2013 Annual Report

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)

CONTENTS

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
Mr. Sun Tongchuan

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

Gui Yang Bank
— Chengdu Branch

STOCK CODE

827

WEBSITE

www.koyochem.com

Highlights

— For the year ended 31st December 2013, the loss attributable to shareholders was approximately RMB57.1 million, which represents a decrease of RMB158.7 million as compared to a profit of RMB101.6 million in year 2012.

— Basic loss per share was approximately RMB0.79 cents for the year ended 31st December 2013.

— For the year ended 31st December 2013, sale turnover was approximately RMB1,339 million, which represents a decrease of approximately 0.6% as compared to year 2012.

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

			% change compare with year 2012	
Type	**Sales amount** (million RMB)	**Sales quantities** (tonnes)	**Sales amount**	**Sales quantities**
BB & compound fertilizers	86	50,937	(43.8)	(34.6)
Urea	730	391,218	(20.6)	(7.2)
Ammonia	186	88,436	(9.3)	6.1

— The Directors do not recommend the payment of any final dividend for the year ended 31st December 2013.

Chairman's Statement

TO SHAREHOLDERS

It's my honour to report to you the results of Ko Yo Chemical (Group) Limited (the "Company") together with its subsidiaries (collectively, the "Group") for the year ended 31st December 2013. I wish to express sincere 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.

In 2013, the PRC domestic macro-economic growth continuously declined and slowed down. The chemical fertilizer industry generally was faced with difficult challenges, thus the industry-specific income significantly decelerated. Due to the industry and market downturn, coupled with a gradual decline in product selling price, the Group failed to realize its operational objective throughout the year.

For the year ended 31st December 2013, the audited loss attributable to shareholders of the Group amounted to approximately RMB57.1 million. Basic loss per share amounted to approximately RMB0.79 cents (2012: earnings of RMB1.41 cents). The Group's turnover amounted to approximately RMB1,339 million, representing a decrease of 0.6% as compared to RMB1,347 million for the same period in 2012. The Group's sales volume (excluding trading portion) amounted to approximately 531,000 tonnes, representing a decrease of approximately 9.2% as compared to 585,000 tonnes of last year.

During the period of business review, the decline in the sales volume and revenue of the Group's products as well as sharp drop in profits was mainly caused by excessive production capacity, weak demand, increasing competition, economic recession, and many other factors in the industry. Because of the previously mentioned factors, the market remained weak and the product prices had been falling, wherein the selling price of both urea and liquid ammonia products was lower than that over the same period of last year. Affected by these, the selling price of the Company's products was adjusted downward by approximately RMB300 per tonne on average compared to that last year. Such adjustment caused a significant decrease in the Company's operating performance, falling short of the anticipated targets.

Being pressurized by the market downturn and the increasing costs of raw materials, the Group has carefully concluded and analyzed the operational situation for the past year and the future market trend, and will improve them by implementing the following measures:

As to the production:

Firstly, we will effectively organise and coordinate the production materials such as water, electricity and gas in order to maintain a stable gas supply at Dazhou Plant for the full year, particularly when the gas supply is faced with a tight supply. On the other hand, we will proactively accelerate the supply of natural gas for the first phase of Guangan Project to guarantee the early trial production of the project. Secondly, for the operation of production facilities, we will strengthen the maintenance of equipment and the overhaul of machines, electricity, and apparatus. Subject to the stable and long-term operation of production facilities, we will focus on the solutions to energy consumption problems, strive to minimize costs in the production process, and give full play to the overall operation efficiency of our production facilities. Thirdly, we will use best efforts to meet the 100% acceptability of all products in terms of production quality, with a top-grade product rate of urea products reaching or exceeding 97%.

Chairman's Statement

As to the market:

We will be well prepared for the collection, compilation, and projected analysis of the market information related to the industry, so as to make right judgment on and actively respond to all kinds of market changes. We will focus on identifying key clients in our core market (Dazhou, Sichuan) and neighboring cities and provinces (Chongqing, Yunnan Province, Guizhou Province, Guangdong Province, and Guangxi Province) to guarantee the proportion of sales of our own products in local markets. On the basis of substantively realizing the target set for the trading volume of products in 2013, we will continue to expand the proportion of trading volume of our products to further increase revenue from sales of products. The Company is in the process of gradually establishing a sales network for marketing methanol products through such methods previously exposed to it and other tentative trading means, and has entered into long-term distribution agreements and strategic cooperation agreements with several domestic and international methanol purchasers, which has ensured the sales of such products of the Project in Guangan after being put into operation. As to the brand building, the Company will continue to implement the strategy of building the first brand of urea, strive to make its urea be awarded the title of "Sichuan Famous Brand Product", adopt a brand-building with product quality as its core value, and provide better after-sales services.

As to the management:

Through the reasonable adjustment and optimal allocation of the Company's organisational structure and human resources composition, we will further streamline the management process, and gradually realise the function division of the decision-making management level and the operation management level. In doing so, we will lay the foundation for creating a streamlined management system and comprehensively improving the management standards of the Company. In 2013, the Company completed the establishment and on-line operation of the first phase of ERP management system, which has now been officially put into operation. The Company will leverage on this management system to realise the centralised management and systematic control of human resources, financial resources, and assets, thus minimizing the Company's labour and administrative costs and raising its overall productivity and management efficiency.

PROSPECT

Industry Review

In 2013, facing complex and difficult macro-economic situations at home and abroad, the economic performance of the chemical industry was stable at large. However, the excessive production capacity remains to be an outstanding contradiction, the adjustment in the industrial structure has not completely adapt to market changes, and the production costs still hover at high levels, therefore a downward pressure had been rampant in the industry.

The Report on Economic Benefits of the Industries released by China Petroleum and Chemical Industry Federation in December 2013 shows that:

In 2013, as affected by the combination factors, including the climate and the promotion of scientific fertilization techniques, the growth rate of the consumption of the fertilizer market dropped significantly as compared against that last year. It is expected that apparent consumption of fertilizers will reach approximately 73.70 million tonnes (nutrients, the same below) for the full year, representing an increase of 4%. In 2014, the PRC government will continue to render more support to uphold the policy of "Three Rural Issues", and demands for agriculture for fertilizers will maintain a steady growth. It is expected that apparent consumption of fertilizers will reach approximately 77.00 million tonnes in 2014, representing an increase of about 4.5% or an almost average growth level throughout the year. In 2014, in view of a relatively stable growth in consumption, the market prices of fertilizers will depend mainly on the three major factors, namely, prices of coals and natural gas, the level of actual production capacity, and growth of both imports and exports.

Chairman's Statement

In 2013, demands for the basic chemical raw materials market in general grew at a relatively faster pace as compared to last year. Wherein, apparent consumption of inorganic raw materials increased by approximately 6%, accounting for an increase of 0.5 percentage over last year. Among major basic chemical raw materials, apparent consumption of methanol is expected to reach approximately 33.0 million tonnes, representing an increase of 5%. In 2014, demands for the basic chemical raw materials market will continue its trend of steady growth. It is expected that apparent consumption of inorganic chemical raw materials will increase by about 6%, which is basically flat with that last year, and that apparent consumption of methanol will be approximately 35.50 million tonnes, up 7.5%.

In 2013, grain output of the PRC agriculture "increased for the tenth consecutive year". According to the "No. 1 Document" issued by the PRC Central Government in 2014, special focus should be given to address the "Three Rural Issues" for the eleventh consecutive year, and it remains as a top priority "to assure the national food safety". In respond to these concerns, it is also the top priority of the petroleum and chemical industry to maintain the stable and sustained development of the PRC agriculture while effectively coordinating the security work for agrochemical products.

In 2014, the global economy is expected to pick up at a moderate pace. The third Plenary Session of the 18th Central Committee of the CPC defined the basic principle of "making progress while keeping stability" for the PRC economy. In line with the global economic recovery, the costs of raw materials continues to rise, easing export policies show their favourable signs, and the adjustment of industrial structuring continues to be deepened. In view of theses, the Management of the Company anticipates that the situation of the chemical industry in 2014 will outperform that in 2013, and will in turn create more opportunities and challenges for the development of the Company.

OBJECTIVES AND STRATEGIES

The 1st Phase of the Project in Guangan is expected to commence operation in the second quarter of 2014

With two years of unremitting endeavor, the Company's project with an annual production of 300,000 tonnes of synthetic ammonia and 500,000 tonnes of methanol (the "1st Phase of the Project in Guangan"), which commenced its construction in 2012, was completed in the fourth quarter of 2013. However, due to a subsequent delay in the supply of industrial water and natural gas, the trial production of main production equipment failed to meet the schedule. As a result of the Company's proactive coordination work, the normal supply of electricity and water to the production facilities has been realized in the industrial park, where the Project is located, in September 2013 and January 2014, respectively. Once natural gas is supplied to the Project, such set of facilities will be immediately available for use in the trial operation.

Guangan requires a total indicated use in natural gas of 650 million cubic meters per year for its 1st Phase of the Project, and has obtained the approval from the People's Government of Guangan, PetroChina Southwest Oil & Gasfield Company, and PetroChina Nanchong City Gas Company Limited on May 2011. The delay in the supply of natural gas to the Project is mainly attributable to PetroChina delay the natural gas supply schedule. At present, after coordination between several parties, this project is expected to access the supply of natural gas within a short period. The Management of the Company expects that the 1st Phase of the Project in Guangan will hopefully achieve its trial production in the second quarter of 2014.

Chairman's Statement

The project is located in Xinqiao Energy and Chemical Park in Guangan, which is a national economic and technological development zone approved by the State Council and enjoys a number of preferential policies and funding support from the government. The Project's necessary synthetic ammonia and methanol cogeneration equipment was jointly imported by Guangan Koyo Chemical Industry Co., Ltd and Guangan Lotusan Natural Gas Chemical Industry Co., Ltd from Canada. The equipment represents advanced processes and operates in good conditions. To safeguard the successful completion and operation of the project, the Company learned from its past experience in the commencement of operation of Dazhou urea plant, and established a production preparation department for the project at the preliminary phase of the construction of the project. This department is exclusively responsible for preliminary production preparation, organisational structure and the allocation and training of human resources for the project; early this year, the Company also established an inspection team responsible for the trial operation preparation work of the project in Guangan, which has further ensured the conditions for the successful operation of the production facilities.

For the financing and financial support of the project, in 29th June 2012, the Company entered into a subscription agreement with the subscribers (PA International Opportunity VII Limited and Asian Equity Special Opportunities Portfolio Master Fund Limited) in relation to the proposed issue of HK$140,000,000 9% senior notes due 2015. The estimated proceeds from such issue of senior notes was approximately HK$138,000,000, which was used as general working capital of the plant situated in Guangan, Sichuan, the PRC and general working capital of the Group. In addition, the Company secured a five-year loan in an amount of RMB600 million and RMB200 million in December 2012 and June 2013, respectively, in ensure the successful 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 year under review, for the project with an annual production of 300,000 tonnes of urea and 40,000 tonnes of melamine (the 2nd Phase of the Project in Dazhou), the Company has mainly focused on further optimising the production process of the project. By optimising the process solutions, desired multiple effects, including reduced production costs, improved product quality, and improved production environment, can be finally achieved. The construction work of 2nd Phase of the Project in Dazhou is expected to be carried out on second quarter this year.

Melamine is a downstream product for urea. The production of melamine will further extend the product chain, enhance the products' added value, and optimise the product mix and profitability of the Company. Through the expansion in both 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.

Chairman's Statement

Progress on project of phosphate mine

We 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. in May 2012, which focused 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 remained the responsibility of Sichuan Chengyuan. Currently, Sichuan Ko Chang Technology Co., Limited has made patent application to the Chinese State Intellectual Property Office for ten technologies which has been accepted. Once these technologies are granted patent licensing, the Company will have the intellectual property rights of the patented technology and form its core competitiveness. Preparation of feasible reports on this project, together with the approval for its preliminary phase, will be continued.

