management had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

MANAGEMENT CONTRACTS

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

AUDIT COMMITTEE

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

The audit committee has reviewed with management the accounting principles and practices adopted by the Company and the Group and discussed internal controls and financial reporting matters including a review of the audited financial statements of the Company and the Group for the year ended 31st December 2012.

PURCHASE, SALE OR REDEMPTION OF SHARES

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

CUSTOMERS AND SUPPLIERS

For the year ended 31st December 2012, the five largest customers accounted for approximately 54.0% of the Group's total turnover and the five largest suppliers of the Group accounted for approximately 80.4% of the Group's total purchases. The largest customer of the Group accounted for approximately 12.4% of the Group's total turnover and the largest supplier accounted for approximately 63.9% of the Group's total purchases.

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

Report of the Directors

SUBSEQUENT EVENTS

Details of subsequent events of the Company are set out in Note 37 to the consolidated financial statements.

CORPORATE GOVERNANCE

A report on the corporate governance practices adopted by the Company is set out on pages 22 to 26 of the annual report.

AUDITORS

The financial statements have been audited by PricewaterhouseCoopers who shall retire and, being eligible, will offer themselves for re-appointment at the forthcoming annual general meeting.

On behalf of the Board,

Li Weiruo
Chairman

25th March 2013

Corporate Governance Practices

The board of directors ("Board") believes that by adopting high standard of corporate governance practices can improve the transparency and accountability of the Company, and instill confidence of shareholders and the public in the Group. Throughout the year under review, the Board adopted the Code on Corporate Governance Practices (the "Corporate Governance Code") as set out in Appendix 14 of the Listing Rules. For the year ended 31 December 2012, except for A.6.7 of the Corporate Governance Code regarding three independent non-executive directors of the Company were unable to attend the annual general meeting of the Company held on 11 May 2012 as they had other engagements in China and United States, the Company has complied with the Corporate Governance Code.

THE BOARD OF DIRECTORS

Board composition

The Board of directors currently comprises eight directors of which five are Executive Directors and three are Independent Non-Executive Directors. The detail is as follow:

Executive Directors
Mr. Li Weiruo *(Chairman)*
Mr. Yuan Bai
Ms. Chi Chuan
Ms. Man Au Vivian
Mr. Li Shengdi

Independent Non-Executive Directors
Mr. Hu Xiaoping
Mr. Woo Che-wor, Alex
Mr. Qian Laizhong

The Independent Non-Executive Directors represent over one-third of the Board. Among the three Independent Non-Executive Directors, at least one has appropriate professional qualifications or accounting or related financial management expertise which satisfies the requirement under the rule 3.10(1) and (2) of the Listing Rules. An annual confirmation of the independence of each Independent Non-Executive Director had been received in accordance with each and every guideline set out in rule 3.13 of the Listing Rules. Mr. Qian Laizhong was appointed as Independent Non-Executive Directors in August 2004 and will severe on the Board for nine years in August 2013. Pursuant to A.4.3 of the Corporate Governance Code, any further appointment of an Independent Non-Executive Director in excess of nine years should subject to a separate resolution to be approved by shareholders. Therefore, Mr. Qian Laizhong should retire and re-election at the forthcoming annual general meeting. All Independent Non-Executive Directors are identified as such in all corporate communications that disclose the names of the directors. There is no family or other material relationship among members of the Board.

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

Board meeting

The Board meets regularly and board meetings are held at least four times a year. The board meetings involved the active participation in persons or through other electronic means of communication. At least 14 days notice of all board meetings were given to all directors to ensure all directors, who were given an opportunity to attend and include matters in the agenda for discussion. Agenda and accompanying board papers are sent to all directors at least one day prior to the meeting. Draft and final versions of minutes of board meetings were sent within a reasonable time to all directors for comment and record. All the committee meetings follow the applicable practices and procedures used in board meetings.

THE BOARD OF DIRECTORS *(Continued)*

Board meeting *(Continued)*

In the financial year ended 31st December 2012, eight board meetings and one general meeting were held and the attendance record for the meetings by each director is as follow:

Attendants	Number of board meetings attended/Total	Board meeting attendance percentage	Number of annual general meeting attended/Total	Annual general meeting attended percentage
Executive Directors				
Mr. Li Weiruo	8/8	100%	1/1	100%
Mr. Yuan Bai	8/8	100%	0/1	0%
Ms. Chi Chuan	8/8	100%	1/1	100%
Ms. Man Au Vivian	8/8	100%	1/1	100%
Mr. Li Shengdi	8/8	100%	1/1	100%
Independent Non-Executive Directors				
Mr. Hu Xiaoping	5/8	62.5%	0/1	0%
Mr. Woo Che-wor, Alex	5/8	62.5%	0/1	0%
Mr. Qian Laizhong	5/8	62.5%	0/1	0%

Chairman and Chief Executive Officer

The Chairman of the Group is Mr. Li Weiruo, primarily responsible for the management of the Board and ensuring the Board functions effectively, smoothly and following a good corporate governance practices. Mr. Li Weiruo, the Chairman and Mr. Yuan Bai, the Chief Executive Officer of the Group together with the other three Executive Directors are responsible for monitoring the day to day operation of the Group. Segregation of duties is among the Executive Directors and each Executive Director has specific area to focus on. Mr. Li Weiruo is responsible for the development of the Group. Mr. Yuan Bai and Mr. Li Shengdi is responsible for the operational matters of the Group. Ms. Chi Chuan is responsible for the financial matters of the Group. Ms. Man Au Vivian is responsible for the affairs and administration of the office in Hong Kong.

DIRECTORS' TRAINING

Pursuant to A.6.5 of the Corporate Governance Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills. The Directors are regularly briefed on the amendments to or updates on the relevant laws, rules and regulations. From time to time, Directors are provided with written materials to develop and refresh their professional skills. The Directors had fulfilled the relevant requirements under A.6.5 of the Corporate Governance Code during the year under review.

COMPANY SECRETARY'S TRAINING

Pursuant to rule 3.29 of the Listing Rules, the Company Secretary must take no less than 15 hours of relevant professional training in each financial year. The Company Secretary provided his training records to the Company indicating more than 15 hours of relevant professional development by means of attending seminars and reading relevant guideline materials.

Corporate Governance Practices

SHAREHOLDERS' RIGHTS

Procedures for convening an extraordinary general meeting and putting forward proposals by shareholders at general meeting

Each general meeting other than an annual general meeting shall be called an extraordinary general meeting. General meetings may be held in any part of the world as may be determined by the Board. According to Article No.58 of the Company's Articles of Association, any one or more members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Any requisition to convene an extraordinary general meeting or proposal to be put forward at the general meeting can be addressed to the principal place of business in Hong Kong of the Company marked with the attention of the Company Secretary. The requisitionists must state in their request(s) the objects of the extraordinary general meeting to be convened, and such request must be signed by all the requisitionists. Upon receipt, the Company will verify the requisitionists' particulars and if the request is in order, the Company will convene the extraordinary general meeting in accordance with its articles of association.

Procedures for propose a person for election as a Director

The procedures for proposing a person for election as a Director can be found in the post on 27 April 2012 under the Investor Relations section of the Company's website at www.koyochem.com.

Procedures for directing shareholders' enquires to the Board

Shareholders and investors may at any time send their enquiries and concerns to the Board in writing through the Company Secretary or the Investor Relations Department. Details of contact are available on the Company's website at www.koyochem.com .

DIRECTORS' SECURITIES TRANSACTION

The Board had adopted the model code ("Model Code") set out in Appendix 10 to the Listing Rules as the code of conduct regarding directors' securities transactions Specific enquiry had been made to all directors and each director confirmed that during the year under review, he had fully complied with the required standard of the dealings and there was no event of non-compliance with the required standard of dealings.

REMUNERATION OF DIRECTORS

Remuneration Committee was established in January 2005 and one meeting was held during the financial year under review. The members of the committee and the attendance record are as follow:

Attendants	Number of meetings attended/Total	Attendance percentage
Independent Non-Executive Directors		
Mr. Hu Xiaoping *(Chairman)*	1/1	100%
Mr. Qian Laizhong	1/1	100%
Executive Director		
Ms. Chi Chuan	1/1	100%

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

REMUNERATION OF DIRECTORS *(Continued)*

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

NOMINATION OF DIRECTORS

Nomination Committee was established in January 2005 and one meeting was held during the financial year under review. The members of the committee and the attendance record are as follow:

Attendants	**Number of meetings attended/Total**	**Attendance percentage**
Independent Non-Executive Directors		
Mr. Qian Laizhong *(Chairman)*	1/1	100%
Mr. Woo Che-wor, Alex	1/1	100%
Executive Director		
Mr. Li Shengdi	1/1	100%

The majority of the members of the Nomination Committee are Independent Non-Executive Directors.

The Nomination Committee is responsible for the formulating the nomination policy of the directors and recommending the Board on nomination and appointment of directors. The Nomination Committee is provided with sufficient resources for discharging its duties.

TERM OF APPOINTMENT AND RE-ELECTION

Each of the Executive Directors has entered into a service contract with the Company for initial fixed term of three years, and will continue thereafter for successive terms of three year until terminated by not less than three months' notice in writing served by either party on the other. The Independent Non-Executive Directors of the Company are appointed with specific terms inside the letter of appointment for initial fixed terms of two years.

In accordance with Article 87 of the articles of association of the Company, at each annual general meeting, one-third of directors for the time being shall retire from office by rotation and, will be eligible for re-election. Chairman of the Board will not be subject to retirement by rotation. Ms. Chi Chuan and Ms. Man Au Vivian will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

Pursuant to A.4.3 of the Corporate Governance Code, any further appointment of an Independent Non-Executive Director in excess of nine years should subject to a separate resolution to be approved by shareholders. Mr. Qian Laizhong was appointed as Independent Non-Executive Director in August 2004 and will severe on the Board for nine years in August 2013. Therefore, Mr. Qian Laizhong should retire and re-election at the forthcoming annual general meeting.

AUDIT COMMITTEE

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

Attendants	Number of meetings attended/Total	Attendance percentage
Independent Non-Executive Directors		
Mr. Woo Che-wor, Alex *(Chairman)*	4/4	100%
Mr. Qian Laizhong	4/4	100%
Mr. Hu Xiaoping	4/4	100%

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

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

The Audit Committee is responsible for reviewing the accounting principles and practices adopted by the Group, recommending the Board on the Group's internal control and risk management system, and ensuring the Group's financial statements present a true and fair view of the Group's financial position. The Audit Committee had reviewed with management the accounting principles and practices and discussed internal controls and financial reporting matters including a review of the audited financial statements of the Company and Group for the year ended 31st December 2012.

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

INDEPENDENT EXTERNAL AUDITORS

In 2012, the total remuneration paid to the independent external auditors amounted to approximately RMB2,267,000, which was all for the audit services provided by the independent external auditors. The audit fees have been approved by the Audit Committee and the Board.

The statement of the independent external auditors of the Company about their reporting responsibilities on the consolidated financial statements is set out on page 27 of this annual report.

The Audit Committee has resolved the re-appointment of PricewaterhouseCoopers for the audit work of the Company for the financial year 2013. This resolution has been approved by the Board and is subject to final approval by the shareholders at the forthcoming annual general meeting.

INTERNAL CONTROL

The internal audit department of the Company is responsible for the financial control and operational control of the Group. The Board from time to time reviewed the effectiveness of the Group's internal control system. During the year under review, the Board considered the internal control system effective and adequate. No significant areas of concern which might affect shareholders were identified.

