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)

2014
ANNUAL REPORT

CONTENTS

Corporate Information

DIRECTORS

Executive Directors

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

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
A18/F., Asia Orient Tower, 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 2014, the loss attributable to shareholders was approximately RMB490 million, which represents an increase a loss of RMB433 million as compared to a loss of RMB57 million in year 2013. If neglect the loss due to the subscription price adjustment on the warrants and the loss on convertible bonds of a total amount of approximately RMB292 million, the adjusted loss attributable to shareholders was approximately RMB198 million.

— Basic loss per share was approximately RMB0.2973 for the year ended 31st December 2014.

— For the year ended 31st December 2014, sale turnover was approximately RMB1,370 million, which represents an increase of approximately 2.3% as compared to year 2013.

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

			% change compare with year 2013	
Type	**Sales amount** (million RMB)	**Sales quantities** (tonnes)	**Sales amount**	**Sales quantities**
BB & compound fertilizers	80	56,694	(7.0)	11.3
Urea	625	385,376	(14.4)	(1.5)
Ammonia	187	89,887	0.5	1.6

— The Directors do not recommend the payment of any final dividend for the year ended 31st December 2014.

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 2014. I wish to express sincere appreciation on behalf of the Board of Directors to all shareholders and friends from all sectors of the society who concern for the development of the Group.

In 2014, the overall economic growth of the PRC slowed down, resulting in a significant decrease of profit. Under such difficult situation, the Group strived for innovation and reforms through adjusting the industrial and project structures of the Company in response to the development trends of the industry and the market. However, due to the industry and market downturn, coupled with the gradual decline in selling price of products, the Group failed to realize its operational objective throughout the year.

For the year ended 31st December 2014, the audited loss attributable to shareholders of the Group amounted to approximately RMB490 million. Basic loss per share amounted to approximately RMB0.2973 (2013: loss of RMB0.0396). The Group's turnover amounted to approximately RMB1,370 million, representing an increase of 2.3% as compared to RMB1,339 million for the same period in 2013. The Group's sales volume (excluding trading) amounted to approximately 532,000 tonnes, representing an increase of approximately 0.2% as compared to 531,000 tonnes of last year.

During the period under review, the ammonia and urea synthesis facilities of Dazhou Plant of the Group maintained stable operation with annual utilization rates amounting to 92% and 93% respectively. The overall energy consumption of ammonia synthesis facilities of the year decreased of 28kg standard coals on average, which was the lowest level in our history. The new ammonia synthesis facilities and methanol synthesis facilities in Guangan plant commenced operation successfully. Driven by the proactive marketing strategy, sales volume and revenue of the Group's products were both higher than those in the corresponding period of the previous year. However, affected by the continuous decrease in international crude oil prices, excessive supply in the industry, rising natural gas prices due to tight supply, economic recession and many other factors, the market remained weak and the product prices fell, wherein the selling prices of both urea and liquid ammonia products were lower than that over the same period of last year. In particular, in the middle of the year, selling price of urea dropped to the lowest level in the past 10 years. Selling price of methanol also dropped significantly as compared with the corresponding period of last year. Affected by the overall decrease in selling prices of products, the selling price of the Company's products was adjusted downward significantly as compared to last year, with a decrease of approximately RMB244 per tonne on average for urea and a decrease of approximately RMB14 per tonne on average for liquid ammonia. Such adjustment resulted in an increase in sales volume of products but a significant decrease in the profits of the Group. Therefore, the operating performance of the Group fell short of the anticipated targets.

Under the pressure of the market downturn and 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 make improvement by implementing the following measures:

As to the production:

Firstly, we will effectively organise and coordinate the allocation of production materials such as water, electricity and gas, especially on the negotiation and signing of natural gas supply agreement for the year, in order to maintain the advantages on volume and prices of gas supply for the high utilization and efficient operation of facilities at Dazhou Plant and Guangan Plant. Secondly, for the operation of production facilities, we will strengthen the maintenance and overhaul of equipment to ensure the safe, stable and long-term operation of production facilities. Thirdly, we will further streamline the production flow of Guangan Plant and strive for the early accomplishment of the output targets of ammonia and methanol synthesis facilities. Fourthly, we will further refine our management to effectively lower the overall energy consumption of products in order to lower the production cost and improve the overall operation efficiency of our production facilities. Lastly, we will strive to meet 100% acceptability of all products in terms of production quality, with a top-grade product rate of urea products no less than 97%.