New materials projects

Given the development trend of excessive production capacity of fertilizers and basic chemical engineering in China in recent years, the Company intends to pursue new high technologies under the strategy of correlated development of existing fertilizers and chemical industries, and to make breakthroughs in high value-added new products, with an aim to change development ideas. The Company will adjust internal industries and product mix, and use innovative technologies to finally sharpen the competitive edge of the Company and realise its goal in future development. To this end, the Company incorporated Guangan Ko Yo New Materials Co., Limited in March 2013. New materials are enlisted in the Category of the Encouraged Industry of the State. This establishment marks the development aspiration of pursuing transformation and innovation. At present, the new materials projects are still at the early stage of investigation and research of products and technologies.

APPRECIATION

Looking back to the past year, amid the complex economic situation at home and abroad and the difficult dilemma of the industry, the Group has maintained the safe and steady production at Dazhou Plant, and has smoothly propelled and completed the construction of the 1st Phase of the Project in Guangan, under the leadership of all members of our Management. In the new year, we will continue to make breakthroughs and pursue transformation in light of the decisions and development ideas of the Management of the Company, adjust the industrial and product mix of the Company, and use all efforts to respond to the development trend of the industry and market, so as to continuously enhance the comprehensive competitiveness of the Company in the future.

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

Li Weiruo
Chairman

24th March 2014

Business Review

FINANCIAL PERFORMANCE

Results

For the year ended 31st December 2013, the Group remained focused on manufacture and distribution of chemical fertilizers and chemical products, including BB Fertilizers and complex fertilizers, urea and ammonia.

During the year under review, the Group recorded turnover of approximately RMB1,339 million, a decrease of 0.6% as compared to last year. The loss attributable to shareholders of the Company amounted to approximately RMB57.1 million, representing a decrease of approximately RMB158.7 million as compared to last year. Basic loss per share amounted to approximately RMB0.79 cents.

Cost and profit margin

Cost of sales of the Group amounted to approximately RMB1,202 million, representing an increase of 17.9% as compared to the figure in 2012. The reason of increase in cost of sales was due to the increase in trading portion.

Gross profit margin of the Group decreased approximately from 24.3% in 2012 to 10.2% in 2013. The decrease in the gross profit margin was due to the decrease in selling price of products.

During the year under review, distribution costs decreased approximately by 0.6% as compared with last year. The ratio of the distribution costs over sales was 4.0% in 2013 which was at the same level as in 2012.

In comparison with last year, there was an increase in administrative expenses of the Group by approximately 15.4% from RMB64.0 million in 2012 to RMB73.8 million in 2013. The increase in administrative expenses is mainly due to the provision on employees' options (RMB8 million) and the further provision on the Dazhu old plant (RMB4 million).

The Group's income tax benefit in 2013 amounted to approximately RMB6.9 million. Details of tax schemes are set out in Note 30 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 2013. The Group has not declared any dividend for the year ended 31st December 2013 (2012: Nil).

Business Review

PRODUCTS

Sales of the Group's products for the year 2012 and 2013 are as follows:

	Turnover in year 2013		Turnover in year 2012		**Percentage Change in turnover**
	RMB'000	**Composite %**	RMB'000	Composite %	**%**
BB & compound fertilizers	**86,000**	**6.4**	153,000	11.4	(43.8)
Urea	**730,000**	**54.5**	919,000	68.2	(20.6)
Ammonia	**186,000**	**13.9**	205,000	15.2	(9.3)
Ammonium bicarbonate	**–**	**–**	2,000	0.1	(100.0)
Others	**337,000**	**25.2**	68,000	5.1	395.6

During the year under review, due to the decrease in selling price of our products, the turnover of urea and ammonia in year 2013 was decreased as compared with those in year 2012.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31st December 2013, the Group had net current liabilities of approximately RMB787,953,000. Current assets as at 31st December 2013 comprised cash and bank deposits of approximately RMB116,683,000, pledged bank deposits of approximately RMB1,726,298,000, inventories of approximately RMB43,259,000, trade receivables of approximately RMB5,207,000 and prepayments and other current assets of approximately RMB561,782,000. Current liabilities as at 31st December 2013 comprised short-term borrowings of approximately RMB2,583,575,000, short-term portion for long-term borrowings of approximately RMB207,510,000, trade and notes payables of approximately RMB132,162,000, advances from customers of approximately RMB221,690,000 and accrued charges and other payables of approximately RMB96,245,000. 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 2013, the Group had outstanding capital commitments of approximately RMB33.8 million. Details of the Group's capital commitments are set out in Note 35 to the consolidated financial statements.

FINANCIAL RESOURCES

As at 31st December 2013, the Group had cash and bank deposits of approximately RMB116,683,000 and pledged bank deposits of approximately RMB1,726,298,000. 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 2013, the total borrowings and notes payable balances of the Group amounted to RMB3,842,006,000.

GEARING RATIO

The Group's gearing ratios were approximately 65% and 54% as at 31st December 2013 and 31st December 2012 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.

Business Review

CONTINGENT LIABILITIES

The Group had no significant contingent liabilities as at 31st December 2013.

MATERIAL ACQUISITION/DISPOSAL

There was no material acquisition or disposal in the year 2013 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.

EXPOSURE ON EXCHANGE RATE FLUCTUATION

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

CHARGES ON THE GROUP'S ASSETS

As at 31st December 2013, certain land use rights with a total net book value of approximately RMB45,094,000 (2012: RMB45,897,000), property, plant and machinery and construction in progress with a total net book value of approximately RMB1,390,511,000 (2012: RMB1,447,846,000),investment properties with a net book value of approximately RMB13,654,000 (2012: Nil) and bank deposits approximately RMB1,726,298,000 (2012: RMB1,228,847,000) were pledged as collateral for the Group's borrowings and notes payable.

DIVIDEND

The Directors do not recommend the payment of any final dividend for the year ended 31st December 2013.

NUMBER OF EMPLOYEES

As at 31 December 2013, the Group had 827 (2012: 875) employees, comprising 6 (2012: 6) in management, 123 (2012: 104) in finance and administration, 646 (2012: 718) in production and 52 (2012: 47) in sales and marketing, 821 (2012: 869) of these employees were located in the PRC and 6 (2012: 6) were located in Hong Kong.

Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Li Weiruo, aged 60, 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" by the China Petroleum and Chemical Industry Association. In September 2007, Mr. Li received the "Asia 10 Brand Innovative Personality Award" by the Asia Brand Ceremony Organizing Committee. In December 2008, he was accredited the award of "World Economy Top 10 Outstanding Chinese Entrepreneurs" by the "2008 Asia Pacific Annual Chinese-Economy Council for Investment & Financing". Mr. Li is responsible for the overall management, strategic planning and business development of the Group.

Mr. Yuan Bai, aged 55, an Executive Director of the Group. He is responsible for the capital management and the phosphate mine operation 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 58, is an Executive Director and 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 50, is an Executive Director of the Group. She 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 61,an Executive Director of the Group. He is responsible for the construction and administrations of the Group's new projects in Dazhou and Guangan. 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 63, 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 61, 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 71, 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.

Mr. Sun Tongchuan, aged 73, is an Independent Non-Executive Director. He was graduated from Northwestern Polytechnic University, majoring in aircraft design. Mr. Sun is the chairman of Sichuan Province High-tech Industrialization Association at present. Before joining the Company, Mr. Sun was a member of Standing Committee of CPC Sichuan Provincial Party Committee, the Municipal Party Secretary of Chongqing and the Vice Chairman of Sichuan Committee of Chinese People's Political Consultative Conference. He was appointed as an Independent Non-Executive Director of the Company on 1st November 2013.

SENIOR MANAGEMENT

Mr. Li Feng, aged 48, is the Chief Executive Officer of the Group, the Chief Engineering Officer, and the Director of the Techniques Committee. He is mainly responsible for general administration, and production and operation management of the Group. He graduated from Sichuan University in 2006 with a MBA degree. Mr. Li joined Koyo Group in 2014. Before joining Koyo Group, he was the director and standing deputy manager of Sichuan Chemical Industry Holding (Group) Co., Ltd.

Mr. Chung Tin Ming, aged 43, is the financial controller and company secretary of the Group. Mr. Chung is an associate member of each of the Hong Kong Institute of Certified Public Accountants and Association of Chartered Certified Accountants. Mr. Chung graduated from the Chinese University of Hong Kong with a bachelor degree in science, and received a master degree in Financial Engineering and Electronic Engineering from the City University of Hong Kong and a master degree in laws from University of Wolverhampton. Prior to joining the Group in January 2006, he was a director of Keen Ocean Industrial Limited in Hong Kong. Mr. Chung has over 20 years of related working experience in accounting and financial management.

Directors and Senior Management

SENIOR MANAGEMENT

Mr. Li Ciping, aged 49, is the standing 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 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. Jiao Kangdi, aged 62, the vice president of the Group and the director for the Department of Engineering Construction. He is mainly responsible for the engineering construction of new projects. Mr. Jiao is responsible for managing and coordinating the Group's large-scale chemical engineering projects. He graduated from Sichuan University of Science and Engineering in 1980, and further studied Economics at Sichuan Professional College of Finance & Economics in 1983. In 1989, Mr. Jiao was given the name "Excellent Entrepreneur" by the People's Government of Zigong City; he became a Senior Engineer in 1993; in 2000, he was given the name "Labour Model" by the Human Resources Department of China National Light Industry Department. Mr. Jiao joined the Koyo Group in 2005, before joining the Group, he was the president of Zi Gong Tongming Lighting Appliances Co., Ltd., and has outstanding ability in cost control and corporate management experiences.

Mr. Chang Chongde, aged 50, is the vice president of the Group. He is principally responsible for the purchasing and supply of raw material required by the production process in 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.

Ms. Shu Jing, aged 43, 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.

Mr. Wen Jinfu, aged 52, is the president of the Group, who is mainly responsible for safety issues, environmental management affairs of the Group. He was a senior engineer who graduated from The Communist Party of China Sichuan Provincial Committee Party School majoring in economic management in 1996. Mr. Wen joined Koyo Group in 1999, before that, he was appointed as the deputy general manager of Xindu Nitrogen Fertilizer Plant.

Mr. Yang Lin, aged 52, is the special assistant to the Chairman of the Board of the Group and the Head of the Investment and Development Department. He is mainly responsible for the investment development and investors' relations outside of the PRC. He graduated from Thames Valley University in 2001 with a MBA degree. Mr. Yang Lin joined Koyo Group in 2002. Prior joining Koyo Group, he served as the general manager of Sinotrans South Africa Branch.

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 2013.

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 2013 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 2013 (2012: Nil).

SHARE CAPITAL

Details of movements in share capital of the Company are set out in Note 16 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 17 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31st December 2013 amounted to approximately RMB609,813,000 (2012: RMB603,201,000).

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 108.

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 2013 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
Mr. Sun Tongchuan (Appointed on 1st November 2013)

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 Mr. Yuan Bai and Mr. Li Shengdi have been longest in office, Mr. Yuan Bai and Mr. Li Shengdi will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

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

The Independent Non-Executive Directors of the Company are appointed with specific terms inside the letter of appointment for initial fixed terms of two years. Pursuant to A.4.3 of the Corporate Governance Code (the "Corporate Governance Code") set out in Appendix 14 of the Listing Rules, any further appointment of an Independent Non-Executive Director in excess of nine years should subject to a separate resolution to be approved by shareholders. Mr. Hu Xiaoping and Mr. Woo Che-wor, Alex were appointed as Independent Non-Executive Directors in June 2003 and will severe on the Board for eleven years in June 2014. Therefore, Mr. Hu Xiaoping and Mr. Woo Che-wor, Alex 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 16 to the consolidated financial statement.