Independent Auditor's Report

羅兵咸永道

TO THE SHAREHOLDERS OF
KO YO CHEMICAL (GROUP) LIMITED
(Incorporated in Cayman Islands with limited liability)

We have audited the consolidated financial statements of Ko Yo Chemical (Group) Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 28 to 97, which comprise the consolidated and company balance sheets as at 31 December 2012, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 25 March 2013

PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong
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Consolidated Balance Sheet

	Note	As at 31 December 2012 RMB'000	2011 RMB'000
ASSETS			
Non-current assets			
Land use rights	*5*	**54,216**	55,401
Property, plant and equipment	*6*	**2,087,704**	1,521,150
Mining right	*7*	**334,306**	334,306
Intangible assets	*8*	**11,168**	11,438
Deferred income tax assets	*20*	**2,111**	2,163
		2,489,505	1,924,458
Current assets			
Inventories	*10*	**58,631**	43,220
Trade and other receivables	*11*	**112,908**	155,194
Prepaid income tax, net		**4,536**	6,357
Pledged bank deposits	*12*	**1,228,847**	789,009
Cash and cash equivalents	*13*	**350,752**	132,094
Non-current assets held for sale	*14*	**198,784**	198,784
		1,954,458	1,324,658
Total assets		**4,443,963**	3,249,116
EQUITY			
Capital and reserves attributable to the equity holders of the Company			
Share capital	*15*	**138,618**	138,618
Reserves	*16*	**979,454**	881,442
		1,118,072	1,020,060
Non-controlling interest	*16*	**3,600**	–
Total equity		**1,121,672**	1,020,060

Consolidated Balance Sheet

	Note	As at 31 December 2012 RMB'000	2011 RMB'000
LIABILITIES			
Non-current liabilities			
Long-term borrowings	*17*	**808,324**	284,655
Derivative financial liabilities	*18*	**36,530**	5,072
Deferred subsidy income	*19*	**4,546**	7,476
Deferred income tax liabilities	*20*	**86,352**	82,555
		935,752	379,758
Current liabilities			
Trade and other payables	*21*	**323,480**	307,123
Short-term borrowings	*22*	**1,933,961**	1,448,846
Current portion of long-term borrowings	*17*	**129,098**	93,329
		2,386,539	1,849,298
Total liabilities		**3,322,291**	2,229,056
Total equity and liabilities		**4,443,963**	3,249,116
Net current liabilities		**(432,081)**	(524,640)
Total assets less current liabilities		**2,057,424**	1,399,818

Li Weiruo
Director

Yuan Bai
Director

The notes on pages 34 to 97 are an integral part of these consolidated financial statements.

Balance Sheet

	Note	As at 31 December 2012 RMB'000	2011 RMB'000
ASSETS			
Non-current assets			
Interests in subsidiaries	9	**744,902**	744,902
Loans to subsidiaries	9	**110,992**	–
		855,894	744,902
Current assets			
Prepayments	11	**476**	476
Cash and cash equivalents	13	**168**	15
		644	491
Total assets		**856,538**	745,393
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	15	**138,618**	138,618
Reserves	16	**603,201**	597,060
Total equity		**741,819**	735,678
LIABILITIES			
Non-current liabilities			
Long-term borrowings	17	**65,223**	–
Derivative financial liabilities	18	**36,530**	5,072
		101,753	5,072
Current liabilities			
Accruals and other payables	21	**1,142**	4,643
Current portion of long-term bank loans	17	**11,824**	–
		12,966	4,643
Total liabilities		**114,719**	9,715
Total equity and liabilities		**856,538**	745,393
Net current liabilities		**(12,322)**	(4,152)
Total assets less current liabilities		**843,572**	740,750

Li Weiruo
Director

Yuan Bai
Director

The notes on pages 34 to 97 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

	Note	Year ended 31 December 2012 RMB'000	2011 RMB'000
Turnover	23	**1,346,970**	1,426,888
Cost of sales	24	**(1,019,752)**	(1,144,540)
Gross profit		**327,218**	282,348
Distribution costs	24	**(54,463)**	(44,304)
Administrative expenses	24	**(63,993)**	(89,910)
Other income — net	27	**13,340**	33,580
Operating profit		**222,102**	181,714
Finance costs — net	28	**(93,504)**	(75,931)
Profit before income tax		**128,598**	105,783
Income tax expense	29	**(26,986)**	(5,629)
Profit for the year	30	**101,612**	100,154
Other comprehensive income		**–**	–
Total comprehensive income for the year		**101,612**	100,154
Attributable to:			
Equity holders of the Company		**101,612**	100,154
Non-controlling interests		**–**	–
		101,612	100,154
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in RMB per share)			
— Basic	31	**0.0141**	0.0140
— Diluted	31	**0.0141**	0.0138
Dividend	32	**–**	–

The notes on pages 34 to 97 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

	Note	Attributable to owners of the Company				
		Share capital	Reserves	Total	Non-controlling interests	Total equity
	Note	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2011		136,100	758,877	894,977	–	894,977
Comprehensive income:						
Profit for the year		–	100,154	100,154	–	100,154
Total comprehensive income		–	100,154	100,154	–	100,154
Transactions with owners:						
Issue of ordinary shares upon the exercise of warrants	*15*	2,518	22,411	24,929	–	24,929
		2,518	22,411	24,929	–	24,929
Balance at 31 December 2011		138,618	881,442	1,020,060	–	1,020,060
Balance at 1 January 2012		**138,618**	**881,442**	**1,020,060**	**–**	**1,020,060**
Comprehensive income:						
Profit for the year		**–**	**101,612**	**101,612**	**–**	**101,612**
Total comprehensive income		**–**	**101,612**	**101,612**	**–**	**101,612**
Transactions with owners:						
Transfer of equity interest to non-controlling interests	*16*	**–**	**(3,600)**	**(3,600)**	**3,600**	**–**
		–	**(3,600)**	**(3,600)**	**3,600**	**–**
Balance at 31 December 2012		**138,618**	**979,454**	**1,118,072**	**3,600**	**1,121,672**

The notes on pages 34 to 97 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

	Note	Year ended 31 December 2012 RMB'000	2011 RMB'000
Cash generated from operating activities	*33 (a)*	**286,560**	252,712
Interest paid		**(110,805)**	(88,107)
Income tax paid		**(27,673)**	(18,939)
Net cash inflow from operating activities		**148,082**	145,666
Cash flows from investing activities			
Purchases of property, plant and equipment and payments for construction-in-progress		**(608,714)**	(447,123)
Payment for intangible assets		**–**	(2,700)
Receipt in advance from planned disposal of non-current assets held for sale		**–**	131,100
Proceeds from disposal of property, plant and equipment	*33 (b)*	**–**	9,380
Interest income received		**26,639**	15,116
Net cash used in investing activities		**(582,075)**	(294,227)
Cash flows from financing activities			
Increase in pledged bank deposits		**(439,838)**	(399,297)
Issue of ordinary shares		**–**	19,606
Proceeds from borrowings		**1,905,625**	1,097,756
Repayment of borrowings		**(813,136)**	(509,376)
Net cash inflow from financing activities		**652,651**	208,689
Net increase in cash and cash equivalents		**218,658**	60,128
Cash and cash equivalents at beginning of the year		**132,094**	71,966
Cash and cash equivalents at end of the year	*13*	**350,752**	132,094

The notes on pages 34 to 97 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1 GENERAL INFORMATION

Ko Yo Chemical (Group) Limited (the "Company") was incorporated in the Cayman Islands on 11 February 2002 as an exempted company with limited liability under the Companies Law Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Its shares had been listed on the Growth Enterprise Market (the "GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 10 July 2003 (the "Listing"). On 25 August 2008, the Company transferred the listing of its shares from GEM of the Stock Exchange to the Main Board of the Stock Exchange ("Transfer of Listing").

The address of the registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and the principal place of business of the Company is Suite No. 02, 31st Floor, Sino Plaza, 255–257 Gloucester Road, Causeway Bay, Hong Kong.

The Company is an investment holding company. The Company and its subsidiaries (the "Group") are principally engaged in the manufacture and sale of chemical products and chemical fertilisers in Mainland China.

These consolidated financial statements are presented in Renminbi ("RMB"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 25 March 2013.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The Group reported net current liabilities of approximately RMB432,081,000 as at 31 December 2012 (2011: RMB524,640,000), in addition, the Group has capital commitments of RMB278,047,000 as at 31 December 2012 (2011: RMB78,316,000) (see Note 34(a)). The directors of the Company have given due consideration to the liquidity of the Group and have adopted the going concern basis in preparing the consolidated financial statements based on the following assessment:

— The Group has profitable operations and stable cash inflow from operating activities;

— In January 2013, new short-term borrowings of RMB60 million with a term of nine months have been granted and drawn down;

— The Group has not experienced any significant difficulties in renewing its short-term borrowings upon their maturities and there is no evidence indicating that the banks will not renew the existing short-term borrowings if the Group applies for the renewal. Subsequent to the balance sheet date and up to the date of approval of the financial statements, short-term borrowings of approximately RMB220 million have been renewed for another twelve months. In addition, certain banks have advised their intention in writing, though not legally binding, to renew or to extend the loans of approximately RMB568 million for a further year when they fall due in 2013;

— As of 31 December 2012, the capital expenditure committed by the Group amounted to approximately RMB278 million. These commitments are mainly related to the construction of a new production line in GuangAn, Sichuan province ("GuangAn Project"). The directors of the Company will undertake close monitoring process to control the magnitude and timing of the expected cash outlays associated with the GuangAn Project.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

In the opinion of the directors, in light of the above, the Group will have sufficient working capital to finance its operations and fulfill its financial obligation as and when required in the coming twelve months from the date of the financial statements. Accordingly, the directors are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants. The consolidated financial statements have been prepared under the historical cost convention, as modified by the financial liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

Changes in accounting policy and disclosures

(a) *New and amended standards adopted by the Group*

There are no HKFRS interpretations that are effective for the first time for the financial year beginning on or after 1 January 2012 that would be expected to have a material impact on the Group.

(b) *New standards and interpretations not yet adopted*

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2012, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the group, except the following set out below:

- HKFRS 9, 'Financial instruments' addresses the classification, measurement and recognition of financial assets and financial liabilities. HKFRS 9 was issued in November 2009 and October 2010. It replaces the parts of HKAS 39 that relate to the classification and measurement of financial instruments. HKFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the HKAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Group is yet to assess HKFRS 9's full impact and intends to adopt HKFRS 9 no later than the accounting period beginning on or after 1 January 2015.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

Changes in accounting policy and disclosures *(Continued)*

(b) New standards and interpretations not yet adopted (Continued)

- HKFRS 10 'Consolidated financial statements' builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Group is yet to assess HKFRS 10's full impact and intends to adopt HKFRS 10 no later than the accounting period beginning on or after 1 January 2013.

- HKFRS 13 'Fair value measurement' aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within HKFRSs. The Group is yet to assess HKFRS 13's full impact and intends to adopt HKFRS 13 no later than the accounting period beginning on or after 1 January 2013.

There are no other HKFRS or HK(IFRIC) interpretations that are not yet effective that would be expected to have a material impact on the Group.

2.2 Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity. The group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise from circumstances such as enhanced minority rights or contractual terms between shareholders, etc.

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

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Subsidiaries *(Continued)*

(a) Business combinations

The group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

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

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

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

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

(c) Disposal of subsidiaries

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.3 Segment reporting

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

2.4 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated statement of comprehensive income within 'finance cost, net'. All other foreign exchange gains and losses are presented in the consolidated statement of comprehensive income within 'other income/(expense), net'.

(c) Group companies

The results and financial position of all the group entities (none of which has hyperinflation currency) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

— assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

— income and expenses for each consolidated statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

— all resulting exchange differences are recognised as a separate component of other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to other comprehensive income. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the statement of comprehensive income as part of the gain or loss on sale.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.5 Property, plant and equipment

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

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

Depreciation of other assets is calculated using the straight-line method to allocate their costs or revalue amounts to their residual values over their estimated useful lives, as follows:

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

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.10).

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

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

2.6 Mining right

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

2.7 Land use rights

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.8 Non-current assets held-for-sale

Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

2.9 Intangible assets

(a) Goodwill

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

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

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

(b) Construction permits

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

2.10 Impairment of investment in subsidiaries and non-financial assets

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.11 Financial assets

2.11.1 Classification

The Group classifies its financial assets in the following category: loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. During 2011 and 2012, other than loans and receivables, the Group did not hold any financial assets in other categories.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the balance sheet (Notes 2.15 and 2.16).