Chairman's Statement

As to the market:

Firstly, we will enhance the collection and compilation of market information as well as market forecast related to the industry, so as to establish our own pricing system and make accurate judgment on and actively respond to all kinds of market changes promptly. Secondly, we will focus on identifying key clients in our core markets (Dazhou and Sichuan) and neighbouring cities and provinces (Chongqing, Yunnan Province, Guizhou Province, Guangdong Province, and Guangxi Province) in order to further enhance brand premium on products and increase market share in core markets. In addition, capitalizing on the network formed by the strategic cooperation with large-scale methanol purchasers in East China, including various international methanol purchasers and traders, for trading and sales established in the second half of 2014, the Group will further expand its penetration in Eastern China. Thirdly, we will focus on the marketing of methanol products in Sichuan and Chongqing to increase the market share of methanol of Ko Yo for higher profit. Fourthly, on the basis of our satisfactory accomplishment of the targets for trading volume of products in 2014, we will continue to expand the proportion of trading volume of our products and develop good relationship with upstream and downstream enterprises through trading in order to facilitate the sales of melamine and polyphenylene sulfide as well as phosphate fertilizers and increase the sales revenue and profitability of trade business of the Company. Lastly, as to brand building, the Company will continue to implement the strategy of building the top brand of urea and strive to win the title of "Sichuan Famous Brand Product" by focusing on product quality as its core value and enhancing after-sales services and quality.

As to the management:

Firstly, we will streamline our structure through continuous reform and reorganisation to increase efficiency. Currently, Dazhou Plant has implemented centralized management while Guangan plant will accelerate the transformation to centralized management. We will also clearly define the management responsibilities by separating the duties of the decision-making management level and the operation management level. Secondly, adhering to the principle of enhancing capital management to minimize cost and maximize efficiency, we will further streamline and refine management workflow so as to upgrade the overall management standard and efficiency and implement modern management of the Company.

Based on the results of the Group for the year under review, the Board does not recommend to distribute any final dividend for the year ended 31st December 2014. For the year ended 31st December 2014, the Group had not declared any dividend (2013: no dividend).

PROSPECT

Industry Review

In 2014, facing complex and difficult macro-economic situations at home and abroad as well as various challenges in the chemical industry including continuous deterioration of the economic performance, excessive production capacity, decreasing market demand, increasing raw material price and declining product price, the adjustment of industrial structure has not completely adapt to market changes and a downward pressure has been rampant in the industry.

Chairman's Statement

According to the latest information from the National Bureau of Statistics, for 2014, the production volume of nitrogen fertilizers of China amounted to 46.52 million tonnes (nutrients, the same below), representing a decrease of 5.6% compared with the corresponding period of last year. Production volume of urea was 32.18 million tonnes, which representing a decrease of 3.5% compared with production volume of 33.33 million tonnes in 2013, representing an increase of 7.1% compared with the production volume of 30.04 million tonnes in 2012. For 2014, nitrogen fertilizer export volume was 13.62 million tonnes, representing an increase of 65% compared with the 8.27 million tonnes in 2013. In 2014, due to excess supply in nitrogen fertilizer market, the urea price remained low. In May, the factory price of urea fell down to RMB1,400 (per tonne, the same below), which was the lowest price in the past decade. The utilization rate of nitrogen fertilizer enterprises maintained at 65% to 80% and the annual production volume of nitrogen fertilizer was 46.52 million tonnes, representing a drop of 3.6% compared with the corresponding period of last year. According to China Nitrogen Fertiliser Industry Association, for 2014, the accumulated loss of nitrogen fertilizer industry amounted to RMB5.66 billion, representing a decrease of 196% compared with last year. There were 164 out of 332 nitrogen fertilizer companies recorded a loss, representing an increase of 34 companies compared with last year, covering 49.4% of the companies suffering from loss.

For the first 11 months of 2014, the production volume of methanol of China amounted to 37.40 million tonnes, representing an increase of 30% as compared with 28.79 million tonnes in the corresponding period of 2013. In 2014, methanol consumption of China was approximately 40.99 million tonnes. The production capacity of methanol of China in 2014 was expected to be 65.00 million tonnes with an average utilization rate of 59%. Affected by the declining market of international crude oil, vigorous competition in futures market and weakened downstream market, the methanol market suffered from severe excessive production capacity and a significant drop in market price.