During the year ended 31st December 2013, the details of option outstanding and movements are disclosed in the following table:

Number of share options

	Held at 1 January 2013 ('000)	Grant during period ('000)	Exercised during period ('000)	Forfeited during period ('000)	Held at 31 December 2013 ('000)	*Share Options B ('000)	*Share Options C ('000)	*Share Options D ('000)	*Share Options E ('000)	*Share Options F ('000)	*Share Options H ('000)	*Share Options I ('000)
Directors												
Li Weiruo	6,500	–	–	–	**6,500**	–	2,100	–	4,400	–	–	–
Yuan Bai	6,000	22,000	–	(11,000)	**17,000**	–	2,000	–	4,000	–	11,000	–
Chi Chuan	23,000	42,000	–	(42,000)	**23,000**	–	–	–	2,000	–	21,000	–
Man Au Vivian	23,000	38,000	–	(38,000)	**23,000**	–	–	–	4,000	–	19,000	–
Li Shengdi	25,000	42,000	–	(42,000)	**25,000**	–	–	–	4,000	–	21,000	–
Hu Xiaoping	6,000	4,000	–	(4,000)	**6,000**	–	–	–	–	4,000	2,000	–
Woo Che-wor Alex	6,000	4,000	–	(4,000)	**6,000**	–	–	–	–	4,000	2,000	–
Qian Laizhong	6,100	–	–	–	**6,100**	–	2,100	–	–	4,000	–	–
Sun Tongchuan	–	6,000	–	–	**6,000**	–	–	–	–	–	–	6,000
Employees	154,500	175,000	–	(159,000)	**170,500**	32,500	–	23,000	27,500	–	87,500	–
Total	256,100	333,000	–	(300,000)	**289,100**	32,500	6,200	23,000	45,900	12,000	163,500	6,000

* Share Options A: Grant at 23rd September 2003, exercisable from grant date until 22nd September 2013 with exercise price HK$0.124 and all of the 122,000,000 Share Options A were expired on 22 February 2013.

Share Options B: Grant at 11th April 2006, exercisable from grant date until 10th April 2016 with exercise price HK$0.150. 1,500,000 Share Options B were forfeited on 22 February 2013.

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. 2,000,000 Share Options D were forfeited on 22 February 2013.

Share Options E: Grant at 14th January 2010, exercisable from grant date until 13rd January 2020 with exercise price HK$0.230. 11,000,000 Share Options E were forfeited on 22 February 2013.

Share Options F: Grant at 23rd November 2010, exercisable from grant date until 22nd November 2020 with exercise price HK$0.220.

Share Options G: 163,500,000 were offered on 22 February 2013 with exercise price HK$0.136 and were not accepted by directors/employees because such offers have breached the listing rules and such offers are invalid. As so all were cancelled on 25 February 2013.

Share Options H: 163,500,000 were granted on 28 March 2013, exercisable from grant date until 27 March 2023 with exercise price HK$0.119.

Share Options I: 6,000,000 were granted on 15 November 2013, exercisable from grant date until 14 November 2023 with exercise price HK$0.095.

Report of the Directors

DIRECTORS' INTERESTS IN SHARES

As at 31st December 2013, 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	17,000,000	383,464,000	5.33%
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%
Sun Tongchuan	–	6,000,000	6,000,000	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 2013, 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 19 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 2013, 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 21st March 2014.

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 2013.

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 2013, the five largest customers accounted for approximately 50.5% of the Group's total turnover and the five largest suppliers of the Group accounted for approximately 69.1% of the Group's total purchases. The largest customer of the Group accounted for approximately 19.4% of the Group's total turnover and the largest supplier accounted for approximately 48.6% 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 38 to the consolidated financial statements.

CORPORATE GOVERNANCE

A report on the corporate governance practices adopted by the Company is set out on pages 26 to 31 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

24th March 2014

Corporate Social Responsibility Report

As a chemical enterprise with social and public responsibilities, the Company has been always committed to strictly following and performing the laws, regulations and standards related to the safety, environment and occupational hygiene and health as imposed by the PRC and the jurisdiction where the Company is located.

1. WORKING ENVIRONMENT

Safety, Environment and Occupational Hygiene Policy and Standard

The Company keeps an open-minded attitude towards the supervision of the governmental safety and environmental protection authority as well as that of the general public. In order to create a safe and comfortable working environment, the Company has provided its staff with daily working protective gear, such as overalls, safety shoes and helmets, anti-dust respirators and anti-noise earplugs, and marked safety instruction where necessary in accordance with the requirements of safety protection; in summer, we will dispatch high temperature and heat stroke prevention articles, medicines and perquisites to our staff. In addition, the Company will also arrange regular body examination for each of our staff to maintain their physical health.

2. ENVIRONMENTAL PROTECTION

Emission

The Company ensures emission in compliance with the prescribed standards of the state on the basis of obtainment of pollutant emission permit from the governmental regulatory authority. We mainly comply with the laws, such as the "Effluent Standards of Water Pollutants of Ammonia Industry (GB13458)" and the "Overall Emission Standards for Air Pollutants (GB16297)". The Company has installed online monitoring system for water and gas emission, which has been connected to the central monitoring system of the local environmental protection authority and can provide 24 hours service.

Table of main effluents and emission standards of our factory:

Category of effluents	Standard of total emissions	Actual total emissions in 2013
Chemical Oxygen Demand (COD)	9.4 tons per annum	3.68 tons
Ammonia and nitrogen (NH_3-N)	3.77 tons per annum	1.52 tons
Carbon dioxide (CO_2)	–	20 million m^3
Dust and fumes	210.7 tons per annum	8.56 tons

The production factory of the Company has been equipped with special environmental protection facilities, including wastewater and exhaust gas treatment devices. In order to reduce the emission of carbon dioxides, Dazhou Plant has recycled and exported carbon dioxides according to the production and market conditions, and registered a recycled and exported volume of approximately 730,000 cubic meters of carbon dioxides in 2013, and zero emission can be achieved if Phase 2 of Dazhou Plant project is completed. For the hazardous and waste articles, the Company will commission qualified companies to recycle them for treatment. In 2013, the amount of nickel catalyst treated by the qualified companies was 24.7 tons.

2. ENVIRONMENTAL PROTECTION *(Continued)*

Energy Consumption

Table of Statistics of Energy Consumption in 2013

			Amount of energy consumed by main production systems
No.	**Name of energy**	**Unit**	**Total energy consumption**
1	Natural gas	$10^3 m^3$	331,190
2	Electricity	10^4 kWh	459

All of the energy consumption indexes decreased in 2013 compared with that in 2012, mainly attributable to (i) the longer cycle of continuous operation of devices, stable production load and reduced energy consumption of products, and the fact that the ammonia synthesis devices were continuously operated for 315 days in 2013, representing an increase of 204 days over that of 2012; and (ii) the reduced energy consumption of devices as a result of new introduction of the modification of liquid ammonia pump seal water system, the technical modification of production capacity of desalted water 200 tons/hr, and the modification of the vacuum degree of steam ejectors.

Corporate Social Responsibility Report

3. SUPPLIERS, CLIENTS AND PRODUCT MANAGEMENT

Our major raw materials are natural gas, which are mainly sourced from the main suppliers, namely Sinopec and PetroChina. We have obtained approval from National Development and Reform Commission of the consumption index of natural gas necessary for our production, and have ensured the supply of natural gas through contracts with Sinopec and PetroChina each year.

Every year, the Company hold sales meetings with our clients to discuss and forecast our future sales so as to produce our annual sales and market plans and to make arrangement for production.

The Company has obtained and follow ISO9001 quality system and ISO14001 environmental management system standards to manage and produce to ensure our product quality and safety.

The Company has set up internal review and supervision department to review our corporate account so as to prevent the occurrence of corruption, fraud and other negative behaviours.

4. SOCIAL CONTRIBUTION

On 23 April 2013, the Company donated disaster relief supplies, including 10,000 boxes of medical drugs, 540 sets of tents and bedclothes, and 257 cases of food and drinks, etc, amounting to RMB200,000, to the earthquake stricken area in Ya'an, Sichuan.

Starting from 2010, the Company has participated the construction activity of new villages in She Hong Di He Country, Sichuan, and each year donates 20 tons of free fertilizers to this area to support the local construction of new villages.

Corporate Governance Practices

The board of directors ("Board") believes that by adopting high standard of corporate governance practices can improve the transparency and accountability of the Company, and instill confidence of shareholders and the public in the Group. Throughout the year under review, the Board adopted the Code on Corporate Governance Practices (the "Corporate Governance Code") as set out in Appendix 14 of the Listing Rules and the Company has complied with the Corporate Governance Code.

THE BOARD OF DIRECTORS

Board composition

The Board of directors currently comprises nine directors of which five are Executive Directors and four 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
Mr. Sun Tongchuan (Appointed on 1 November 2013)

The Independent Non-Executive Directors represent over one-third of the Board. Among the four 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. Hu Xiaoping and Mr. Woo Che-wor, Alex were appointed as Independent Non-Executive Directors in June 2003 and will severe on the Board for eleven years in June 2014. 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. Hu Xiaoping and Mr. Woo Che-wor, Alex 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.

Corporate Governance Practices

THE BOARD OF DIRECTORS *(Continued)*

Board meeting *(Continued)*

In the financial year ended 31st December 2013, nine 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	9/9	100%	1/1	100%
Mr. Yuan Bai	9/9	100%	1/1	100%
Ms. Chi Chuan	9/9	100%	1/1	100%
Ms. Man Au Vivian	9/9	100%	1/1	100%
Mr. Li Shengdi	9/9	100%	1/1	100%
Independent Non-Executive Directors				
Mr. Hu Xiaoping	5/9	55.6%	1/1	100%
Mr. Woo Che-wor, Alex	5/9	55.6%	1/1	100%
Mr. Qian Laizhong	5/9	55.6%	1/1	100%
Mr. Sun Tongchuan	1/1	100%	N/A	N/A

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 together with the other four 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 is responsible for the capital management and the phosphate mine operation of the Group and Mr. Li Shengdi is responsible for the construction and administrations of the Group's new projects in Dazhou and Guangan.. 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. Mr. Li Feng is the Chief Executive Officer of the Group.

DIRECTORS' TRAINING

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

COMPANY SECRETARY'S TRAINING

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

SHAREHOLDERS' RIGHTS

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

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

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, except for the employees' options issued on 22 February 2013, 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.

Corporate Governance Practices

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.

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. Mr. Yuan Bai and Mr. Li Shengdi 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. Hu Xiaoping and Mr. Woo Che-wor, Alex were appointed as Independent Non- Executive Director in June 2003 and will severe on the Board for eleven years in June 2014. Therefore, Mr. Hu Xiaoping and Mr. Woo Che-wor, Alex 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 2013.

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

Corporate Governance Practices

INDEPENDENT EXTERNAL AUDITORS

In 2013, the total remuneration paid to the independent external auditors amounted to approximately RMB2.3 million, which was all for the audit services provided by the independent external auditors. The audit fees have been approved by the Audit Committee and the Board.