2.11.2 Recognition and measurement

Regular way of purchases and sales of financial assets are recognised on the trade-date-the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

2.12 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.13 Impairment of financial assets carried at amortised cost

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

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

The Group first assesses whether objective evidence of impairment exists.

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

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

2.14 Inventories

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

2.15 Trade and other receivables

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.16 Cash and cash equivalents

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

2.17 Share capital

Ordinary shares are classified as equity.

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

2.18 Derivative financial liabilities

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value.

Warrants issued by the Company that will be settled by the exchange of a fixed amount of cash denominated in a currency other than the functional currency of the Company for a fixed number of the Company's own equity instruments are classified as derivative financial liability (warrant liability) and are initially and subsequently measured at fair value. The changes of fair value of warrant liability are recognised in the statement of comprehensive income within "other income — net". The full fair value of the warrant liability is classified as a non-current liability when the remaining maturity of the warrant is more than 12 months, and as a current liability when the remaining maturity of the warrant is less than 12 months. The warrant liability will be transferred to share capital and share premium upon exercise of the warrants.

2.19 Embedded derivatives

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the hybrid (combined) instrument vary in a way similar to a stand-alone derivative.

The Group separates embedded derivatives from the host contract and accounts for these as derivatives, if, and only if:

— The economic characteristics and risks of the embedded derivative are not closely related to those of the host contract;

— A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and

— The hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in the income statement.

These embedded derivatives separated from the host contract are measured at fair value with changes in fair value recognised in the income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.20 Trade payables

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

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

2.21 Borrowings

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

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

Borrowing costs incurred for the construction of any qualifying assets are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

2.22 Borrowings Costs

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

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

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

2.23 Current and deferred income tax

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.23 Current and deferred income tax *(Continued)*

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

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

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

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

2.24 Employee benefits

(a) Employee leave entitlements

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

(b) Pension obligations

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

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

The Group also participates in a retirement benefit scheme under the rules and regulations of the Mandatory Provident Fund Scheme Ordinance ("MPF Scheme") for its eligible employees in Hong Kong. The contributions to the MPF Scheme borne by the Group are calculated at 5% of the salaries and wages (monthly contributions is limited to HK$1,000 for each eligible employee) as calculated under the MPF legislation. The assets of this MPF Scheme are held separately from those of the Group in independently administered funds.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.24 Employee benefits *(Continued)*

(c) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to a termination when the entity has a detailed formal plan to terminate the employment of current employees without possibility of withdrawal. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

2.25 Share-based compensation

The Group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

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

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

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

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the entity revises its estimates of the number of options that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision to original estimates, if any, in the profit and loss account, with a corresponding adjustment to equity. The existing share options granted by the Group as at 31 December 2011 and 2009 were granted for the past services of employees and were vested immediately upon granted, therefore the total expenses were recognised immediately at the granting date.

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.26 Provisions

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

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

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

2.27 Contingent liabilities

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

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

2.28 Revenue recognition

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

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

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

Interest income is recognised using the effective interest method.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.29 Government grants

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

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

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred subsidy income and are recognised in the consolidated statement of comprehensive income on a straight-line basis over the expected lives of the related assets, except for the refund of value-added tax ("VAT") which is deducted in arriving at the carrying amount of property, plant and equipment.

Government grants are recognised in the consolidated statement of comprehensive income as part of other income.

2.30 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statement of comprehensive income on a straight-line basis over the period of the lease.

2.31 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which dividends are approved by the Company's shareholders.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

(a) Foreign exchange risk

The Group exposes to foreign exchange risks as certain portion of cash and cash equivalent, trade and other payables, long-term borrowings, derivative financial liabilities and future commercial transactions are denominated in foreign currencies, primarily with respect to the US dollar ("USD") and Hong Kong dollar ("HKD"). The Group currently does not have a foreign currency hedging policy as the directors are of the opinion that the Group's exposure to foreign exchange risk is insignificant because the Group's transactions, assets and liabilities were mainly denominated in RMB. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure when it is necessary and appropriate.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(a) Foreign exchange risk *(Continued)*

As at 31 December 2012, if RMB had weakened/strengthened by 5% against the USD with all other variables held constant, post-tax profit for the year would have been decreased/increased by RMB3,019,000 (2011: post-tax profit for the year would have been decreased/increased by RMB3,554,000), mainly as a result of foreign exchange losses/gains on translation of the USD-denominated long-term borrowings.

As at 31 December 2012, if RMB had weakened/strengthened by 5% against the HKD with all other variables held constant, post-tax profit for the year would have been decreased/increased by RMB3,303,000 (2011: Nil), mainly as a result of foreign exchange losses/gains on translation of the HKD-denominated long-term borrowings.

(b) Cash flow and fair value interest rate risk

The Group's interest rate risk mainly arises from pledged bank deposits and borrowings. Long-term borrowing issued at variable rates expose the group to cash flow risk which is partially offset by cash held at variable rates. The Group's pledged bank deposits and short-term borrowings were issued at fixed rates and exposed the Group to fair value interest-rate risk. During 2012 and 2011, the Group's long-term borrowings at variable rate were denominated in USD and RMB.

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

As at 31 December 2012, if interest rates on long-term borrowings had been increased/decreased by 20 basis points with all other variables held constant, post-tax profit for the year would have been decreased/increased by RMB1,595,000 (2011: post-tax profit for the year would have been decreased/increased by RMB643,000), mainly as a result of higher/lower interest expense on floating rate borrowings.

(c) Credit risk

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

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

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(d) Liquidity risk

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

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

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000
Group				
At 31 December 2012				
Trade and other payables	**108,696**	**–**	**–**	**–**
Short-term borrowings	**1,933,961**	**–**	**–**	**–**
Derivative financial liabilities	**–**	**–**	**31,752**	**–**
Long-term borrowings	**129,098**	**203,928**	**604,396**	**–**
Interest payment on borrowings	**87,883**	**64,623**	**76,324**	**–**
At 31 December 2011				
Trade and other payables	100,896	–	–	–
Short-term borrowings	1,448,846	–	–	–
Long-term borrowings	93,329	103,710	154,675	26,270
Interest payment on borrowings	38,643	10,768	15,388	1,919
Company				
At 31 December 2012				
Accruals and other payables	**1,142**	**–**	**–**	**–**
Derivative financial liabilities	**–**	**–**	**31,752**	**–**
Long-term borrowings	**11,824**	**15,124**	**50,099**	**–**
Interest payment on borrowings	**15,283**	**14,146**	**5,410**	**–**
At 31 December 2011				
Accruals and other payables	4,643	–	–	–

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(d) Liquidity risk *(Continued)*

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

The Group has been investing in the construction of new production lines and a significant amount of the financing was obtained from short-term borrowings. As a result, the Group had net current liabilities of approximately RMB432,081,000 as at 31 December 2012 (2011: RMB524,640,000). Nevertheless, the Group has not experienced any difficulties in renewing its short-term borrowings upon their maturities.

The directors, having considered the current operation and business plan of the Group as well as the available funding sources as described below, are of the opinion that the Group will have sufficient working capital to maintain its liquidity:

— The Group has profitable operations and stable cash inflow from operating activities;

— In January 2013, new short-term borrowings of RMB60 million with a term of nine months have been granted and drawn down;

— The Group has not experienced any significant difficulties in renewing its short-term borrowings upon their maturities and there is no evidence indicating that the banks will not renew the existing short-term borrowings if the Group applies for the renewal. Subsequent to the balance sheet date and up to the date of approval of the financial statements, short-term borrowings of approximately RMB220 million have been renewed for another twelve months. In addition, certain banks have advised their intention in writing, though not legally binding, to renew or to extend the loans of approximately RMB568 million for a further year when they fall due in 2013;

— As of 31 December 2012, the capital expenditure committed by the Group amounted to approximately RMB278 million. These commitments are mainly related to the construction of a new production line in GuangAn, Sichuan province ("GuangAn Project"). The directors of the Company will undertake close monitoring process to control the magnitude and timing of the expected cash outlays associated with the GuangAn Project.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may issue new shares, borrow or repay debts or adjust the amount of dividends paid to shareholders.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including short-term borrowings and long-term borrowings as shown in the consolidated balance sheet) less cash and cash equivalents and pledged bank deposits. Total capital is calculated as "equity" as shown in the consolidated balance sheet plus net debt.

The gearing ratio as at 31 December 2012 was as follows:

	2012 **RMB'000**	2011 RMB'000
Short-term borrowings (Note 22)	**1,933,961**	1,448,846
Long-term borrowings (Note 17)	**937,422**	377,984
Total borrowings	**2,871,383**	1,826,830
Less: Cash and cash equivalents (Note 13)	**(350,752)**	(132,094)
Pledged bank deposits (Note 12)	**(1,228,847)**	(789,009)
Net debt	**1,291,784**	905,727
Total equity	**1,121,672**	1,020,060
Total capital	**2,413,456**	1,925,787
Gearing ratio	**54%**	47%

The increase in the gearing ratio from 47% in 2011 to 54% in 2012 is mainly due to the increase of long-term borrowings which are used for the construction of GuangAn project.

3.3 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Fair value estimation *(Continued)*

The following table presents the Group's liabilities that are measured at fair value at 31 December 2012.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Liabilities				
Financial liabilities at fair value through profit or loss				
— Derivative financial liabilities (Note 18)	**–**	**–**	**36,530**	**36,530**

The following table presents the Group's liabilities that are measured at fair value at 31 December 2011.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Liabilities				
Financial liabilities at fair value through profit or loss				
— Derivative financial liabilities (Note 18)	–	–	5,072	5,072

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

The following table presents the changes in level 3 instruments for the year ended 31 December 2012.

	Derivative financial liabilities RMB'000
Opening balance	**5,072**
Addition	**40,978**
Gains recognised in profit or loss	**(9,520)**
Closing balance	**36,530**
Total gains for the period included in profit or loss for liabilities held at the end of the reporting period	**(9,520)**

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Fair value estimation *(Continued)*

The following table presents the changes in level 3 instruments for the year ended 31 December 2011.

	Derivative financial liabilities RMB'000
Opening balance	41,786
Gains recognised in profit or loss	(31,391)
Exercise of warrants	(5,323)
Closing balance	5,072
Total gains for the period included in profit or loss for liabilities held at the end of the reporting period	(24,187)

The fair value of long-term borrowing for disclosure purposes is estimated by discounting the future contractual cash flows at the contractual interest rate defined in the contract (Note 17).

The carrying values less impairment provision of cash and cash equivalents, pledged bank deposits, trade and other receivables, trade and other payables, and short-term borrowings approximates their fair values due to their short maturities.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgement are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Useful lives of property, plant and equipment

The estimate of useful lives of property, plant and equipment was made by the directors with reference to the established industry practices, technical assessments made on the durability of the assets, as well as the historical magnitude and trend of repair and maintenance expenses incurred by the Group. It could change significantly as a result of technical innovations and competitor actions in responses to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(b) Provision for impairment of trade receivables

The Group makes provision for impairment of trade receivables based on the assessment of the recoverability of trade receivables with reference to the extent and duration that the amount will be recovered. Provisions are applied to trade receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of impairment requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of receivables and impairment expenses in the period in which such estimate has been changed.

(c) Fair value of derivative financial liabilities

The Company has granted warrants to International Finance Corporation ("IFC") in 2009. Management has used the Black-Scholes valuation model to determine the fair value of the warrants granted. The changes of fair value are recognised in statement of comprehensive income. Significant judgement, such as risk free rate, dividend yield, expected volatility and option life, is required to be made by management as the parameters for applying the Black-Scholes valuation model.