The statement of the independent external auditors of the Company about their reporting responsibilities on the consolidated financial statements is set out on pages 32 and 33 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 2014. 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 the 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 34 to 107, which comprise the consolidated and company balance sheets as at 31 December 2013, 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 2013, and of the Group's loss 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, 22/F, Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

EMPHASIS OF MATTER

We draw attention to Note 2.1 to the consolidated financial statements which states that the Group incurred a consolidated net loss of approximately RMB57,389,000 and had a net operating cash outflows of approximately RMB135,483,000 during the year ended 31 December 2013, and as at that date, the Group's current liabilities exceeded its current assets by approximately RMB787,953,000. These conditions, along with other matters as set forth in Note 2.1, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. Our opinion is not qualified in respect of this matter.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 24 March 2014

Consolidated Balance Sheet

	Note	As at 31 December 2013 RMB'000	2012 RMB'000
ASSETS			
Non-current assets			
Land use rights	*5*	**53,027**	54,216
Property, plant and equipment	*6*	**2,568,621**	2,087,704
Investment properties	*7*	**13,654**	–
Mining right	*8*	**334,306**	334,306
Other intangible assets	*9*	**10,898**	11,168
Deferred income tax assets	*21*	**10,208**	2,111
		2,990,714	2,489,505
Current assets			
Inventories	*11*	**43,259**	58,631
Trade and other receivables	*12*	**360,905**	112,908
Prepaid income tax, net		**7,300**	4,536
Pledged bank deposits	*13*	**1,726,298**	1,228,847
Cash and cash equivalents	*14*	**116,683**	350,752
		2,254,445	1,755,674
Non-current assets held for sale	*15*	**198,784**	198,784
		2,453,229	1,954,458
Total assets		**5,443,943**	4,443,963
EQUITY			
Capital and reserves attributable to the equity holders of the Company			
Share capital	*16*	**138,618**	138,618
Reserves	*17*	**930,414**	979,454
		1,069,032	1,118,072

Consolidated Balance Sheet

	Note	As at 31 December 2013 RMB'000	2012 RMB'000
Non-controlling interest	*17*	**3,267**	3,600
Total equity		**1,072,299**	1,121,672
LIABILITIES			
Non-current liabilities			
Long-term borrowings	*18*	**1,040,218**	808,324
Derivative financial liabilities	*19*	**–**	36,530
Deferred subsidy income	*20*	**3,892**	4,546
Deferred income tax liabilities	*21*	**86,352**	86,352
		1,130,462	935,752
Current liabilities			
Trade and other payables	*22*	**419,606**	323,480
Short-term borrowings	*23*	**2,583,575**	1,933,961
Current portion of long-term borrowings	*18*	**207,510**	129,098
Derivative financial liabilities	*19*	**30,491**	–
		3,241,182	2,386,539
Total liabilities		**4,371,644**	3,322,291
Total equity and liabilities		**5,443,943**	4,443,963
Net current liabilities		**(787,953)**	(432,081)
Total assets less current liabilities		**2,202,761**	2,057,424

Li Weiruo
Director

Yuan Bai
Director

The notes on pages 40 to 107 are an integral part of these consolidated financial statements.

Balance Sheet

	Note	As at 31 December 2013 RMB'000	2012 RMB'000
ASSETS			
Non-current assets			
Interests in subsidiaries	*10*	**750,770**	744,902
Loan to subsidiaries	*10*	**116,564**	110,992
		867,334	855,894
Current assets			
Trade and other receivables	*12*	**476**	476
Cash and cash equivalents	*14*	**85**	168
		561	644
Total assets		**867,895**	856,538
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	*16*	**138,618**	138,618
Reserves	*17*	**609,813**	603,201
Total equity		**748,431**	741,819
LIABILITIES			
Non-current liabilities			
Long-term borrowings	*18*	**73,863**	65,223
Derivative financial liabilities	*19*	**–**	36,530
		73,863	101,753
Current liabilities			
Accruals and other payables	*22*	**461**	1,142
Current portion of long-term borrowings	*18*	**14,649**	11,824
Derivative financial liabilities	*19*	**30,491**	–
		45,601	12,966
Total liabilities		**119,464**	114,719
Total equity and liabilities		**867,895**	856,538
Net current liabilities		**(45,040)**	(12,322)
Total assets less current liabilities		**822,294**	843,572

Li Weiruo
Director

Yuan Bai
Director

The notes on pages 40 to 107 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

	Note	Year ended 31 December 2013 RMB'000	2012 RMB'000
Turnover	*24*	**1,339,252**	1,346,970
Cost of sales	*25*	**(1,202,342)**	(1,019,752)
Gross profit		**136,910**	327,218
Distribution costs	*25*	**(54,134)**	(54,463)
Administrative expenses	*25*	**(73,847)**	(63,993)
Other income — net	*28*	**9,273**	13,340
Operating profit		**18,202**	222,102
Finance income	*29*	**47,267**	26,859
Finance expenses	*29*	**(129,726)**	(120,363)
Finance expenses — net	*29*	**(82,459)**	(93,504)
(Loss)/Profit before income tax		**(64,257)**	128,598
Income tax benefit/(expense)	*30*	**6,868**	(26,986)
(Loss)/Profit for the year		**(57,389)**	101,612
Other comprehensive income		**–**	–
Total comprehensive (loss)/income for the year		**(57,389)**	101,612
Attributable to:			
Equity holders of the Company		**(57,056)**	101,612
Non-controlling interests		**(333)**	–
		(57,389)	101,612
(Loss)/Profit per share attributable to the equity holders of the Company during the year (expressed in RMB per share)			
— Basic	*32*	**(0.0079)**	0.0141
— Diluted	*32*	**(0.0079)**	0.0141
Dividend	*33*	**–**	–

The notes on pages 40 to 107 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

	Note	Attributable to equity holders of the Company			Non-controlling interests	Total equity
		Share capital	Reserves	Total		
	Note	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
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 equity holders:						
Transfer of equity interest to non-controlling interests	*17*	–	(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
Balance at 1 January 2013		**138,618**	**979,454**	**1,118,072**	**3,600**	**1,121,672**
Comprehensive income:						
Loss for the year		**–**	**(57,056)**	**(57,056)**	**(333)**	**(57,389)**
Total comprehensive loss		**–**	**(57,056)**	**(57,056)**	**(333)**	**(57,389)**
Transactions with equity holders:						
Employee share option scheme:						
— Value of employees services	*17*	**–**	**8,016**	**8,016**	**–**	**8,016**
		–	**8,016**	**8,016**	**–**	**8,016**
Balance at 31 December 2013		**138,618**	**930,414**	**1,069,032**	**3,267**	**1,072,299**

The notes on pages 40 to 107 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

	Note	Year ended 31 December 2013 RMB'000	2012 RMB'000
Cash (used in)/generated from operating activities	*34(a)*	**(9,412)**	286,560
Interest paid		**(122,078)**	(110,805)
Income tax paid		**(3,993)**	(27,673)
Net cash (used in)/generated from operating activities		**(135,483)**	148,082
Cash flows from investing activities			
Purchases of property, plant and equipment and payments for construction-in-progress		**(578,494)**	(608,714)
Proceeds from disposal of property, plant and equipment	*34(b)*	**350**	–
Interest income received		**34,732**	26,639
Net cash used in investing activities		**(543,412)**	(582,075)
Cash flows from financing activities			
Increase in pledged bank deposits		**(497,451)**	(439,838)
Proceeds from borrowings		**2,008,270**	1,905,625
Repayment of borrowings		**(1,065,648)**	(813,136)
Net cash generated from financing activities		**445,171**	652,651
Net (decrease)/increase in cash and cash equivalents		**(233,724)**	218,658
Cash and cash equivalents at beginning of the year		**350,752**	132,094
Exchange losses on cash and cash equivalents		**(345)**	–
Cash and cash equivalents at end of the year	*14*	**116,683**	350,752

The notes on pages 40 to 107 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 24 March 2014.

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 incurred a consolidated net loss of approximately RMB57,389,000 (2012: consolidated net profit of RMB101,612,000) during the year ended 31 December 2013 and had a net operating cash outflows of approximately RMB135,483,000 (2012: net operating cash inflows of RMB148,082,000), and as at that date, the Group's current liabilities exceeded its current assets by approximately RMB787,953,000 (2012: RMB432,081,000). These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

The directors of the Company have assessed the appropriateness of adopting the going concern basis for the preparation of the financial statements for the year ended 31 December 2013 in light of the Group's plans and measures described below to improve its financing and operating cash flows:

— As at 31 December 2013, the Group's total borrowings amounted to RMB3,831 million, of which RMB2,791 million will be due within 12 months from 31 December 2013. As at that date, the Group's bank deposits pledged for long-term borrowings and short-term borrowings amounted to RMB301 million and RMB1,414 million, respectively. The Group has not experienced any significant difficulties in renewing its short-term borrowings upon their maturities and there is no indication that the banks will not renew the existing short-term borrowings upon the Group's request. Subsequent to the balance sheet date and up to the date of approval of the financial statements, the Group has renewed short-term borrowings of approximately RMB 170 million for another 12 months, and has obtained a new short-term borrowing of RMB80 million with a term of 6 months. In addition, certain banks have advised their intention in writing, though not legally binding, to renew loans to the Group for another 12 months when they fall due in 2014 or to provide new loans, totalling approximately RMB1,101 million which require no pledged bank deposits or other collateral. Therefore, the directors of the Company believe that the Group will be able to renew its existing short-term borrowings upon maturity.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

— The Group is expected to generate adequate operating cash inflows in 2014 from its existing production facilities as well as the newly completed production facilities located in GuangAn, Sichuan Province ("GuangAn Project"). As at the date of approval of these financial statements, construction of GuangAn Project has already been completed and it is ready to be put into operation. Subject to the finalisation of certain commercial terms in contract with the Company's natural gas (major raw materials) supplier, the directors of the Company expect that GuangAn Project will commence commercial operation in mid-2014. The directors also expect that sufficient sales orders will be secured in the coming year such that adequate operating cash inflows will be generated by the existing production facilities and GuangAn Project.

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 obligations as and when they fall due in the coming 12 months from the date of the financial statements. Accordingly, the directors are satisfied that it is appropriate to prepare the financial statements on a going concern basis.

Notwithstanding the above, significant uncertainties exist as to whether management of the Company will be able to achieve its plans and measures as described above. Whether the Group will be able to continue as a going concern would depend upon the Group's ability to generate adequate financing and operating cash inflows through renewal of its current bank loans upon expiry and obtaining additional bank financing as needed, securing the gas supply for its GuangAn Project on time at terms that are acceptable to the Group, and securing adequate sales orders during the coming year for the Group's existing and new production facilities. Should the Group be unable to achieve the above plans and measures such that it would not be able to operate as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amounts, to provide for any future liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effect of these adjustments has not been reflected in the consolidated financial statements.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Group

There are no new standards or amendments to standards that are effective for the first time for the financial year beginning on 1 January 2013 that would be expected to have a material impact on the Group.

(b) New standards, amendments and interpretations have been issued but are not effective for the financial year beginning 1 January 2013 and have not been early adopted by the Group

Other than as disclosed below, there are no new standards or amendments to standards that are effective for the first time for the financial year beginning after 1 January 2013 that would be expected to have a material impact on the Group.

- 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.

2.2 Subsidiaries

2.2.1 Consolidation

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Subsidiaries *(Continued)*

2.2.1 Consolidation *(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 acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

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

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement (Note 2.11).

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

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Subsidiaries *(Continued)*

2.2.1 Consolidation *(Continued)*

(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 equity holders in their capacity as equity holders. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to 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.

2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 profit or loss.

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.5 Property, plant and equipment *(Continued)*

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 2.11).

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

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

2.6 Investment properties

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

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

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

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

Transfers to, or from, investment properties are made when, and only when, there is evidence of a change in use.

2.7 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.

2.8 Land use rights

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.9 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. Deferred tax assets, even if held for sale, would continue to be measured in accordance with the policies set out elsewhere in Note 2.24.

2.10 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.

2.11 Impairment of interests in subsidiaries and non-financial assets

Assets that have an indefinite useful life — for example, goodwill or intangible assets — are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs 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 a impairment is reviewed for possible reversal of the impairment at each reporting date.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.12 Financial assets

2.12.1 Classification

The Group classifies its financial assets in the following categories: 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 2012 and 2013, 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 the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the balance sheet (Notes 2.16 and 2.17).

2.12.2 Recognition and measurement

Regular way 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 are initially recognised at fair value, and transactions costs are expensed in the income statement. 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.

2.13 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.

2.14 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.14 Impairment of financial assets carried at amortised cost *(Continued)*

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.

2.15 Inventories

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

2.16 Trade and other receivables

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

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

2.17 Cash and cash equivalents

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

2.18 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.19 Derivative financial liabilities

Derivatives are initially recognised 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.

2.20 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 all of the following three conditions are met:

— 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 within "other income-net".

2.21 Trade payables

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.22 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.

2.23 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.

2.24 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.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.24 Current and deferred income tax *(Continued)*

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

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

2.25 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 (subject to a floor and cap).

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

The Group also participates in a retirement benefit scheme under the rules and regulations of the Mandatory Provident Fund Scheme Ordinance ("MPF Scheme") for its eligible employees in Hong Kong. The contributions to the MPF Scheme borne by the Group are calculated at 5% of the salaries and wages (monthly contributions is limited to 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.