The Company has granted warrants to Asian Equity Special Opportunities Portfolio Master Fund Ltd ("Asian Equity") and PA International Opportunities VII Limited ("PA International") in 2012. Management has used the Binominal valuation model to determine the fair value of the warrants granted. The changes of fair value are recognised in statement of comprehensive income. Significant judgement, such as risk free rate, dividend yield, expected volatility, debt rate and option life, is required to be made by management as the parameters for applying the Binominal valuation model.

(d) Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in Note 2.9(a). The recoverable amounts of cash-generating units have been determined based on fair value less costs to sell calculations. These calculations require the use of estimates (Note 8).

(e) Impairment of non-current assets other than goodwill

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(f) Income taxes

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

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

Pursuant to the Corporate Income Tax Law and its implementation rules, effective from 1 January 2008, certain non-resident enterprises (for instance, those without an establishment or place of business in Mainland China or which have an establishment or place of business in Mainland China but whose relevant income is not effectively connected with the establishment or a place of business in the Mainland China) are subject to withholding tax at the rate of 5% or 10% on various types of passive income such as dividends derived from sources within the Mainland China. As at 31 December 2012, the Group recognized relevant deferred tax liabilities of RMB5,485,000 (2011: RMB1,688,000) on the earning of RMB109,700,000 (2011: RMB33,760,000) generated by other Mainland China subsidiaries.

5 LAND USE RIGHTS — GROUP

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

	2012 **RMB'000**	2011 RMB'000
At 1 January		
Cost	**59,289**	100,378
Accumulated amortisation	**(3,888)**	(12,273)
Net book amount	**55,401**	88,105
Opening net book amount	**55,401**	88,105
Reclassified as non-current assets held for sale (Note 14)	**–**	(31,030)
Amortisation charge for the year	**(1,185)**	(1,674)
	54,216	55,401
At 31 December		
Cost	**59,289**	59,289
Accumulated amortisation	**(5,073)**	(3,888)
	54,216	55,401

All the Group's land use rights are located in Mainland China. The remaining lease periods of the land use rights are between 4 to 46 years (2011: 5 to 47 years).

As at 31 December 2012, certain land use rights with a total net book value of approximately RMB45,897,000 (2011: RMB46,890,000) were pledged as collateral for the Group's long-term borrowings (Note 17 (a).(b)). No land use right (2011: RMB6,904,000) were pledge for short-term borrowings (Note 22).

Amortisation charge of RMB1,185,000 (2011: RMB1,674,000) had been charged in administrative expenses.

6 PROPERTY, PLANT AND EQUIPMENT — GROUP

	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Office equipment and others RMB'000	Construction-in-progress RMB'000	Total RMB'000
At 1 January 2011						
Cost	361,253	978,912	10,892	18,963	81,339	1,451,359
Accumulated depreciation	(18,828)	(99,017)	(4,117)	(11,183)	–	(133,145)
Net book amount	342,425	879,895	6,775	7,780	81,339	1,318,214
Year ended 31 December 2011						
Opening net book amount	342,425	879,895	6,775	7,780	81,339	1,318,214
Additions	–	713	–	169	440,013	440,895
Reclassified as non-current assets held for sale (Note 14)	(35,051)	(53,030)	–	(2,271)	(61,519)	(151,871)
Transfers	105	175	–	–	(280)	–
Disposals (Note 24)	–	(7,143)	(122)	(160)	–	(7,425)
Depreciation	(7,423)	(69,806)	(952)	(482)	–	(78,663)
Closing net book amount	300,056	750,804	5,701	5,036	459,553	1,521,150
At 31 December 2011						
Cost	311,047	847,100	10,085	9,888	459,553	1,637,673
Accumulated depreciation	(10,991)	(96,296)	(4,384)	(4,852)	–	(116,523)
Net book amount	300,056	750,804	5,701	5,036	459,553	1,521,150
Year ended 31 December 2012						
Opening net book amount	**300,056**	**750,804**	**5,701**	**5,036**	**459,553**	**1,521,150**
Additions	**–**	**203**	**3,306**	**726**	**637,610**	**641,845**
Disposals (Note 24)	**–**	**(799)**	**(200)**	**(916)**	**–**	**(1,915)**
Depreciation	**(6,194)**	**(64,822)**	**(1,379)**	**(981)**	**–**	**(73,376)**
Closing net book amount	**293,862**	**685,386**	**7,428**	**3,865**	**1,097,163**	**2,087,704**
At 31 December 2012						
Cost	**311,047**	**846,406**	**12,541**	**9,556**	**1,097,163**	**2,276,713**
Accumulated depreciation	**(17,185)**	**(161,020)**	**(5,113)**	**(5,691)**	**–**	**(189,009)**
Net book amount	**293,862**	**685,386**	**7,428**	**3,865**	**1,097,163**	**2,087,704**

6 PROPERTY, PLANT AND EQUIPMENT — GROUP *(Continued)*

Depreciation expense of RMB63,305,000 (2011: RMB67,955,000) had been charged in cost of sales and RMB10,071,000 (2011: RMB10,708,000) in administrative and selling expenses.

All the Group's buildings are located in Mainland China. As at 31 December 2012, property, plant and equipment with a total net book value of approximately RMB1,447,846,000(2011: RMB891,105,000) were pledged as collateral for the Group's long-term borrowings (Note 17(a)(b)).

Borrowing costs of RMB36,364,000 (2011:RMB9,412,000) have been capitalised in the construction-in-progress at average capitalisation rate of 8.05% (2011: 7.81%) (Note 28).

7 MINING RIGHT — GROUP

The mining right represents the right to conduct mining activities in a phosphate mine located in Sichuan, Mainland China, which has remaining legal lives of twenty-seven years, expiring in February 2039.

	Total
At 1 January 2011, 31 December 2011 and 2012	
Cost	**334,306**
Accumulated amortisation and impairment	**–**
Net book amount	**334,306**

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

8 INTANGIBLE ASSETS — GROUP

	Goodwill	Construction permits	Total
At 1 January 2011			
Cost	8,900	2,700	11,600
Amortisation charge	–	(162)	(162)
Closing net book amount	8,900	2,538	11,438
At 1 January 2012	**8,900**	**2,538**	**11,438**
Amortisation charge	**–**	**(270)**	**(270)**
Closing net book amount	**8,900**	**2,268**	**11,168**
At 31 December 2012			
Cost	**8,900**	**2,700**	**11,600**
Amortisation charge	**–**	**(432)**	**(432)**
Net book amount	**8,900**	**2,268**	**11,168**

Construction permits represent the permissions granted by the government for the construction of GuangAn Project. Amortisation charge of RMB270,000 (2011: RMB162,000) is included in administrative expenses.

8 INTANGIBLE ASSETS — GROUP *(Continued)*

Impairment tests for goodwill

The above goodwill is allocated to the Group's cash-generating unit ("CGU") in relation to the exploration, exploitation of the phosphate mine and production of phosphoric acid located in Sichuan, Mainland China. The recoverable amount of the CGU is determined based on fair value less cost to sell calculations. The fair value less cost to sell is derived by using discounted cash flow approach which incorporates assumptions that market participants would use in estimating the CGU's fair value.

The key assumptions used for fair value less costs to sell calculations are as follows:

	2012
Gross margin	**32%**
Growth rate	**3%**
Discount rate (post-tax discount rate applied to the cash flow projections)	**17%**
Years of cash flows projection (expected mining period of the phosphate mine)	**30 years**

Management determined gross margin based on past market prices of the phosphoric acid which are produced from phosphate ore and management's estimation of exploitation and production costs. The discount rate used is post-tax and reflects specific risks relating to the relevant CGU. Expected mining period of the phosphate mine is determined based on extractable reserve of the phosphate mine and the Group's production capacity. Management of the Group determines that there is no impairment of the CGU containing goodwill.

9 INTERESTS IN SUBSIDIARIES AND LOANS TO SUBSIDIARIES — COMPANY

(a) Interests in subsidiaries

	2012 **RMB'000**	2011 RMB'000
Unlisted investments, at cost	**332,113**	332,113
Investment arising from share-based compensation (Note i)	**5,510**	5,510
Amounts due from subsidiaries (Note ii)	**407,279**	407,279
	744,902	744,902

(i) The amount represents share-based compensation expenses arising from the granting of share options of the Company to employees of subsidiaries in exchange for their services offered to the subsidiaries.

(ii) The amounts due from subsidiaries are unsecured, non-interest bearing, denominated in HKD and have no requirement on the repayment in the foreseeable future.

9 INTERESTS IN SUBSIDIARIES AND LOANS TO SUBSIDIARIES — COMPANY *(Continued)*

(b) Loans to subsidiaries

	2012 RMB'000	2011 RMB'000
Loans to subsidiaries	**110,992**	–

The loans to subsidiaries are unsecured, denominated in HKD, due by 8 July 2015 and bear interest at 9% per annum. The fair value of loans to subsidiaries amounted to RMB113,485,000, which is based on cash flows discounted using a rate based on the borrowings rate of 8.68%. The discount rate equals to LIBOR plus appropriate credit rating.

The following is a list of the subsidiaries as at 31 December 2012:

Name	Place of incorporation/ establishment and kind of legal entity	Principal activities and place of operation	Particulars of issued, registered and fully paid up capital	Interest held
Ko Yo Ecological Agrotech (BVI) Limited ("Ko Yo BVI") (Note a)	British Virgin Islands ("BVI"), limited liability company	Investment holding in BVI	100 ordinary shares of USD1 each	100%
Bright Bridge Investments Limited (Note a)	BVI, limited liability company	Investment holding in BVI	1 ordinary share of USD1 each	100%
Ko Yo Development Company Limited ("Ko Yo Hong Kong")	Hong Kong, limited liability company	Investment holding in Hong Kong	3,000,000 non-voting deferred shares and 100 ordinary shares of HKD1 each	100%
Chengdu Ko Yo Chemical Industry Co., Ltd. ("Chengdu Ko Yo Chemical")	Mainland China, wholly foreign owned enterprise	Manufacture and sale of chemical products including sodium carbonate, ammonia, and chemical fertilisers including urea and ammonium chloride in Mainland China	RMB27,000,000	100%
Chengdu Ko Yo Compound Fertilisers Co., Ltd. ("Chengdu Ko Yo Compound")	Mainland China, wholly foreign owned enterprise	Manufacture, research, development and sale of bulk blended fertilisers in Mainland China	RMB15,000,000	100%

9 INTERESTS IN SUBSIDIARIES AND LOANS TO SUBSIDIARIES — COMPANY *(Continued)*

(b) Loans to subsidiaries *(Continued)*

The following is a list of the subsidiaries as at 31 December 2012: *(Continued)*

Name	Place of incorporation/ establishment and kind of legal entity	Principal activities and place of operation	Particulars of issued, registered and fully paid up capital	Interest held
Dazhou Ko Yo Chemical Industry Co., Ltd ("Dazhou Ko Yo Chemical") (Note b)	Mainland China, wholly foreign owned enterprise	Manufacture and sale of chemical products including ammonia, ammonia carbonate and urea in Mainland China	RMB350,000,000	100%
Qingdao Ko Yo Chemical Industry Co., Ltd. ("Qingdao Ko Yo Chemical")	Mainland China, wholly foreign owned enterprise	Manufacture, research, development and sale of bulk blended fertilisers in Mainland China	USD2,100,000	100%
Hong Kong Cuyo Investment Limited ("Hong Kong Cuyo")	Hong Kong, limited liability company	Investment holding in Hong Kong	4,720,000 ordinary shares of HKD1 each	100%
Sichuan Chengyuan Chemical Industry Co., Ltd ("Sichuan Cuyo")	Mainland China, wholly foreign-owned enterprise	Exploration and exploitation of a phosphorous mine in Mainland China	RMB5,000,000	100%
Sichuan Ko Yo Agrochem Co., Ltd ("Ko Yo Agrochem")	Mainland China, wholly foreign owned enterprise	Sale of chemical products including sodium carbonate, ammonia, and chemical fertilisers including urea and ammonium chloride in Mainland China	RMB24,000,000	100%
Guangan Ko Yo Chemical Industry Co., Ltd ("Ko Yo GuangAn")	Mainland China, wholly foreign-owned enterprise	Manufacture and sale of chemical products including sodium carbonate and ammonia in Mainland China	RMB160,000,000	100%
Chengdu Dayuan Chemical Industry Co., Ltd ("Ko Yo Dayuan")	Mainland China, wholly foreign-owned enterprise	Investment holding in Mainland China	RMB100,000	100%

9 INTERESTS IN SUBSIDIARIES AND LOANS TO SUBSIDIARIES — COMPANY *(Continued)*

(b) Loans to subsidiaries *(Continued)*

The following is a list of the subsidiaries as at 31 December 2012: *(Continued)*

Name	Place of incorporation/ establishment and kind of legal entity	Principal activities and place of operation	Particulars of issued, registered and fully paid up capital	Interest held
Chengdu Meiyuan Chemical Industry Co., Ltd ("Ko Yo Meiyuan")	Mainland China, wholly foreign-owned enterprise	Investment holding in Mainland China	RMB100,000	100%
Guangan Lotusan Natural Gas Chemicals Co., Ltd ("Ko Yo Lotusan")	Mainland China, wholly domestic-owned enterprise	Manufacture and sale of chemical products including methanol and ammonia in Mainland China	RMB43,000,000	100%
Sichuan Ko Chang Technology Co., Ltd ("Ko Yo Ko Chang") (Note 16(d))	Mainland China, domestic-owned enterprise	Development of phosphoric acid production technology	RMB10,000,000	64%

Notes:

(a) Shares held directly by the Company.

(b) 100% equity interest of Ko Yo Hong Kong, Dazhou Ko Yo Chemical, Guangan Ko Yo Chemical and Sichuan Ko Yo Agrochem were pledged as collateral for the Group's borrowings.

10 INVENTORIES — GROUP

	2012	2011
	RMB'000	RMB'000
Raw materials	**39,872**	38,158
Work in progress	**2,839**	179
Finished goods	**15,920**	4,883
	58,631	43,220

The cost of inventories recognised as expense and included in "cost of sales" amounted to RMB317,127,000 (2011: RMB391,886,000).

11 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade receivables	**11,194**	23,584	**–**	–
Less: provision for impairment of trade receivables	**(5,241)**	(5,241)	**–**	–
Trade receivables — net	**5,953**	18,343	**–**	–
Prepayments	**67,978**	101,859	**476**	476
Prepaid input VAT	**8,377**	8,287	**–**	–
Notes receivable	**1,800**	4,100	**–**	–
Due from employees	**11,413**	5,085	**–**	–
Others	**17,387**	17,520	**–**	–
	112,908	155,194	**476**	476

As at 31 December 2012 and 2011, the fair value of trade and other receivables of the Group approximated to their carrying amounts.

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

	Group	
	2012	2011
	RMB'000	RMB'000
Less than 3 months	**4,072**	17,664
More than 3 months but not exceeding 1 year	**55**	79
More than 1 year but not exceeding 2 years	**1,826**	733
More than 2 years but not exceeding 3 years	**133**	83
More than 3 years	**5,108**	5,025
	11,194	23,584
Less: provision for impairment of trade receivables	**(5,241)**	(5,241)
	5,953	18,343

11 TRADE AND OTHER RECEIVABLES *(Continued)*

As of 31 December 2012, trade receivables of RMB4,072,000 (2011: RMB17,664,000) that are under credit term were fully performing.

As of 31 December 2012, trade receivables of RMB1,881,000 (2011: RMB679,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	Group	
	2012	2011
	RMB'000	RMB'000
More than 3 months but not exceeding 1 year	**55**	79
More than 1 year but not exceeding 2 years	**1,826**	600
	1,881	679

As at 31 December 2012, trade receivables of RMB5,241,000 (2011: RMB5,241,000) were impaired and a full provision of RMB5,241,000 (2011: RMB5,241,000) was provided for. The individually impaired receivables mainly relate to wholesalers, which are in unexpected difficult economic situations. The ageing of these receivables is as follows:

	Group	
	2012	2011
	RMB'000	RMB'000
More than 1 year but not exceeding 2 years	**–**	133
More than 2 years but not exceeding 3 years	**133**	83
More than 3 years	**5,108**	5,025
	5,241	5,241

The carrying amounts of the Group's and the Company's trade and other receivables are denominated in the following currencies:

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
RMB	**108,598**	150,546	**–**	–
HKD	**4,310**	4,648	**476**	476
	112,908	155,194	**476**	476

11 TRADE AND OTHER RECEIVABLES *(Continued)*

Movements on the provision for impairment of trade receivables are as follows:

	Group	
	2012	2011
	RMB'000	RMB'000
At 1 January	**5,241**	5,156
Provision for receivables	–	85
At 31 December	**5,241**	5,241

The creation and release of provision for impaired receivables have been included in administrative expenses in the consolidated statement of comprehensive income (Note 24).

Notes receivable represents bank acceptance notes with maturity period within six months and non-interest bearing.

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

12 PLEDGED BANK DEPOSITS — GROUP

The carrying amounts of the Group's pledged bank deposits are denominated in RMB:

The deposits are pledged for long-term borrowings (Note 17) and short-term borrowings (Note 22) of the Group. The effective interest rates on pledged bank deposits are ranging from 2.87% to 3.30% (2011: 3.25% to 3.50%).

13 CASH AND CASH EQUIVALENTS

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash at bank	**350,461**	131,780	**168**	15
Cash in hand	**291**	314	**–**	–
	350,752	132,094	**168**	15
Maximum exposure to credit risk	**350,461**	131,780	**168**	15

The weighting average effective interest rate on cash at bank at 31 December 2012 is 0.38% (2011: 0.44%).

The carrying amounts of the Group's and the Company's cash and cash equivalents are denominated in the following currencies:

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
RMB	**335,910**	130,558	**–**	–
USD	**280**	1,142	**2**	2
HKD	**14,271**	394	**166**	13
	350,461	132,094	**168**	15

14 NON-CURRENT ASSETS HELD FOR SALE

Due to municipal planning arrangement, at the request of the People's Government of Chengdu, the original manufacturing business of Ko Yo Chemical (a directly wholly-owned subsidiary of Ko Yo Hong Kong) which is located at Chengdu, Sichuan Province is required to be discontinued. The Group therefore has applied for the change of the usage of Ko Yo Chemical's land use rights from industrial usage to commercial usage and is arranging the disposal of the non-current assets of Ko Yo Chemical to other parties. In accordance with the overall development strategy as planned by the Group, the proceeds from the sale of the non-current assets of Ko Yo Chemical will be invested in the GuangAn Project.

On 16 June 2011, Ko Yo Hong Kong and Chengdu Hexin Real Estate Co, Ltd (the "Purchaser") entered into the Equity Transfer Agreement and the Supplemental Agreement pursuant to which Ko Yo Hong Kong has agreed to sell, and the Purchaser has agreed to purchase the 40% equity interest in Ko Yo Chemical, at a cash consideration of RMB20 million, and the settlement of certain debts of Ko Yo Chemical amounting to RMB49.44 million. The aggregate consideration of approximately RMB69.44 million was received and the registration of transfer of 40% equity interest in Ko Yo Chemical has been completed during 2011. Ko Yo Chemical ceased its business operation before the end of December 2011.

14 NON-CURRENT ASSETS HELD FOR SALE *(Continued)*

As the Purchaser intends to further acquire the remaining 60% equity interest in Ko Yo Chemical at a consideration of approximately RMB150 million, a deposit of RMB30.66 million has also been received from the Purchaser during 2011.

Moreover, pursuant to the Supplemental Agreement the Group is required to settle all liabilities of Ko Yo Chemical and is entitled to dispose of certain machinery being dismantled from Ko Yo Chemical. The Group received the consideration of RMB31 million for such disposal from another independent third party during 2011.

As of 31 December 2011, the completion of the sale of 100% equity interest in Ko Yo Chemical and the disposal of machinery is subject to the fulfilment of certain terms and conditions, and thus all the amounts received in relation to the disposal of Ko Yo Chemical and the assets totalling RMB131.1 million are classified as advances from purchasers (Note 21). As a result, the Group reclassified the non-current assets of Ko Yo Chemical to current assets which are held for sale.

The details of the non-current assets held for sale are as follows:

	As at 31 December 2011 & 2012 RMB'000
Non-current assets held for sale	
Property, plant and equipment (Note 6)	151,871
Land use rights (Note 5)	31,030
Deferred tax assets (Note 20)	15,883
	198,784

Due to the delay of government's approval on the change of usage of Ko Yo Chemical's land use rights from industrial usage to commercial usage, the completion of the sale of 100% equity interest in Ko Yo Chemical has not been completed up to the date of approval of these consolidated financial statements. On the basis that the Group is still committed to sell and the Purchaser is still committed to purchase 100% equity interest in Ko Yo Chemical, and there is no legal obstacle which prevents the Group from obtaining government's approval on the change of usage of Ko Yo Chemical's land use rights from industrial usage to commercial usage, the directors consider the above assets should remain being classified as non-current assets held for sale as of 31 December 2012.

15 SHARE CAPITAL

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

	Number of shares of HKD0.02 each		Share capital	
	2012	2011	**2012**	2011
	'000	'000	**HKD'000**	HKD'000
Authorised:				
Ordinary shares at beginning and end of year	**10,000,000**	10,000,000	**200,000**	200,000

		Number of shares of HKD0.02 each		Share capital	
		2012	2011	**2012**	2011
	Notes	**'000**	'000	**RMB'000**	RMB'000
Issued and fully paid:					
Ordinary shares at beginning of year		**7,195,285**	7,045,400	**138,618**	136,100
Issue of ordinary shares upon the exercise of:					
— Warrants	*(a)*	**–**	149,885	**–**	2,518
Ordinary shares at end of year		**7,195,285**	7,195,285	**138,618**	138,618

(a) Issue of ordinary shares

On 31 March 2011, IFC exercised a portion of its warrants held to subscribe 149,885,000 new ordinary shares of HKD0.02 each in cash at an exercise price of HKD0.156 (equivalent to RMB0.131) per share. The weighted average share price at the date of exercise of warrants was HKD0.198 per share (equivalent to RMB0.166). Share premium of RMB22,411,000, representing the difference between the cash proceeds of RMB19,606,000 plus the fair value of the exercised warrants at the exercise date amounting to RMB5,323,000 and the par value of issued shares amounting to RMB2,518,000 is recognised.

15 SHARE CAPITAL *(Continued)*

(b) Share options

All of share options have duration of 10 years from the date of grant and the options can be exercised from the date of grant.

(1) GEM Share Option Scheme

On 10 June 2003, the Company adopted a share option scheme (the "GEM Share Option Scheme"). The purpose of the Share Option Scheme is to recognise the contribution of the eligible participants, and to provide a performance related incentive to them. The eligible participants include the employees (including executive and non-executive directors) and consultants of the Group.

The number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other schemes must not exceed 30% of the shares in issue from time to time. The total number of shares which may be issued upon exercise of all options to be granted under the GEM Share Option Scheme and any other schemes must not exceed 210,000,000 shares (on post-subdivision basis), 10% of the shares of the Company at the date of commencement of dealings of the Company's shares on GEM.

Each participant is entitled to a maximum of 21,000,000 share options (on post-subdivision basis), which are valid for a period of 10 years from the date of grant. The subscription price will be determined by the Company's board of directors, and will not be less than the highest of (a) the closing price of the shares quoted on the GEM of the Stock Exchange on the date of the offer; (b) the average closing price of the shares quoted on the GEM of the Stock Exchange for the five business days immediately preceding the date of the offer and (c) the nominal value of the shares.