(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 at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of HKAS 37 and involves the payment of termination benefits. 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.26 Share-based compensation

(a) Equity-settled share-based payment transactions

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.

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

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the profit and loss account, with a corresponding adjustment to equity. The existing share options granted by the Group during the year 2013 were granted for the past services of employees and were vested immediately upon granted, therefore the total expenses were recognised immediately at the grant date.

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.27 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.

2.28 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.

2.29 Revenue recognition

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

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.30 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.

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

2.31 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.

2.32 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 receivables, 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 Renminbi (the "RMB"). However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure when it is necessary and appropriate.

As at 31 December 2013, if RMB had weakened/strengthened by 5% against the USD with all other variables held constant, post-tax loss for the year would have been increased/decreased by RMB2,216,000 (2012: post-tax profit for the year would have been decreased/increased by RMB3,019,000), mainly as a result of foreign exchange losses/gains on translation of the USD-denominated long-term borrowings.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(a) Foreign exchange risk *(Continued)*

As at 31 December 2013, if RMB had weakened/strengthened by 5% against the HKD with all other variables held constant, post-tax loss for the year would have been increased/decreased by RMB2,067,000 (2012: post-tax profit for the year would have been decreased/increased by RMB3,303,000), 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 2013 and 2012, the Group's long-term borrowings at variable rate were denominated in USD, HKD and RMB.

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

As at 31 December 2013, if interest rates on long-term borrowings had been increased/decreased by 20 basis points with all other variables held constant, post-tax loss for the year would have been increased/decreased by RMB2,121,000 (2012: post-tax profit for the year would have been decreased/increased by RMB1,595,000), mainly as a result of higher/lower interest expense on floating rate borrowings.

(c) Credit risk

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

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

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

(d) Liquidity risk

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(d) Liquidity risk *(Continued)*

The table below analyses the Group and the Company'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	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
	RMB'000	RMB'000	RMB'000	RMB'000
Group				
At 31 December 2013				
Trade and other payables	**196,762**	**–**	**–**	**–**
Short-term borrowings	**2,583,575**	**–**	**–**	**–**
Derivative financial liabilities	**–**	**30,968**	**–**	**–**
Long-term borrowings	**207,510**	**346,073**	**694,145**	**–**
Interest payment on borrowings	**116,399**	**69,560**	**110,590**	**–**
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	–
Company				
At 31 December 2013				
Accruals and other payables	**461**	**–**	**–**	**–**
Derivative financial liabilities	**–**	**30,968**	**–**	**–**
Long-term borrowings	**14,649**	**73,863**	**–**	**–**
Interest payment on borrowings	**7,181**	**3,401**	**–**	**–**
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	–

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, management of the Group maintains flexibility in funding by maintaining adequate amount of cash and cash equivalents and flexibility in funding through having available sources of financing.

The Group has been investing in the construction of new production lines and a significant amount of the financing was obtained from short-term borrowings. As a result, the Group had net current liabilities of approximately RMB787,953,000 as at 31 December 2013 (2012: RMB432,081,000). 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:

— As at 31 December 2013, the Group's total borrowings amounted to RMB3,831 million, of which RMB2,791 million will be due within 12 months from 31 December 2013. As at that date, the Group's bank deposits pledged for long-term borrowings and short-term borrowings amounted to RMB301 million and RMB1,414 million, respectively. The Group has not experienced any significant difficulties in renewing its short-term borrowings upon their maturities and there is no indication that the banks will not renew the existing short-term borrowings upon the Group's request. Subsequent to the balance sheet date and up to the date of approval of the financial statements, the Group has renewed short-term borrowings of approximately RMB 170 million for another 12 months, and has obtained a new short-term borrowing of RMB80 million with a term of 6 months. In addition, certain banks have advised their intention in writing, though not legally binding, to renew loans to the Group for another 12 months when they fall due in 2014 or to provide new loans, totalling approximately RMB1,101 million which require no pledged bank deposits or other collateral. Therefore, the directors of the Company believe that the Group will be able to renew its existing short-term borrowings upon maturity.

— The Group is expected to generate adequate operating cash inflows in 2014 from its existing production facilities as well as the newly completed production facilities located in GuangAn, Sichuan Province ("GuangAn Project"). As at the date of approval of these financial statements, construction of GuangAn Project has already been completed and it is ready to be put into operation. Subject to the finalisation of certain commercial terms in contract with the Company's natural gas (major raw materials) supplier, the directors of the Company expect that GuangAn Project will commence commercial operation in mid-2014. The directors also expect that sufficient sales orders will be secured in the coming year such that adequate operating cash inflows will be generated by the existing production facilities and 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 2013 was as follows:

	2013 **RMB'000**	2012 RMB'000
Short-term borrowings (Note 23)	**2,583,575**	1,933,961
Long-term borrowings (Note 18)	**1,247,728**	937,422
Total borrowings	**3,831,303**	2,871,383
Less: Cash and cash equivalents (Note 14)	**(116,683)**	(350,752)
Pledged bank deposits (Note 13)	**(1,726,298)**	(1,228,847)
Net debt	**1,988,322**	1,291,784
Total equity	**1,072,299**	1,121,672
Total capital	**3,060,621**	2,413,456
Gearing ratio	**65%**	54%

The increase in the gearing ratio from 54% in 2012 to 65% in 2013 is mainly due to the increase of borrowings which are used for the construction of GuangAn project.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

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).

The following table presents the Group's financial liabilities that are measured at fair value at 31 December 2013.

	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 19)	**–**	**–**	**30,491**	**30,491**

The following table presents the Group's financial 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 19)	–	–	36,530	36,530

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

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 2013.

	Derivative financial liabilities RMB'000
Opening balance	**36,530**
Addition	**–**
Gains recognised in profit or loss	**(6,039)**
Closing balance	**30,491**
Total gains for the period included in profit or loss for liabilities held at the end of the reporting period	**(6,039)**

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)

The fair value of long-term borrowings for disclosure purposes is estimated by discounting the future contractual cash flows at a current market interest rate for borrowings with similar credit risk and maturity (Note18).

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.

(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 profit or loss. 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 profit or loss. 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 2.10(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 9).

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(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.

(f) Classification of non-current assets held for sale

As disclosed in Note 15, the Group reclassified the non-current assets of one of its subsidiaries to current assets which are held for sale. In determining whether non-current assets can be classified as assets held for sale, management needs to exercise judgement as to whether a sale is highly probable.

(g) 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 2013, the deferred tax liabilities recognised for withholding tax on accumulated earning generated by Mainland China subsidiaries amount to RMB5,485,000 (2012: RMB5,485,000) on the earning of RMB109,700,000 (2012: RMB109,700,000) generated by other Mainland China subsidiaries.

5 LAND USE RIGHTS — GROUP

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

	2013 **RMB'000**	2012 RMB'000
At 1 January		
Cost	**59,289**	59,289
Accumulated amortisation	**(5,073)**	(3,888)
Net book amount	**54,216**	55,401
Opening net book amount	**54,216**	55,401
Amortisation charge for the year	**(1,189)**	(1,185)
	53,027	54,216
At 31 December		
Cost	**59,289**	59,289
Accumulated amortisation	**(6,262)**	(5,073)
	53,027	54,216

All the Group's land use rights are located in Mainland China. The remaining lease periods of the land use rights are between 3 to 45 years (2012: 4 to 46 years).

As at 31 December 2013, certain land use rights with a total net book value of approximately RMB45,094,000 (2012: RMB45,897,000) were pledged as collateral for the Group's long-term borrowings (Note18(a)(b)).

Amortisation charge of RMB1,189,000 (2012: RMB1,185,000) 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 2012						
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 25 and 34)	–	(799)	(200)	(916)	–	(1,915)
Depreciation	(6,194)	(64,822)	(1,379)	(981)	–	(73,376)
Additions	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
Year ended 31 December 2013						
Opening net book amount	**293,862**	**685,386**	**7,428**	**3,865**	**1,097,163**	**2,087,704**
Additions	**23**	**11**	**1,294**	**4,598**	**564,150**	**570,076**
Transfers	**72,122**	**–**	**–**	**8,745**	**(80,867)**	**–**
Transfers to investment properties (Note 7)	**–**	**–**	**–**	**–**	**(13,862)**	**(13,862)**
Disposals (Note 25 and 34)	**–**	**–**	**(246)**	**(201)**	**–**	**(447)**
Depreciation	**(7,208)**	**(65,244)**	**(745)**	**(1,653)**	**–**	**(74,850)**
Closing net book amount	**358,799**	**620,153**	**7,731**	**15,354**	**1,566,584**	**2,568,621**
At 31 December 2013						
Cost	**383,192**	**846,417**	**13,381**	**22,322**	**1,566,584**	**2,831,896**
Accumulated depreciation	**(24,393)**	**(226,264)**	**(5,650)**	**(6,968)**	**–**	**(263,275)**
Net book amount	**358,799**	**620,153**	**7,731**	**15,354**	**1,566,584**	**2,568,621**

Depreciation expense of RMB64,406,000 (2012: RMB63,305,000) had been charged in cost of sales and RMB10,444,000 (2012: RMB10,071,000) in administrative and distribution costs.

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

All the Group's buildings are located in Mainland China. As at 31 December 2013, property, plant and equipment with a total net book value of approximately RMB1,390,511,000 (2012: RMB1,447,846,000) were pledged as collateral for the Group's long-term borrowings (Note 18(a)(b)).

Borrowing costs of RMB65,316,000 (2012: RMB36,364,000) have been capitalised in the construction-in-progress at average capitalisation rate of 8.14% (2012: 8.05%) (Note 29).

7 INVESTMENT PROPERTIES — GROUP

	2013	2012
Cost		
As at 1 January	**–**	–
Transfer from property, plant and equipment (Note 6)	**13,862**	–
As at 31 December	**13,862**	–
Accumulated depreciation and impairment losses		
As at 1 January	**–**	–
Charge for the year	**(208)**	–
As at 31 December	**(208)**	–
Net book value		
As at 31 December	**13,654**	–
As at 1 January	**–**	–
Fair value as at 31 December	**24,370**	–

The fair values of the investment properties as at 31 December 2013 were estimated by the Group, based on valuation performed by independent valuers. It falls under level 3 in the fair value hierarchy.

The rental income arising from investment properties for the year 2013 amounted to RMB1,312,000 (2012: Nil), which is included in other income — net. Depreciation charge of RMB208,000 (2012: Nil) had been charged in other income — net.

During the year, the Group entered into a lease agreement of certain portions of its building. Accordingly, the relevant carrying amounts of the building as at the date of change usage were transferred to investment properties.

As at 31 December 2013, the Group had no unprovided contractual obligations for future repairs and maintenance (2012: Nil).

As at 31 December 2013, investment properties with a carrying amount of RMB13,654,000 (31 December 2012: Nil) were pledged as collateral for long term borrowings (Note 18(a)) with a carrying amount of RMB15,711,000 (31 December 2012: Nil).

8 MINING RIGHT — GROUP

The mining right represents the right to conduct mining activities in a phosphate mine located in Sichuan, Mainland China, which has a remaining legal life of 26 years, expiring in February 2039.

	Total RMB'000
At 1 January 2012, 31 December 2012 and 2013	
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. The impairment test information of mining right is set out in Note 9.

9 OTHER INTANGIBLE ASSETS — GROUP

	Goodwill RMB'000	Construction permits RMB'000	Total RMB'000
At 1 January 2012			
Cost	8,900	2,700	11,600
Accumulated amortisation	–	(432)	(432)
Closing net book amount	8,900	2,268	11,168
At 1 January 2013	**8,900**	**2,268**	**11,168**
Amortisation charge	**–**	**(270)**	**(270)**
Closing net book amount	**8,900**	**1,998**	**10,898**
At 31 December 2013			
Cost	**8,900**	**2,700**	**11,600**
Accumulated amortisation	**–**	**(702)**	**(702)**
Net book amount	**8,900**	**1,998**	**10,898**

Construction permits represent the permissions granted by the government for the construction of GuangAn Project. Amortisation charge of RMB270,000 (2012: RMB270,000) is included in administrative expenses.

9 OTHER INTANGIBLE ASSETS — GROUP *(Continued)*

Impairment tests for goodwill and mining right

The goodwill and mining right (Note 8) are allocated to the Group's cash-generating unit ("CGU") in relation to the mining activities of the phosphate mine located in Sichuan, Mainland China and its production of phosphoric acid. The recoverable amount of the CGU is determined based on fair value less 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. It falls under level 3 in the fair value hierarchy.

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

	2013	2012
Gross margin	**30%**	32%
Growth rate	**3%**	3%
Discount rate (post-tax discount rate applied to the cash flow projections)	**17%**	17%
Years of cash flows projection (expected mining period of the phosphate mine)	**30 years**	30 years

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

10 INTERESTS IN SUBSIDIARIES AND LOANS TO SUBSIDIARIES — COMPANY

(a) Interests in subsidiaries

	2013 **RMB'000**	2012 RMB'000
Unlisted investments, at cost	**332,113**	332,113
Investment arising from share-based compensation (Note i)	**11,378**	5,510
Amounts due from subsidiaries (Note ii)	**407,279**	407,279
	750,770	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 which are unsecured, non-interest bearing, denominated in HKD and have no requirement on the repayment in the foreseeable future, is accounted for as quasi-investment.

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

(b) Loans to subsidiaries

	2013 **RMB'000**	2012 RMB'000
Loans to subsidiaries	**116,564**	110,992

The loans to subsidiaries are unsecured, denominated in HKD, due by 8 July 2015 and bear interest at 9% (2012: 9%) per annum. The fair value of loans to subsidiaries amounted to RMB119,073,000 (2012: RMB113,485,000), which is based on discounted cash flows using a rate based on the borrowing rate of 8.57% (2012: 8.68%). The discount rate equals to LIBOR plus appropriate credit spread. It falls under level 3 in the fair value hierarchy.

The following is a list of the subsidiaries as at 31 December 2013:

Name (Note e)	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%

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

The following is a list of the subsidiaries as at 31 December 2013: *(Continued)*

Name (Note e)	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 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%
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%

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

The following is a list of the subsidiaries as at 31 December 2013: *(Continued)*

Name (Note e)	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
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%
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 17(d))	Mainland China, domestic-owned enterprise	Development of phosphoric acid production technology	RMB10,000,000	64%
Ko Yo Hong Kong New Material Company Limited ("Hong Kong New Material") (Note c)	Hong Kong, limited liability company	Investment holding in Hong Kong	–	100%
Guangan Ko Yo New Material Co., Ltd ("Guangan New Material") (Note c)	Mainland China, wholly foreign owned enterprise	Manufacture and sale of engineering plastic including Polyphenylene sulphide (PPS) in Mainland China	–	100%

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

The following is a list of the subsidiaries as at 31 December 2013: *(Continued)*

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 (Note 18(a)). There is no restriction on the subsidiary's ability to transfer funds to its parent in the form of cash dividends or to repay loans or advances.

(c) In 2013, Hong Kong New Material and Guangan New Material were newly established by the Group with registered capital of HKD10,000 and RMB48,600,000, respectively, which have not been paid.

(d) The total non-controlling interest for the year is RMB3,267,000, which is attributed to Ko Yo Ko Chang. The non-controlling interest in respect of Changsha Research Institute of Mining and Metallurgy Co, Ltd is not material.

(e) The English name of certain companies referred in this financial statements represent management's best effort at translating the Chinese names of these companies as no English names have been registered.

11 INVENTORIES — GROUP

	2013 **RMB'000**	2012 RMB'000
Raw materials	**38,353**	39,872
Work in progress	**–**	2,839
Finished goods	**4,906**	15,920
	43,259	58,631

The cost of inventories recognised as expense and included in "cost of sales" amounted to RMB516,599,000 (2012: RMB317,127,000).

There is no provision for impairment of inventories of the Group as at 31 December 2013 (31 December 2012: Nil).

12 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade receivables	**10,448**	11,194	**–**	–
Less: provision for impairment of trade receivables	**(5,241)**	(5,241)	**–**	–
Trade receivables — net	**5,207**	5,953	**–**	–
Prepayments for raw materials	**217,219**	67,978	**–**	–
Prepaid input value-added tax	**90,003**	8,377	**–**	–
Notes receivable	**3,285**	1,800	**–**	–
Due from employees	**5,447**	11,413	**–**	–
Others	**39,744**	17,387	**476**	476
	360,905	112,908	**476**	476

As at 31 December 2013 and 2012, 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	
	2013	2012
	RMB'000	RMB'000
Less than 3 months	**5,207**	4,072
More than 3 months but not exceeding 1 year	**–**	55
More than 1 year but not exceeding 2 years	**–**	1,826
More than 2 years but not exceeding 3 years	**–**	133
More than 3 years	**5,241**	5,108
	10,448	11,194
Less: provision for impairment of trade receivables	**(5,241)**	(5,241)
	5,207	5,953

As of 31 December 2013, trade receivables of RMB5,207,000 (2012: RMB4,072,000) that are under credit term were fully performing.

12 TRADE AND OTHER RECEIVABLES *(Continued)*

As at 31 December 2013, trade receivables of RMB5,241,000 (2012: RMB5,241,000) were impaired and a full provision of RMB5,241,000 (2012: 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	
	2013	2012
	RMB'000	RMB'000
More than 2 years but not exceeding 3 years	**–**	133
More than 3 years	**5,241**	5,108
	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	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
RMB	**350,613**	108,598	**–**	–
HKD	**10,292**	4,310	**476**	476
	360,905	112,908	**476**	476

12 TRADE AND OTHER RECEIVABLES *(Continued)*

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

	Group	
	2013	2012
	RMB'000	RMB'000
At 1 January	**5,241**	5,241
Provision for receivables	**–**	–
At 31 December	**5,241**	5,241

Notes receivable represents trade related bank acceptance notes with maturity period within 6 months and non-interest bearing.

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

13 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 18) and short-term borrowings (Note 23) and notes payable (Note 22) of the Group. The effective interest rates on pledged bank deposits are ranging from 2.60% to 4.75% (2012: 2.87% to 3.30%).

14 CASH AND CASH EQUIVALENTS

	Group		Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash at bank	**116,650**	350,461	**85**	168
Cash in hand	**33**	291	**–**	–
	116,683	350,752	**85**	168
Maximum exposure to credit risk	**116,650**	350,461	**85**	168

The weighting average effective interest rate on cash at bank at 31 December 2013 is 0.35% (2012: 0.38%).

14 CASH AND CASH EQUIVALENTS *(Continued)*

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

	Group		Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
RMB	**109,264**	335,910	**–**	–
USD	**1**	280	**1**	2
HKD	**7,385**	14,271	**84**	166
	116,650	350,461	**85**	168

15 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.

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 remaining 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 22). As a result, the Group reclassified the non-current assets of Ko Yo Chemical to current assets which are held for sale.

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 ("Government approval"), 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, the Group has been making positive progress in obtaining the Government Approval and there is no legal obstacle which prevents the Group from obtaining Government Approval, the directors consider the above assets should remain being classified as non-current assets held for sale as of 31 December 2012 and 2013.

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

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

	As at 31 December 2012 and 2013 RMB'000
Non-current assets held for sale	
Property, plant and equipment	151,871
Land use rights	31,030
Deferred tax assets	15,883
	198,784

16 SHARE CAPITAL

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

	Number of shares of HKD0.02 each		Share capital	
	2013 '000	2012 '000	**2013 HKD'000**	2012 HKD'000
Authorised:				
Ordinary shares at beginning and end of year	**10,000,000**	10,000,000	**200,000**	200,000

16 SHARE CAPITAL *(Continued)*

Movements of the share capital of the Company are as follows (Continued):

		Number of shares of HKD0.02 each		Share capital	
		2013	2012	**2013**	2012
	Notes	**'000**	'000	**RMB'000**	RMB'000
Issued and fully paid:					
Ordinary shares at beginning of year and at end of year		**7,195,285**	7,195,285	**138,618**	138,618

(a) 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 GEM 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 GEM 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.

16 SHARE CAPITAL *(Continued)*

(a) Share options *(Continued)*

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

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**	**10 years from the date of grant**	**10 years from the date of grant** (Note i)	**10 years from the date of grant**	**Total**
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
At 1 January 2013	**122,000,000**	**34,000,000**	**6,200,000**	**25,000,000**	**187,200,000**
Expired	**(122,000,000)**	**–**	**–**	**–**	**(122,000,000)**
Forfeited	**–**	**(1,500,000)**	**–**	**(2,000,000)**	**(3,500,000)**
At 31 December 2013	**–**	**32,500,000**	**6,200,000**	**23,000,000**	**61,700,000**

16 SHARE CAPITAL *(Continued)*

(a) Share options *(Continued)*

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

(i) 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 2013
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.

(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.

16 SHARE CAPITAL *(Continued)*

(a) Share options *(Continued)*

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

The details of share options outstanding are as follows:

Date of grant	**14 January 2010**	**23 November 2010**	**28 March 2013**	**15 November 2013**	
Exercise price (HKD per option, on post-subdivision basis)	0.23	0.22	0.119	0.096	
Granted to	5 executive directors and 8 employees	3 independent directors	4 executive directors and 2 independent directors and 21 employees	1 independent director	
Exercisable period	**10 years from the date of grant** (Note i)	**10 years from the date of grant** (Note ii)	**10 years from the date of grant** (Note iii)	**10 years from the date of grant** (Note iv)	**Total**
At 1 January 2012	56,900,000	12,000,000	–	–	68,900,000
Forfeited	–	–	–	–	–
At 31 December 2012	56,900,000	12,000,000	–	–	68,900,000
At 1 January 2013	**56,900,000**	**12,000,000**	**–**	**–**	**68,900,000**
Granted	**–**	**–**	**163,500,000**	**6,000,000**	**169,500,000**
Forfeited	**(11,000,000)**	**–**	**–**	**–**	**(11,000,000)**
At 31 December 2013	**45,900,000**	**12,000,000**	**163,500,000**	**6,000,000**	**227,400,000**

16 SHARE CAPITAL *(Continued)*

(a) Share options *(Continued)*

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

(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, 45,900,000 Share Options that were granted on 14 January 2010 and remained outstanding at 31 December 2013 were held by the following employees (including executive directors):

Exercisable period	Directors	Number of options 31 December 2013
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
14 January 2010 to 13 January 2020	Other employees	**27,500,000**
		45,900,000

(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 2013
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 SHARE CAPITAL *(Continued)*

(a) Share options *(Continued)*

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

(iii) On 28 March 2013, the Company granted share options to eligible persons including directors and employees to subscribe for an aggregate of 163,500,000 shares of the Company with an exercise price of HKD0.119. Share options that were granted on 28 March 2013 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 2013
28 March 2013 to 27 March 2023	Mr. Yuan Bai	11,000,000
28 March 2013 to 27 March 2023	Ms. Chi Chuan	21,000,000
28 March 2013 to 27 March 2023	Ms. Man Au, Vivian	19,000,000
28 March 2013 to 27 March 2023	Mr. Li Shengdi	21,000,000
28 March 2013 to 27 March 2023	Mr. Hu Xiaoping	2,000,000
28 March 2013 to 27 March 2023	Mr. Woo Che-wor, Alex	2,000,000
		76,000,000
28 March 2013 to 27 March 2023	Other employees	87,500,000
		163,500,000

The fair value of options granted during the year, determined using the Black-Scholes valuation model, was HKD9,611,000 (approximately RMB7,768,000). The significant inputs into the model were weighted average share price of HKD0.115 at the grant date, the exercise price shown above, volatility of 41.81%, dividend yield of 0.00%, an expected option life of ten years and an annual risk-free interest rate of 1.12%. The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of daily share prices over the last ten years of comparable companies.