The details of share options outstanding, after adjustment for the effect of share subdivision, are as follows:

Date of grant	23 September 2003	11 April 2006	16 May 2006	10 September 2007	
Exercise price (HKD per option, on post-subdivision basis)	0.12	0.15	0.15	0.12	
Granted to	2 executive directors, 2 independent directors and 6 employees	18 employees	2 executive directors and 1 independent director	7 employees	
Exercisable period	**10 years from the date of grant** (Note i)	**10 years from the date of grant**	**10 years from the date of grant** (Note ii)	**10 years from the date of grant**	**Total**
At 1 January 2011	122,000,000	42,000,000	6,200,000	29,000,000	199,200,000
Forfeited	–	–	–	(4,000,000)	(4,000,000)
At 31 December 2011	122,000,000	42,000,000	6,200,000	25,000,000	195,200,000
At 1 January 2012	122,000,000	42,000,000	6,200,000	25,000,000	195,200,000
Forfeited	–	(8,000,000)	–	–	(8,000,000)
At 31 December 2012	122,000,000	34,000,000	6,200,000	25,000,000	187,200,000

15 SHARE CAPITAL *(Continued)*

(b) Share options *(Continued)*

(1) GEM Share Option Scheme *(Continued)*

(i) Share options that were granted on 23 September 2003 and remained outstanding at end of year were held by the following employees (including executive and non-executive directors):

Exercisable period	Directors	Number of options 31 December 2012
23 September 2003 to 22 September 2013	Ms. Chi Chuan	**21,000,000**
23 September 2003 to 22 September 2013	Mr. Li Shengdi	**21,000,000**
23 September 2003 to 22 September 2013	Ms. Man Au, Vivian	**19,000,000**
23 September 2003 to 22 September 2013	Mr. Hu Xiaoping	**2,000,000**
23 September 2003 to 22 September 2013	Mr. Woo Che-wor, Alex	**2,000,000**
		65,000,000
23 September 2003 to 22 September 2013	Other employees	**57,000,000**
		122,000,000

(ii) Share options that were granted on 16 May 2006 and remained outstanding at end of year were held by the following executive and non-executive directors:

Exercisable period	Directors	Number of options 31 December 2012
16 May 2006 to 10 April 2016	Mr. Li Weiruo	**2,100,000**
16 May 2006 to 10 April 2016	Mr. Yuan Bai	**2,000,000**
16 May 2006 to 10 April 2016	Mr. Qian Laizhong	**2,100,000**
		6,200,000

The GEM Share Option Scheme was terminated upon the Transfer of Listing and no further options will be offered or granted under the GEM Share Option Scheme. All the outstanding share options will remain valid and exercisable in accordance with their terms of issue after the Transfer of Listing.

15 SHARE CAPITAL *(Continued)*

(b) Share options *(Continued)*

(2) New Share Option Scheme

On 18 September 2008, the Company adopted a new share option scheme (the "New Scheme") pursuant to the resolutions passed by an extraordinary general meeting.

The purpose of the New Scheme is to encourage the participants to perform their best in achieving the goals of the Group and at the same time allow the participants to enjoy the results of the Group attained through their efforts and contributions and to provide the participants with incentives and help the Group in retaining its existing employees and recruiting additional employees.

The New Scheme shall be valid and effective for the period of 10 years commencing from the adoption date, after which period no further options will be granted but the provision of the Scheme shall remain in full force and effect in all other respects.

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Scheme and any other schemes shall not exceed 30% of the total shares in issue from time to time. The total number of shares which may be issued upon exercise of all options to be granted under the New Scheme and any other schemes must not exceed 10% of the shares of the Company as at the adoption date unless the Company obtains a refresh approval from its shareholders.

The subscription price will be determined by the Company's board of directors, and will not be less than the highest of (a) the closing price of the shares as stated in the Stock Exchange's daily quotations sheets on the date of grant, which must be a trade day; (b) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of the grant and (c) the nominal value of a share.

(i) On 14 January 2010, the Company granted share options to eligible persons including directors and employees to subscribe for an aggregate of 56,900,000 shares of the Company with an exercise price of HKD0.23. Among the 56,900,000 Share Options, 18,400,000 Share Options that were granted on 14 January 2011 and remained outstanding at the end of the year were held by the following executive directors:

Exercisable period	Directors	Number of options 31 December 2012
14 January 2010 to 13 January 2020	Mr. Li Wei Ruo	**4,400,000**
14 January 2010 to 13 January 2020	Mr. Yuan Bai	**4,000,000**
14 January 2010 to 13 January 2020	Ms. Chi Chuan	**2,000,000**
14 January 2010 to 13 January 2020	Ms. Man Au Vivian	**4,000,000**
14 January 2010 to 13 January 2020	Mr .Li Shengdi	**4,000,000**
		18,400,000

15 SHARE CAPITAL *(Continued)*

(b) Share options *(Continued)*

(2) New Share Option Scheme *(Continued)*

(ii) On 23 November 2010, the Company granted share options to three non-executive directors to subscribe for an aggregate of 12,000,000 shares of the Company with an exercise price of HKD0.22. These share options that were granted on 23 November 2010 and remained outstanding at the end of the year were held by the following non-executive directors:

Exercisable period	Directors	Number of options 31 December 2012
23 November 2010 to 22 November 2020	Mr. Hu Xiaoping	**4,000,000**
23 November 2010 to 22 November 2020	Mr. Woo Che-wor, Alex	**4,000,000**
23 November 2010 to 22 November 2020	Mr. Qian Laizhong	**4,000,000**
		12,000,000

16 RESERVES

Movements of the Group's reserves are as follows:

	Share premium RMB'000	Merger reserve RMB'000 (Note a)	Share-based compensation reserve RMB'000	Reserve fund RMB'000 (Note b)	Enterprise expansion fund RMB'000 (Note b)	Retained earnings RMB'000	Transaction with Non-controlling interests ("NCI") RMB'000 (Note d)	Total RMB'000
At 1 January 2011	527,722	(22,041)	14,186	21,830	1,131	216,049	–	758,877
Comprehensive income:								
Profit for the year	–	–	–	–	–	100,154	–	100,154
Transactions with owners:								
Issue of ordinary shares upon the exercise of warrants (Note15(a))	22,411	–	–	–	–	–	–	22,411
Appropriation (Note b)	–	–	–	11,474	–	(11,474)	–	–
	22,411	–	–	11,474	–	(11,474)	–	22,411
At 31 December 2011	550,133	(22,041)	14,186	33,304	1,131	304,729	–	881,442

16 RESERVES *(Continued)*

Movements of the Group's reserves are as follows (Continued):

	Share premium RMB'000	Merger reserve RMB'000 (Note a)	Share-based compensation reserve RMB'000	Reserve fund RMB'000 (Note b)	Enterprise expansion fund RMB'000 (Note b)	Retained earnings RMB'000	Transaction with NCI RMB'000 (Note d)	Total RMB'000
At 1 January 2012	550,133	(22,041)	14,186	33,304	1,131	304,729	–	881,442
Comprehensive income:								
Profit attributable to the equity holders of the Group	–	–	–	–	–	101,612	–	101,612
Transactions with owners:								
Appropriation (Note b)	–	–	–	11,648	–	(11,648)	–	–
Transfer of Equity interest to NCI (Note d)	–	–	–	–	–	–	(3,600)	(3,600)
	–	–	–	11,648	–	(11,648)	(3,600)	(3,600)
At 31 December 2012	550,133	(22,041)	14,186	44,952	1,131	394,693	(3,600)	979,454

16 RESERVES *(Continued)*

Movements of the Company's reserves are as follows:

	Share premium RMB'000	Contributed surplus RMB'000 (Note c)	Share-based compensation reserve RMB'000	Accumulated (loss)/profit RMB'000	Total RMB'000
At 1 January 2011	527,722	37,162	14,186	(29,196)	549,874
Comprehensive income:					
Profit attributable to the equity holders of the Company (Note 30)	–	–	–	24,775	24,775
Transactions with owners:					
Issue of ordinary shares at the exercise of warrants (Note15 (a))	22,411	–	–	–	22,411
At 31 December 2011	550,133	37,162	14,186	(4,421)	597,060
At 1 January 2012	**550,133**	**37,162**	**14,186**	**(4,421)**	**597,060**
Comprehensive income:					
Profit attributable to the equity holders of the Company (Note 30)	**–**	**–**	**–**	**6,141**	**6,141**
At 31 December 2012	**550,133**	**37,162**	**14,186**	**1,720**	**603,201**

(a) Merger reserve

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

16 RESERVES *(Continued)*

(b) Statutory reserves

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

(c) Contributed surplus

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

(d) Transfer of equity interest to NCI

Ko Yo Ko Chang was newly established by the Group with fully paid share capital of RMB10,000,000 in 2012. On 19 October 2012, Ko Yo Development transferred 36% equity interest in Ko Yo Ko Chang at a cash consideration of RMB1 to Changsha Research Institute of Mining and Metallurgy Co, Ltd, a well-known science and technology institution in China, in order to leverage the know-how owned by the institute in exploiting technology of phosphate mine. The resulting loss of RMB3,600,000 is recorded in equity, as a transaction with NCI.

17 LONG-TERM BORROWINGS, SECURED

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Bank borrowings (a)	**789,333**	294,349	**–**	–
Borrowing from IFC (b)	**71,042**	83,635	**–**	–
Borrowings from Asian Equity and PA International (c)	**77,047**	–	**77,047**	–
	937,422	377,984	**77,047**	–

17 LONG-TERM BORROWINGS, SECURED *(Continued)*

(a) Bank borrowings

The long-term bank borrowings are secured by bank deposits of RMB16,082,000 (2011: RMB16,012,000), certain land use rights with a total net book value of approximately RMB33,274,000 (2011: RMB33,974,000), property, plant and equipment with a total net book value of RMB1,334,813,000 (2011: RMB775,421,000), 100% equity interest in Ko Yo Hong Kong and Dazhou Ko Yo Chemical (Note 9), which were effectively owned by the Company, and guaranteed by Mr. Li Weiruo, a shareholder and director of the Company.

The average effective interest rate of bank borrowings as at 31 December 2012 is 8.1% (2011: 7.9%).

(b) Borrowing from IFC

On 16 April 2009, the Group entered into a long-term borrowing agreement and a warrant subscription agreement with IFC, pursuant to which, IFC granted a long-term borrowing of USD20 million (equivalent to RMB132,454,000) to the Group at the coupon interest rate of LIBOR plus 4.5% per annum and the Company issued warrants at nil consideration to IFC to subscribe 500,000,000 ordinary shares of HKD 0.02 each from the Company at an exercise price of HKD0.156 per share (Note 18(a)). The Group has drawn down the long-term borrowings of USD17 million (equivalent to RMB116,147,000) in 2009 and USD3 million (equivalent to RMB19,869,000) in 2011.

The borrowing from IFC was recognised initially at fair value, which is equal to the difference between the face value of the borrowing and the fair value of warrants. The fair value of the borrowing from IFC at initial recognition and amortised cost at subsequent measurement are set out below:

	Group	
	2012	2011
	RMB'000	RMB'000
Fair value at initial recognition	**94,619**	94,619
Interest expense accrued	**42,960**	32,113
Interest paid	**(22,079)**	(16,498)
Principal paid	**(44,458)**	(26,599)
Borrowing from IFC at 31 December	**71,042**	83,635

17 LONG-TERM BORROWINGS, SECURED *(Continued)*

(b) Borrowing from IFC *(Continued)*

The effective interest rate of the borrowing from IFC as at 31 December 2012 is 13.52% (2011: 13.17%). The calculation of the effective interest rate has taken into account the deduction of fair value of warrants from the face value of the borrowing.

The borrowing of IFC is secured by certain land use rights with a total net book value of approximately RMB12,623,000 (2011: RMB12,916,000), and property, plant and equipment with a total net book value of RMB113,033,000 (2011: RMB115,684,000).