(iv) On 15 November 2013, the Company granted share options to a newly appointed independent non-executive director to subscribe for an aggregate of 6,000,000 shares of the Company with an exercise price of HKD0.096. Share options that were granted on 15 November 2013 and remained outstanding at end of year were held by the following person:

Exercisable period	Director	Number of options 31 December 2013
15 November 2013 to 14 November 2023	Mr. Sun Tongchuan	6,000,000

16 SHARE CAPITAL *(Continued)*

(a) Share options *(Continued)*

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

(iv) *(Continued)*

The fair value of options granted during the year, determined using the Black-Scholes valuation model, was HKD313,000 (approximately RMB248,000). The significant inputs into the model were weighted average share price of HKD0.096 at the grant date, the exercise price shown above, volatility of 41.81%, dividend yield of 0.00%, an expected option life of ten years and an annual risk-free interest rate of 2.04%. The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of daily share prices over the last ten years of comparable companies.

The total number of share options granted in 2013 was 169,500,000, the total fair value at grant date was HKD9,924,000 (approximately RMB8,016,000), which was vested at the grant date and recognised as administrative expense and a corresponding increase in share-based compensation reserve (Note 17 and 26).

17 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 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 equity holders:								
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

17 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 2013	550,133	(22,041)	14,186	44,952	1,131	394,693	(3,600)	979,454
Comprehensive income:								
Loss attributable to the equity holders of the Group	–	–	–	–	–	(57,056)	–	(57,056)
Transactions with equity holders:								
Appropriation (Note b)	–	–	–	321	–	(321)	–	–
Employee share option scheme (Note 16(b))								
— Value of employee services	–	–	8,016	–	–	–	–	8,016
	–	–	8,016	321	–	(321)	–	8,016
At 31 December 2013	550,133	(22,041)	22,202	45,273	1,131	337,316	(3,600)	930,414

17 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	Retained earnings/ (accumulated losses) RMB'000	Total RMB'000
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 31)	–	–	–	6,141	6,141
At 31 December 2012	550,133	37,162	14,186	1,720	603,201
At 1 January 2013	**550,133**	**37,162**	**14,186**	**1,720**	**603,201**
Comprehensive income:					
Loss attributable to the equity holders of the Company (Note 31)	–	–	–	**(1,404)**	**(1,404)**
Transactions with equity holders:					
Employee share option scheme (Note 16(b)) — Value of employee services	–	–	**8,016**	–	**8,016**
At 31 December 2013	**550,133**	**37,162**	**22,202**	**316**	**609,813**

17 RESERVE *(Continued)*

(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.

(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 May 2012. On 19 October 2012, Ko Yo Hong Kong 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 in 2012.

18 LONG-TERM BORROWINGS, SECURED

	Group		Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Bank borrowings (a)	**1,107,067**	789,333	**–**	–
Borrowing from IFC (b)	**52,149**	71,042	**–**	–
Borrowings from Asian Equity and PA International (c)	**88,512**	77,047	**88,512**	77,047
	1,247,728	937,422	**88,512**	77,047

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

(a) Bank borrowings

The long-term bank borrowings are secured by bank deposits of RMB301,191,000 (2012: RMB16,082,000), certain land use rights with a total net book value of approximately RMB32,895,000 (2012: RMB33,274,000), property, plant and equipment with a total net book value RMB1,242,351,000 (2012: RMB1,334,813,000), investment property with a total net book value of approximately RMB13,654,000 (2012:Nil),100% equity interest in Ko Yo Hong Kong and Dazhou Ko Yo Chemical (Note 10), 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 2013 is 7.83% (2012: 8.1%).

(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 HKD0.02 each from the Company at an exercise price of HKD0.156 per share (Note 19 (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	
	2013	2012
	RMB'000	RMB'000
Fair value at initial recognition	**94,619**	94,619
Interest expense accrued	**51,896**	42,960
Interest paid	**(26,538)**	(22,079)
Principal paid	**(65,815)**	(44,458)
Exchange gain	**(2,013)**	–
Borrowing from IFC at 31 December	**52,149**	71,042

The effective interest rate of the borrowing from IFC as at 31 December 2013 is 13.19% (2012: 13.52%). 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 RMB12,199,000 (2012: RMB12,623,000), and property, plant and equipment with a total net book value of RMB148,160,000 (2012: RMB113,033,000).

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

(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 HKD 0.02 each from the Company at an exercise price of HKD0.16 per share (Note 19). The bonds are due by 7 July 2015, subject to an early redemption put options held by Asian Equity and PA International (Note19 (b)), which were guaranteed by Mr. Li Weiruo, a shareholder and director of the Company.

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 19). The fair value of bonds at initial recognition and amortised cost at subsequent measurement are set out below:

	Group and Company	
	2013	2012
	RMB'000	RMB'000
Fair value at initial recognition	**72,423**	72,423
Interest expense accrued	**33,460**	9,494
Interest paid	**(14,836)**	(4,870)
Exchange gain	**(2,535)**	–
Borrowing from Asian Equity and PA International at 31 December	**88,512**	77,047

The effective interest rate of the above borrowing from Asian Equity and PA International as at 31 December 2013 is 26.21% (2012: 25.28%).

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

As at 31 December 2013, the Group's long-term borrowings were repayable as follows:

	Group		Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 1 year	**207,510**	129,098	**14,649**	11,824
Between 1 and 2 years	**346,073**	203,928	**73,863**	15,124
Between 2 and 3 years	**429,476**	268,903	**–**	50,099
Between 3 and 5 years	**264,669**	335,493	**–**	–
	1,247,728	937,422	**88,512**	77,047
Within 1 year included in current liabilities	**(207,510)**	(129,098)	**(14,649)**	(11,824)
	1,040,218	808,324	**73,863**	65,223

	Group		Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Wholly repayable within 5 years	**1,247,728**	937,422	**88,512**	77,047
Wholly repayable after 5 years	**–**	–	**–**	–
	1,247,728	937,422	**88,512**	77,047

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

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

	Group		Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
At floating rates in USD	**52,149**	71,042	**–**	–
At floating rates in RMB	**1,107,067**	789,333	**–**	–
At fixed rates in HKD	**88,512**	77,047	**88,512**	77,047
	1,247,728	937,422	**88,512**	77,047

The fair value of the borrowings from Asian Equity and PA International at 31 December 2013, which bear fixed interest rate, amounted to HKD117,338,000 (RMB92,697,000). The fair value is calculated using cash flows discounted at a rate of 29.46%. It falls under level 3 in the fair value hierarchy.

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 2013 is 8.10% (2012: 8.14%).

19 DERIVATIVE FINANCIAL LIABILITIES

	Group		Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
IFC warrants	**49**	3,217	**49**	3,217
Warrants and put-option of bonds issued to Asian Equity and PA International	**30,442**	33,313	**30,442**	33,313
Total	**30,491**	36,530	**30,491**	36,530
Less non-current portion:				
Warrants and put-option of bonds issued to Asian Equity and PA International	**–**	36,530	**–**	36,530
Current portion	**30,491**	–	**30,491**	–

19 DERIVATIVE FINANCIAL LIABILITIES *(Continued)*

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	**Company**
	RMB'000	RMB'000
Opening balance at 1 January 2012	5,072	5,072
Addition (Note (b))	40,978	40,978
Fair value change credited to profit or loss (Note 28)	(9,520)	(9,520)
At 31 December 2012	36,530	36,530
Opening balance at 1 January 2013	**36,530**	**36,530**
Fair value change credited to profit or loss (Note 28)	**(6,039)**	**(6,039)**
At 31 December 2013	**30,491**	**30,491**

(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 with expiry date on 28 April 2014.

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.

19 DERIVATIVE FINANCIAL LIABILITIES *(Continued)*

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

The fair value of the IFC warrants is as follows:

	IFC Warrants RMB'000
At 1 January 2012	5,072
Fair value change credited to profit or loss	(1,855)
At 31 December 2012	3,217
At 1 January 2013	**3,217**
Fair value change credited to profit or loss	**(3,168)**
At 31 December 2013	**49**

The fair value of the IFC Warrants as of 31 December 2013, determined using the Black-Scholes valuation model, was HKD0.002 (approximately RMB0.002) per share (2012: HKD0.011, approximately RMB0.009). The significant inputs into the model are as follows:

	31 December 2013	31 December 2012
Share prices at the valuation date (HKD)	**0.093**	0.118
Volatility	**43%**	42%
Dividend yield	**Nil**	Nil
Annual risk-free interest rate	**0.12%**	0.10%

19 DERIVATIVE FINANCIAL LIABILITIES *(Continued)*

(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 with expiry date on 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 Warrants and Put Option of Bonds.

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

	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 profit or loss	(7,654)	(11)	(7,665)
At 31 December 2012	25,865	7,448	33,313
At 1 January 2013	**25,865**	**7,448**	**33,313**
Fair value change credited to profit or loss	**(1,586)**	**(1,285)**	**(2,871)**
At 31 December 2013	**24,279**	**6,163**	**30,442**

19 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 2013	31 December 2012
Share prices at the valuation date (HKD)	**0.093**	0.118
Debt rate	**23.31%**	25.28%
Volatility	**46%**	41%
Dividend yield	**Nil**	Nil
Annual risk-free interest rate	**0.38%**	0.12%

20 DEFERRED SUBSIDY INCOME — GROUP

	Government grant for production facilities RMB'000
At 1 January 2012	7,476
Amortisation (Note 28)	(2,930)
At 31 December 2012	4,546
At 1 January 2013	**4,546**
Amortisation (Note 28)	**(654)**
At 31 December 2013	**3,892**

21 DEFERRED INCOME TAX — GROUP

There were no offsetting of deferred income tax assets and liabilities in 2013 and 2012.

	2013	2012
	RMB'000	RMB'000
Deferred tax assets:		
— To be recovered after more than 12 months	**10,156**	2,059
— To be recovered within 12 months	**52**	52
	10,208	2,111
Deferred tax liabilities:		
— To be settled after more than 12 months	**(80,867)**	(80,867)
— To be settled within 12 months	**(5,485)**	(5,485)
	(86,352)	(86,352)

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

Deferred income tax assets:

	Tax losses	**Impairment of assets**	**Deferred subsidy income**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2012	1,012	679	472	2,163
Charged to profit or loss	–	–	(52)	(52)
At 31 December 2012	1,012	679	420	2,111
At 1 January 2013	**1,012**	**679**	**420**	**2,111**
Charged to profit or loss	**8,149**	**–**	**(52)**	**8,097**
At 31 December 2013	**9,161**	**679**	**368**	**10,208**

21 DEFERRED INCOME TAX — GROUP *(Continued)*

Deferred income tax liabilities:

	Mining right (Note 8) RMB'000	Withholding tax of the unremitted earnings of PRC subsidiaries RMB'000	Total RMB'000
At 31 December 2012 and 1 January 2013	**(80,867)**	**(5,485)**	**(86,352)**
Charged to income statement (Note 30)	–	–	–
At 31 December 2013	**(80,867)**	**(5,485)**	**(86,352)**

As at 31 December 2013, the Group had total unused tax losses of approximately RMB154,088,000 (2012: RMB109,200,000). No deferred tax asset has been recognized in respect of tax losses of certain subsidiaries of RMB35,756,000 (2012: RMB45,433,000) due to the unpredictability of future profit streams of these subsidiaries. Deferred tax asset of RMB24,136,000 (2012: RMB15,942,000) has been recognised in respect of the tax losses of certain subsidiaries of RMB118,332,000 (2012: RMB63,767,000) as management considered it is probable that these subsidiaries can generate sufficient taxable profit to utilise the above tax loss of RMB118,332,000.

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 2013, the deferred tax liabilities recognised for withholding tax on accumulated earning generated by Mainland China subsidiaries amount to RMB5,485,000 (2012: RMB5,485,000) on the earning of RMB109,700,000 (2012: RMB109,700,000) generated by other Mainland China subsidiaries. (Note 4(g)).