(c) Borrowing from Asian Equity and PA International

In order to finance the construction of Guangan Project, the Company entered into a bonds subscription agreement and a warrant subscription agreement with Asian Equity and PA International on 29 June 2012, pursuant to which, Asian Equity and PA International subscribed for a bond of HKD140 million (equivalent to RMB113 million) issued by the Company at the nominal interest rate of 9% per annum and the Company issued warrants at nil consideration to Asian Equity and PA International to subscribe 875,000,000 ordinary shares of HKD0.02 each from the Company at an exercise price of HKD0.16 per share (Note 18). The bonds are due by 7 July 2015, subject to an early redemption put options held by Asian Equity and PA International (Note18 (b)).

The host bond was recognised initially at fair value, which is equal to the difference between the face value of the bonds and the fair value of warrants and put options embedded in bonds (note 18). The fair value of bonds at initial recognition and amortised cost at subsequent measurement are set out below:

	Group	
	2012	2011
	RMB'000	RMB'000
Fair value of host bonds at initial recognition	**72,423**	–
Interest expense accrued	**9,494**	–
Interest paid	**(4,870)**	–
At 31 December	**77,047**	–

The effective interest rate of the above borrowing from Asian Equity and PA International as at 31 December 2012 is 26.21%.

17 LONG-TERM BORROWINGS, SECURED *(Continued)*

As at 31 December 2012, the Group's long-term borrowings were repayable as follows:

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 1 year	**129,098**	93,329	**11,824**	–
Between 1 and 2 years	**203,928**	103,710	**15,124**	–
Between 2 and 3 years	**268,903**	97,786	**50,099**	–
Between 3 and 5 years	**335,494**	56,889	**–**	–
Over 5 years	**–**	26,270	**–**	–
	937,422	377,984	**77,047**	–
Within 1 year included in current liabilities	**(129,098)**	(93,329)	**(11,824)**	–
	808,324	284,655	**65,223**	–

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Wholly repayable within 5 years	**937,422**	351,714	**77,047**	–
Wholly repayable after 5 years	**–**	26,270	**–**	–
	937,422	377,984	**77,047**	–

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

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
At floating rates in USD	**71,042**	83,635	**–**	–
At floating rates in RMB	**789,333**	294,349	**–**	–
At fixed rates in HKD	**77,047**	–	**77,047**	–
	937,422	377,984	**77,047**	–

The fair value of the borrowings from Asian Equity and PA International at 31 December 2012, which bear fixed interest rate, amounted to HKD 83,163,000. The fair value is calculated using cash flows discounted at a rate of 25.28%.

Other than the above borrowings from Asian Equity and PA International, the carrying amounts of the long-term borrowings approximate to their fair values as the market borrowing interest rate approximates to their effective interest rates. The weighted average effective interest rate of the long-term borrowings as at 31 December 2012 is 8.14% (2011: 7.90%).

18 DERIVATIVE FINANCIAL LIABILITIES

Derivative financial liabilities comprise warrants issued to IFC (Note a) and warrants and put-option of bonds issued to Asian Equity and PA International (Note b), the movement of which is set out below:

	Group RMB'000	Company RMB'000
Opening balance at 1 January 2011	41,786	41,786
Fair value change credited to consolidated statement of comprehensive income (Note 27)	(31,391)	(31,391)
Exercise of warrants	(5,323)	(5,323)
At 31 December 2011	5,072	5,072
Opening balance at 1 January 2012	**5,072**	**5,072**
Addition (Note (b))	**40,978**	**40,978**
Fair value change credited to consolidated statement of comprehensive income (Note 27)	**(9,520)**	**(9,520)**
At 31 December 2012	**36,530**	**36,530**

(a) Warrants issued to IFC

On 16 April 2009, the Company issued warrants to IFC at nil consideration (the "IFC Warrants"), which provided IFC the right to subscribe 500,000,000 ordinary shares of HKD0.02 each from the Company at an exercise price of HKD0.156 per share. The subscription rights attaching to the IFC Warrants may be exercised by IFC at any time and from time to time within a period starting from the 29 April 2009 to 28 April 2014.

As stated in Note15(a), IFC exercised a portion of the IFC Warrants to subscribe for 149,885,000 new shares of the Company on 31 March 2011. The derivative financial liabilities of RMB5,323,000, representing the fair value of the exercised warrants at the exercise date, were transferred to share premium.

Management has used the Black-Scholes valuation model to determine the fair value of the IFC Warrants, which was recognised as financial liabilities. Significant judgement, such as risk free rate, dividend yield and expected volatility, is required to be made by management as the parameters for applying the Black-Scholes valuation model.

18 DERIVATIVE FINANCIAL LIABILITIES *(Continued)*

(a) Warrants issued to IFC *(Continued)*

The fair value of the IFC Warrants as of 31 December 2012, determined using the Black-Scholes valuation model, was HKD0.011 (approximately RMB0.009) per share (2011: HKD0.017, approximately RMB0.014). The significant inputs into the model are as follows:

	31 December 2012	31 December 2011
Share prices at the valuation date (HKD)	**0.118**	0.110
Volatility	**42%**	46%
Dividend yield	**Nil**	Nil
Annual risk-free interest rate	**0.10%**	0.41%

(b) Warrants and put-option of bonds issued to Asian Equity and PA International

On 29 June 2012, the Company issued warrants to Asian Equity and PA International at nil consideration (the "Warrants"), which provided Asian Equity and PA International the right to subscribe 875,000,000 ordinary shares of HKD0.02 each from the Company at an exercise price of HKD0.16 per share. The subscription rights attaching to the Warrants may be exercised by Asian Equity and PA International at any time and from time to time within a period starting from the 9 July 2012 to 7 July 2015. Pursuant to the warrant subscription agreement, Asian Equity and PA International have the put option, which is exercisable within the last 14 days before the maturity date of Warrants (i.e. 7 July 2015) to require the Company buy back unexercised warrants at a price of HKD0.0448 per warrant.

Pursuant to the bond subscription agreement, Asian Equity and PA International also have a put option ("Put Option of Bonds"), which is exercisable from 7 July 2014 to 7 July 2015, to force early redemption of 50% of the bond principle and the related interest accrued at a nominal interest rate of 9% per annum.

Management has used the binominal valuation model in determining the fair value of the Warrant and Put Option of Bonds.

The fair value of the Warrants and Put Option of Bonds are as follow:

	Warrants	**Put Option of Bonds**	**Total**
	RMB'000	RMB'000	RMB'000
Fair value at date of issue	33,519	7,459	40,978
Fair value change credited to statement of comprehensive income	(7,654)	(11)	(7,665)
At 31 December 2012	25,865	7,448	33,313

18 DERIVATIVE FINANCIAL LIABILITIES *(Continued)*

(b) Warrants and put-option of bonds issued to Asian Equity and PA International *(Continued)*

The significant inputs into the model are as follows:

	31 December 2012
Share prices at the valuation date (HKD)	**0.118**
Debt rate	**25.28%**
Volatility	**41%**
Dividend yield	**Nil**
Annual risk-free interest rate	**0.12%**

19 DEFERRED SUBSIDY INCOME — GROUP

	Government grant for production facilities RMB'000
At 1 January 2011	8,329
Amortisation (Note 27)	(853)
At 31 December 2011	7,476
At 1 January 2012	**7,476**
Amortisation (Note 27)	**(2,930)**
At 31 December 2012	**4,546**

20 DEFERRED INCOME TAX — GROUP

There were no offsetting of deferred income tax assets and liabilities in 2012 and 2011.

	2012 **RMB'000**	2011 RMB'000
Deferred tax assets:		
— To be recovered after more than 12 months	**2,059**	2,111
— To be recovered within 12 months	**52**	52
	2,111	2,163
Deferred tax liabilities:		
— To be settled after more than 12 months	**(80,867)**	(80,867)
— To be settled within 12 months	**(5,485)**	(1,688)
	(86,352)	(82,555)

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

Deferred income tax assets:

	Tax losses RMB'000	**Impairment of assets** RMB'000	**Deferred subsidy income** RMB'000	**Unrealised profit on inter-company sales** RMB'000	**Total** RMB'000
At 1 January 2011	5,228	657	1,133	565	7,583
(Charged)/credit to statement of comprehensive income	10,714	406	(92)	(565)	10,463
Reclassified as non-current assets held for sale (Note 14)	(14,930)	(384)	(569)	–	(15,883)
At 31 December 2011	1,012	679	472	–	2,163
At 1 January 2012	**1,012**	**679**	**472**	**–**	**2,163**
Charged to statement of comprehensive income	**–**	**–**	**(52)**	**–**	**(52)**
At 31 December 2012	**1,012**	**679**	**420**	**–**	**2,111**

20 DEFERRED INCOME TAX — GROUP *(Continued)*

Deferred income tax liabilities:

	Evaluation and exploration assets RMB'000	Withholding tax of the unremitted earnings of a PRC subsidiary RMB'000	Total RMB'000
31 December 2011 and 1 January 2012	**(80,867)**	**(1,688)**	**(82,555)**
Withholding tax paid	**–**	**1,688**	**1,688**
Charged to income statement (Note 29)	**–**	**(5,485)**	**(5,485)**
At 31 December 2012	**(80,867)**	**(5,485)**	**(86,352)**

As at 31 December 2012, the Group had total unused tax losses of approximately RMB109,200,000 (2011: RMB92,333,000). No deferred tax asset has been recognized in respect of tax losses of certain subsidiaries of RMB45,433,000 (2011: RMB28,566,000) due to the unpredictability of future profit streams of these subsidiaries. Deferred tax asset of RMB15,942,000 (2011: RMB15,942,000) has been recognised in respect of the tax losses of certain subsidiaries of RMB63,767,000 (2011: RMB63,767,000) as management considered it is probable that these subsidiaries can generate sufficient taxable profit to utilise the above tax loss of RMB63,767,000.

In accordance with the enterprise income tax laws in Mainland China, a 10% withholding tax will be levied on the dividend declared by the companies established in Mainland China to their foreign investors starting from 1 January 2008. A lower withholding tax rate of 5% is applied to Mainland China subsidiaries of the Company, whose direct foreign investors are incorporated in Hong Kong, because of the treaty arrangement between Mainland China and Hong Kong. As at 31 December 2012, the Group recognized relevant deferred tax liabilities of RMB5,485,000 (2011:1,688,000) on the earning of RMB109,700,000 (2011: RMB33,760,000) generated by other Mainland China subsidiaries. (note 4(f)).

21 TRADE AND OTHER PAYABLES

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade payables (Note a)	**33,084**	34,233	**–**	–
Notes payable (Note b)	**–**	8,100	**–**	–
Construction payable	**45,622**	23,215	**–**	–
Advances from customers	**81,209**	74,067	**–**	–
Advances from purchasers (note 14)	**131,100**	131,100	**–**	–
Accrued expenses	**8,024**	8,377	**1,142**	4,643
Deposits from suppliers	**9,806**	12,636	**–**	–
Other taxes payable	**2,475**	1,060	**–**	–
Others	**12,160**	14,335	**–**	–
	323,480	307,123	**1,142**	4,643

The carrying amounts of the Group's and the Company's trade and other payables are denominated in the following currencies:

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
RMB	**322,338**	302,480	**–**	–
HKD	**1,142**	4,643	**1,142**	4,643
	323,480	307,123	**1,142**	4,643

21 TRADE AND OTHER PAYABLES *(Continued)*

(a) Trade payables

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

	2012 RMB'000	2011 RMB'000
Aged:		
Less than 1 year	**26,716**	26,733
More than 1 year but not exceeding 2 years	**2,787**	6,931
More than 2 years but not exceeding 3 years	**3,070**	11
More than 3 years	**511**	558
	33,084	34,233

(b) Notes payable

Notes payable represented bank acceptance notes issued by the Group and were interest-free and with maturity dates of less than one year.

22 SHORT-TERM BORROWINGS, SECURED — GROUP

The short-term borrowings are denominated in RMB and were issued at fixed interest rates which range from 5.60% to 8.86 % (2011: 5.35% to 6.56%) per annum and are secured by bank deposits of RMB1,212,765,000 (2011: bank deposit of RMB766,897,000, certain land use rights of RMB6,904,000 and property, plant and equipment RMB27,167,000) of the Group.