22 TRADE AND OTHER PAYABLES

	Group		Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade payables (Note a)	**20,075**	33,084	**–**	–
Notes payable (Note b)	**10,703**	–	**–**	–
Construction payable	**101,384**	45,622	**–**	–
Advances from customers	**90,590**	81,209	**–**	–
Advances from purchasers (Note 15)	**131,100**	131,100	**–**	–
Accrued expenses	**41,514**	8,024	**461**	1,142
Deposits from suppliers	**885**	9,806	**–**	–
Other taxes payable	**1,154**	2,475	**–**	–
Others	**22,201**	12,160	**–**	–
	419,606	323,480	**461**	1,142

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

	Group		Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
RMB	**419,145**	322,338	**–**	–
HKD	**461**	1,142	**461**	1,142
	419,606	323,480	**461**	1,142

(a) Trade payables

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

	2013	2012
	RMB'000	RMB'000
Aged:		
Less than 1 year	**16,681**	26,716
More than 1 year but not exceeding 2 years	**2,096**	2,787
More than 2 years but not exceeding 3 years	**1,006**	3,070
More than 3 years	**292**	511
	20,075	33,084

22 TRADE AND OTHER PAYABLES *(Continued)*

(b) Notes payable

Notes payable represented bank acceptance notes issued by the Group and were interest-free and with maturity dates of less than 1 year.

As at 31 December 2013, the Group's cash of RMB10,703,000 (2012: Nil) was deposited in certain banks as guarantee deposits for issuance of notes payables.

23 SHORT-TERM BORROWINGS — GROUP

The short-term borrowings are denominated in RMB and were issued at fixed interest rates which range from 5.60% to 8.86% (2012: 5.60% to 8.86%) per annum.

Total short-term borrowings amounted to RMB2,009,905,000 (2012: RMB1,635,571,000) are secured by bank deposits of RMB1,414,404,000 (2012: bank deposit of RMB1,212,765,000) and guaranteed by Mr. Li Weiruo, a shareholder and director of the Company.

The fair value of short-term borrowings approximate to their carrying amounts, as the impact of discounting is not significant. It falls under level 3 in the fair value hierarchy.

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

	2013 **RMB'000**	2012 RMB'000
6 months or less	**2,191,575**	1,729,961
Between 6 months to 1 year	**392,000**	204,000
	2,583,575	1,933,961

24 TURNOVER

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

The Group's sales made in Mainland China are subject to value-added tax ("output value-added tax"). Such output value-added tax is payable after offsetting input value-added tax paid by the Group on purchases. The applicable rates of output value-added tax 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 top two customers are accounted for 19% and 10% respectively of the Group's turnover during the year.

25 EXPENSES BY NATURE

	2013 RMB'000	2012 RMB'000
Raw materials and consumables used	**502,746**	330,824
Changes in inventories of finished goods and work in progress	**13,853**	(13,697)
Power and natural gas consumed	**552,643**	579,437
Staff costs (Note 26)	**68,669**	56,321
Depreciation and amortisation charges	**76,309**	74,831
Transportation expenses	**46,373**	49,529
Maintenance expenses	**29,298**	31,285
Legal and professional fees	**1,561**	3,222
Stamp duty and other tax	**6,747**	5,143
Advertisement expenses	**1,273**	1,143
Auditors' remuneration	**2,267**	2,267
Operating lease payments	**1,016**	1,278
Loss on disposal of property, plant and equipment (Note 34)	**97**	1,915
Other expenses	**27,471**	14,710
Total cost of sales, distribution costs and administrative expenses	**1,330,323**	1,138,208

26 STAFF COSTS

	2013 RMB'000	2012 RMB'000
Wages and salaries	**51,459**	47,362
Pension costs — defined contribution plans	**2,207**	2,124
Social security costs — defined contribution plans	**6,987**	6,835
Share options granted to directors and employees (Note 16(b))	**8,016**	–
	68,669	56,321

Notes to the Consolidated Financial Statements

27 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The remuneration of every director for the year ended 31 December 2013 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	**1,248**	**780**	**17**	**2,045**
Mr. Yuan Bai (Chief executive) (Note a)	**234**	**942**	**42**	**1,218**
Ms. Chi Chuan	**234**	**642**	**–**	**876**
Mr. Li Shengdi	**234**	**642**	**–**	**876**
Ms. Man Au, Vivian	**234**	**436**	**10**	**680**
Independent non-executive directors				
Mr. Hu Xiaoping	**94**	**–**	**–**	**94**
Mr. Woo Che-wor, Alex	**94**	**–**	**–**	**94**
Mr. Qian Laizhong	**94**	**–**	**–**	**94**
Mr. Sun Tong Chuan	**16**	**–**	**–**	**16**
	2,482	**3,442**	**69**	**5,993**

Note:

(a) Mr. Li Feng, who newly joined the Group in 2014, has taken over from Mr. Yuan Bai as the Chief executive of the Group.

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

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

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include four (2012: four) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one individual in 2013 are as follows:

	RMB'000
Basic salaries, housing allowances, other allowances and benefits in kind	**967**
Contributions to pension schemes	**–**
	967

The emolument fell within the following bands:

	2013
Emolument bands	
Nil to RMB1,000,000 (approximately HKD1,266,000)	**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.

28 OTHER INCOME — NET

	2013 RMB'000	2012 RMB'000
Loss of sales of scrap materials, net	**–**	(643)
Amortisation of deferred subsidy income (Note 20)	**654**	2,930
Subsidy income	**140**	1,400
Rental income, net	**1,104**	–
Fair value change on derivative financial liabilities (Note 19)	**6,039**	9,520
Others, net	**1,336**	133
	9,273	13,340

29 FINANCE COSTS — NET

	2013 RMB'000	2012 RMB'000
Interest expense of bank borrowings	**158,969**	132,094
Interest expense of borrowing from IFC	**8,936**	10,847
Interest expense of borrowing from Asian Equity and PA International	**23,966**	9,494
Less: capitalisation in construction-in-progress (Note 6)	**(65,316)**	(36,364)
	126,555	116,071
Interest income	**(44,653)**	(26,639)
Exchange gain, net	**(2,614)**	(220)
Others	**3,171**	4,292
	82,459	93,504

30 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 2012 and 2013.

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 2012 and 2013.

The applicable income tax rate of Ko Yo Agrochem, Chengdu Ko Yo Chemical and Chengdu Ko Yo Compound in 2013 and 2012 is 25%.

Other subsidiaries located in Mainland China did not have assessable profit for the year ended 31 December 2013 (2012: Nil).

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

	2013 RMB'000	2012 RMB'000
Current income tax for Mainland China	**1,229**	23,137
Deferred income tax	**(8,097)**	3,849
	(6,868)	26,986

30 INCOME TAX EXPENSE *(Continued)*

The taxation on the Group's (loss)/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:

	2013 **RMB'000**	2012 RMB'000
(Loss)/profit before income tax	**(64,257)**	128,598
Tax calculated at a taxation rate of 15% (2012: 15%)	**(9,638)**	19,290
Tax rate difference	**509**	902
Expenses not deductible for tax purposes	**177**	207
Withholding tax accrued on the earnings expected to be remitted by subsidiaries (Note 21)	**–**	5,485
Tax losses for which no deferred income tax was recognised	**2,990**	2,530
Income not subject to tax (Note 19)	**(906)**	(1,428)
Taxation	**(6,868)**	26,986

31 (LOSS)/PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The loss attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of RMB1,404,000 (2012: RMB6,141,000 profit).

32 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 16).

	2013	2012
(Loss)/Profit attributable to equity holders of the Company (RMB'000)	**(57,056)**	101,612
Weighted average number of ordinary shares in issue (thousands)	**7,195,285**	7,195,285
Basic (loss)/profit per share (RMB per share)	**(0.0079)**	0.0141

32 EARNINGS PER SHARE *(Continued)*

(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.

	2013	2012
(Loss)/Profit attributable to equity holders of the Company (RMB'000)	**(57,056)**	101,612
Weighted average number of ordinary shares in issue (thousands)	**7,195,285**	7,195,285
Adjustment — warrants and share option (thousands)	**–**	6,156
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**7,195,285**	7,201,441
Diluted (loss)/earnings per share (RMB per share)	**(0.0079)**	0.0141

The calculation of diluted loss per share for the year ended 31 December 2013 has not assumed the exercise of the share options and warrants as these potential ordinary shares are anti-dilutive during the year.

33 DIVIDEND

The directors do not recommend the payment of an interim dividend and a final dividend for the 6 months ended 30 June 2013 (2012: nil) and the year ended 31 December 2013 (2012: nil).

34 CASH GENERATED FROM OPERATIONS

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

	2013 RMB'000	2012 RMB'000
(Loss)/Profit before income tax	**(64,257)**	128,598
Depreciation of property, plant and equipment	**74,850**	73,376
Depreciation of investment properties	**208**	–
Amortisation of land use rights	**1,189**	1,185
Amortisation of intangible assets	**270**	270
Loss on disposal of property, plant and equipment (Note 25)	**97**	1,915
Interest income (Note 29)	**(44,653)**	(26,639)
Interest expense (Note 29)	**126,555**	116,071
Fair value of share option granted	**8,016**	–
Exchange loss	**345**	–
Fair value change of derivative financial liabilities	**(6,039)**	(9,520)
Operating profit before working capital changes	**96,581**	285,256
Decrease/(increase) in inventories	**15,372**	(15,411)
(Increase)/decrease in trade and other receivables	**(151,109)**	42,286
Increase/(decrease) in trade and other payables	**30,398**	(22,641)
Decrease in deferred subsidy income	**(654)**	(2,930)
Cash (used in)/generated from operating activities	**(9,412)**	286,560

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

	2013 RMB'000	2012 RMB'000
Net book amount (Note 6)	**447**	1,915
Loss on disposal of property, plant and equipment (Note 25)	**(97)**	(1,915)
Proceeds from disposal of property, plant and equipment	**350**	–

35 COMMITMENTS — GROUP

(a) Capital commitments for property, plant and equipment

	2013 RMB'000	2012 RMB'000
Constructions-in-progress:		
Contracted but not provided for	**33,758**	278,047

35 COMMITMENTS — GROUP *(Continued)*

(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:

	2013 **RMB'000**	2012 RMB'000
Not later than 1 year	**135**	885
Later than 1 year and not later than 5 years	**–**	135
	135	1,020

The Company had no capital commitment and no commitments under operating leases as at 31 December 2013 (2012: Nil).

36 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 2013 (2012: 40.7%). The remaining approximately 59.3% of the issued shares are widely held.

Long-term borrowings of RMB358,512,000 (2012: RMB 247,046,000) and short-term borrowings of RMB121,300,000 (2012: RMB31,300,000) were guaranteed by Mr. Li Weiruo with no charge. In the opinion of the directors of the Company, the fair value of guarantee provided by Mr. Li Weiruo is insignificant to the Group. Such guarantee has not been accounted for by the Group.

37 KEY MANAGEMENT COMPENSATION (EXCLUDING DIRECTORS' EMOLUMENTS)

	2013 **RMB'000**	2012 RMB'000
Salaries and other short-term employee benefits	**4,337**	3,014

The directors' emoluments are disclosed in Note 27.

38 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 RMB170 million have been rolled over for a further year. New short-term borrowings of RMB80 million have been granted and drawn down with a term of 6 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 2013.

	2013	2012	2011	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	**1,339,252**	1,346,970	1,426,888	872,582	602,468
(Loss)/Profit before taxation	**(64,257)**	128,598	105,783	(23,951)	(6,809)
Taxation	**6,868**	(26,986)	(5,629)	(1,654)	(375)
Minority interest	**(333)**	–	–	–	–
(Loss)/Profit after taxation	**(57,056)**	101,612	100,154	(25,605)	(7,184)
Total assets	**5,443,943**	4,443,963	3,249,116	2,435,374	1,972,869
Total liabilities	**(4,371,644)**	(3,322,291)	(2,229,056)	(1,540,397)	(1,061,066)
Shareholders' funds	**1,072,299**	1,121,672	1,020,060	894,977	911,803