The fair values of short-term borrowings approximate to their carrying amounts, as the impact of discounting is not significant.

The exposure of the short-term borrowings to the contractual repricing dates are as follows:

	2012 RMB'000	2011 RMB'000
6 months or less	**1,729,961**	1,175,026
Between 6 months to 1 year	**204,000**	273,820
	1,933,961	1,448,846

23 TURNOVER

Turnover represents invoiced value of sale of chemical products and chemical fertilisers to customers in Mainland China, net of goods returned and VAT, where applicable.

The Group's sales made in Mainland China are subject to VAT ("output VAT"). Such output VAT is payable after offsetting VAT paid by the Group on purchases. The applicable rates of output VAT range from 0% to 17%.

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

The Group has a number of customers and revenue generated from the largest customer is accounted for 12% of the Group's turnover during the year.

24 EXPENSES BY NATURE

	2012 **RMB'000**	2011 RMB'000
Raw materials and consumables used	**330,824**	379,590
Changes in inventories of finished goods and work in progress	**(13,697)**	12,296
Power and natural gas consumed	**579,437**	637,154
Staff costs (Note 25)	**56,321**	88,408
Depreciation and amortisation charges	**74,831**	80,499
Transportation expenses	**49,529**	37,406
Maintenance expenses	**31,285**	15,342
Legal and professional fees	**3,222**	1,689
Stamp duty and other tax	**5,143**	6,750
Advertisement expenses	**1,143**	941
Auditors' remuneration	**2,267**	2,124
Operating lease payments	**1,278**	1,351
Loss/(gain) on disposal of property, plant and equipment (Note 33)	**1,915**	(1,955)
Write-down of inventory to net realisable value (Note 10)	**–**	1,537
Provision for impairment of receivables (Note 11)	**–**	85
Other expenses	**14,710**	15,537
Total cost of sales, distribution costs and administrative expenses	**1,138,208**	1,278,754

25 STAFF COSTS

	2012 RMB'000	2011 RMB'000
Wages and salaries	**47,362**	75,775
Pension costs — defined contribution plans	**2,124**	4,168
Social security costs	**6,835**	8,465
	56,321	88,408

26 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The remuneration of every director for the year ended 31 December 2012 is set out below:

Name of director	Fees RMB'000	Salaries, allowances, and benefits in kind RMB'000	Contributions to pension schemes RMB'000	Total RMB'000
Executive Directors				
Mr. Li Weiruo	1,280	1,100	17	2,397
Mr. Yuan Bai *(Chief executive)*	240	1,102	41	1,383
Ms. Chi Chuan	240	802	–	1,042
Mr. Li Shengdi	240	802	31	1,073
Ms. Man Au, Vivian	240	573	11	824
Independent non-executive directors				
Mr. Hu Xiaoping	112	–	–	112
Mr. Woo Che-wor, Alex	112	–	–	112
Mr. Qian Laizhong	112	–	–	112
	2,576	4,379	100	7,055

26 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

(a) Directors' emoluments *(Continued)*

The remuneration of every director for the year ended 31 December 2011 is set out below:

Name of director	Fees RMB'000	Salaries, allowances, and benefits in kind RMB'000	Contributions to pension schemes RMB'000	Total RMB'000
Executive Directors				
Mr. Li Weiruo	1,344	1,032	18	2,394
Mr. Yuan Bai	252	1,110	19	1,381
Ms. Chi Chuan	252	810	–	1,062
Mr. Li Shengdi	252	810	19	1,081
Ms. Man Au, Vivian	252	551	10	813
Independent non-executive directors				
Mr. Hu Xiaoping	118	–	–	118
Mr. Woo Che-wor, Alex	118	–	–	118
Mr. Qian Laizhong	118	–	–	118
	2,706	4,313	66	7,085

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include four (2011: five) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one individual in 2012 are as follows:

	RMB'000
Basic salaries, housing allowances, other allowances and benefits in kind	**749**
Contributions to pension schemes	**10**
Bonuses	**80**
	839

26 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

(b) Five highest paid individuals *(Continued)*

The emolument fell within the following bands:

	2012
Emolument bands	
Nil to RMB1,000,000 (approximately HKD1,064,000)	**1**

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

27 OTHER INCOME — NET

	2012 **RMB'000**	2011 RMB'000
Sales of scrap materials, net	**(643)**	(671)
Amortisation of deferred subsidy income (Note 19)	**2,930**	853
Subsidy income	**1,400**	1,636
Fair value change on derivative financial liabilities (Note 18)	**9,520**	31,391
Others, net	**133**	371
	13,340	33,580

28 FINANCE COSTS — NET

	2012 RMB'000	2011 RMB'000
Interest expense of bank borrowings	**132,094**	90,866
Interest expense of borrowing from IFC	**10,847**	12,669
Interest expense of borrowing from Asian Equity and PA International	**9,494**	–
Less: capitalisation in construction-in-progress (Note 6)	**(36,364)**	(9,412)
	116,071	94,123
Interest income	**(26,639)**	(15,116)
Exchange gain, net	**(220)**	(6,011)
Others	**4,292**	2,935
	93,504	75,931

29 INCOME TAX EXPENSE

No provision for profits tax in the Cayman Islands, British Virgin Islands or Hong Kong has been made, as the Group had no assessable profit arising in or derived from those jurisdictions during the years ended 31 December 2011 and 2012.

Dazhou Ko Yo Chemical qualifies as a foreign investment production enterprise and is located in the western region in Mainland China. As approved by local tax bureau, it is subject to the preferential tax policies for the development of western region with Enterprise Income Tax ("EIT") at the rate of 15 % in 2011and 2012.

The applicable income tax rate of Ko Yo Agrochem, Chengdu Ko Yo Chemical and Chengdu Ko Yo Compound in 2012 and 2011 is 25%.

Other subsidiaries located in Mainland China did not have assessable profit for the year ended 31 December 2012 (2011: Nil).

The amount of taxation charged to the consolidated statement of comprehensive income represents:

	2012 RMB'000	2011 RMB'000
Current tax for Mainland China	**23,137**	14,404
Deferred income tax	**3,849**	(8,775)
	26,986	5,629

29 INCOME TAX EXPENSE *(Continued)*

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

	2012 **RMB'000**	2011 RMB'000
Profit before income tax	**128,598**	105,783
Tax calculated at a taxation rate of 15% (2011:15%)	**19,290**	15,867
Tax rate difference	**902**	(2,040)
Expenses not deductible for tax purposes	**207**	581
Utilisation of previously unrecognised tax losses	**–**	(793)
Withholding tax paid on the earnings remitted by subsidiaries	**–**	2,142
Withholding tax accrued on the earnings expected to be remitted by subsidiaries (Note 20)	**5,485**	1,688
Tax losses for which no deferred income tax was recognised	**2,530**	1,846
Income not subject to tax (Note 18)	**(1,428)**	(4,709)
Effect of deduction of 40% of purchase cost of energy saving and environmental protection equipment	**–**	(5,467)
Re-measurement of deferred tax-change in tax rate	**–**	(3,486)
Taxation	**26,986**	5,629

30 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of RMB6,141,000 (2011: RMB24,775,000).

31 EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year (Note 15).

	2012	2011
Profit attributable to equity holders of the Company (RMB'000)	**101,612**	100,154
Weighted average number of ordinary shares in issue (thousands)	**7,195,285**	7,158,737
Basic profit per share (RMB per share)	**0.0141**	0.0140

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company had two categories of dilutive potential ordinary shares: share options and warrants. For the share options and warrants, a calculation was made in order to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options and warrants. The number of shares calculated as above was compared with the number of shares that would have been issued assuming the exercise of the share options and warrants.

	2012	2011
Profit attributable to equity holders of the Company (RMB'000)	**101,612**	100,154
Weighted average number of ordinary shares in issue (thousands)	**7,195,285**	7,158,737
Adjustment — warrants and share option (thousands)	**6,156**	75,218
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**7,201,441**	7,233,955
Diluted earnings per share (RMB per share)	**0.0141**	0.0138

32 DIVIDEND

The directors do not recommend the payment of an interim dividend and a final dividend for the six months ended 30 June 2012 (2011: nil) and the year ended 31 December 2012 (2011: nil).

33 CASH GENERATED FROM OPERATIONS

(a) Reconciliation of loss before taxation to cash generated from operating activities

	2012 RMB'000	2011 RMB'000
Profit before income tax	**128,598**	105,783
Depreciation of property, plant and equipment	**73,376**	78,663
Amortisation of land use rights	**1,185**	1,674
Amortisation of intangible assets	**270**	162
Loss/(gain) on disposal of property, plant and equipment (Note 24)	**1,915**	(1,955)
Interest income	**(26,639)**	(15,116)
Interest expense	**116,071**	94,123
Fair value change of derivative financial liabilities	**(9,520)**	(31,391)
Operating profit before working capital changes	**285,256**	231,943
(Increase)/decrease in inventories	**(15,411)**	22,607
Decrease/(increase) in trade and other receivables	**42,286**	(6,281)
(Decrease)/increase in trade and other payables	**(22,641)**	5,296
Decrease in deferred subsidy income	**(2,930)**	(853)
Cash generated from operating activities	**286,560**	252,712

(b) In the cash flow statement, proceeds from disposal of property, plant and equipment comprise:

	2012 RMB'000	2011 RMB'000
Net book amount (Note 6)	**1,915**	7,425
(Loss)/gain on disposal of property, plant and equipment (Note 24)	**(1,915)**	1,955
Proceeds from disposal of property, plant and equipment	**–**	9,380

34 COMMITMENTS — GROUP

(a) Capital commitments for property, plant and equipment

	2012 **RMB'000**	2011 RMB'000
Constructions-in-progress:		
Contracted but not provided for	**278,047**	78,316

(b) Commitments under operating leases

The Group leases offices under non-cancellable operating lease agreements. The lease terms are between 1 and 2 years, and the majority of lease agreements are renewable at the end of the period at market rate.

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

	2012 **RMB'000**	2011 RMB'000
Not later than one year	**885**	85
Later than one year and not later than five years	**135**	–
	1,020	85

The Company had no capital commitment and no commitments under operating leases as at 31 December 2012 (2011: Nil).

35 RELATED-PARTY TRANSACTIONS

The Group is controlled by Mr. Li Weiruo, who owns approximately 40.7% of the Company's issued shares as at 31 December 2012 (2011: 40.7%). The remaining approximately 59.3% of the issued shares are widely held.

36 KEY MANAGEMENT COMPENSATION (EXCLUDING DIRECTORS' EMOLUMENTS)

	2012	2011
	RMB'000	RMB'000
Salaries and other short-term employee benefits	**3,014**	1,921

The directors' emoluments are disclosed in Note 26.

37 EVENT AFTER THE BALANCE SHEET DATE

Subsequent to the balance sheet date and up to the date of approval of the financial statements, short-term borrowings of approximately RMB220 million have been rolled over for a further year; new short-term borrowings of RMB60 million have been granted and drawn down with a term of nine months.

Financial Summary

FIVE YEAR FINANCIAL SUMMARY

The following table summarizes the audited results, assets and liabilities of the Group for the five years ended 31st December 2012.

	2012	2011	2010	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	**1,346,970**	1,426,888	872,582	602,468	654,920
Profit/(Loss) before taxation	**128,598**	105,783	(23,951)	(6,809)	67,717
Taxation	**(26,986)**	(5,629)	(1,654)	(375)	(7,060)
Profit/(Loss) after taxation	**101,612**	100,154	(25,605)	(7,184)	60,657
Total assets	**4,443,963**	3,249,116	2,435,374	1,972,869	1,429,538
Total liabilities	**(3,322,291)**	(2,229,056)	(1,540,397)	(1,061,066)	(577,131)
Shareholders' funds	**1,121,672**	1,020,060	894,977	911,803	852,407