In recent years, the media, government and general public are increasingly concerned about environmental protection in China and the government has stronger determination and efforts in dealing with pollution and haze abatement. The new "Environmental Protection Law" (環境保護法) of China came into effect on 1st January 2015. The implementation of "the most stringent environmental protection law in history" has brought new opportunities for the development of natural gas chemicals, in particular, the production of methanol by natural gas. Undoubtedly, natural gas is the cleanest raw material for chemical production. The NDRC showed its strong support for the development of natural gas chemicals through substantial reduction of natural gas price to improve the rigorous environmental conditions. During the year, we adopted the following strategies. to tackle the problems of complex and difficult local and overseas macro-economic condition and the unfavourable market environment and severe challenges resulting from the decline of chemicals price (chemical fertilizer and methanol) because of plummeting oil price. We reduced the consumption of materials and energy through technology improvements and management enhancement. Leveraging on our advanced production equipment, we strengthened the competitiveness of the products of Dazhou plant and Guangan plant and take further steps to monitor and explore the new application area of methanol.

Chairman's Statement

On the other hand, we have well prepared for the development of new business and product by investing in the research and development of new technology, production processes and materials since a few years ago. We successfully developed new kiln process for production of phosphoric acid (窯法磷酸新工藝) in cooperation with Changsha Research Institute of Mining and metallurgy of China (中國五礦長沙礦冶研究院). We were granted ten national patents for the technology through Sichuan Ko Chang Technology Co., Ltd., in which Koyo Group owns 55% equity interest. Such technology is internationally advanced and may completely eliminate the problems of high pollution, high consumption and inefficient utilisation of resources of phosphoric acid production. Currently, a number of domestic and overseas phosphate mining and phosphate companies are interested in purchasing this technology. We have also established Sichuan Ko Yo Chemical Sci-tech Development Co., Ltd. to focus on the research and development of new melamine production technology. We have been granted two national patents for such technology. The technology surpasses the traditional processes and technologies generally adopted in China and overseas in terms of environmental protection, energy-saving, resources conservation and product quality. We retained professionals to upgrade and improve the production process of polyphenylene sulphide adopted in China and successfully developed our proprietary technology. The new technology has a competitive edge over the traditional technologies in terms of environmental protection, consumption of materials The quality of our products is generally on par with international advanced standards.

The aforementioned three processes, technologies and materials were adopted in the Dazhou plant and Guangan plant of the Group in the fourth quarter of 2014 and will commence operation in the second half of 2015. The commencement of these projects will completely eliminate the disadvantage of our reliance on natural gas regarding our businesses and products and pave way for our sound development.

In line with the economy growth of China, the position and influence of China in international affairs have become more significant. The PRC government has announced its development strategy of proactive expansion, including the development of "One Belt and One Road", the establishment of Asian Infrastructure Investment Bank and Silk Road Fund. The Group raised a capital of HK$1.1 billion from strategic investor in November 2014. In 2015, the Group entered into option agreement with the investor which can raise additional capital of HK$1.44 billion through issuing convertible bonds. Under such circumstances and our good relationship with the banks (the Group entered into a comprehensive cooperation agreement with the Export-Import Bank of China in the fourth quarter of 2014), the Group will proactively pursue opportunities of overseas expansion as well as local M&A and restructuring for the rapid development of Koyo Group and better rewards for the shareholders.

OBJECTIVES AND STRATEGIES

Although the Group has encountered challenges due to the sluggish chemical fertilizer industry in 2014, we expect that development of ammonia fertilizer market in 2015 will be better than in 2014 due to the favourable factors including a continuous drop in production capacity as compared with the corresponding period of last year due to the low utilization rate and shutdown of some companies caused by the downturn of ammonia fertilizer market for a long period, low inventory level due to significant increase in export, low market price, increase in industrial demand and favourable export policy. In addition, according to "Certain Opinions on Strengthening Reform and Innovation to Accelerate Modernization of Agriculture" (《關於加大改革創新力度加快農業現代化建設的若干意見》) (No.1 Document of the CPC Central Committee) issued by Central Committee of the Communist Party of China and the State Council on 1st February 2015, the government will continue to support the development of agriculture and promote modernized agriculture in China. In particular, special supports will be provided to chemical fertilizer enterprises for technological innovation, which create opportunities for the future development of the Group. Apart from measures taken in response to the above supporting policies to strengthen operation and management, the Group has also formulated comprehensive development strategy and objectives for the whole Group as well as our development path in 2015 so as to capitalize on the changes in market and turn crisis into chances.

Chairman's Statement

The 1st Phase of the Project in Guangan will Achieve Targeted Standard and Output

Our Guangan's project with an annual production of 300,000 tonnes of synthetic ammonia and 500,000 tonnes of methanol has commenced operation successfully on the last quarter of 2014. The formation of our chemical production base in Guangan has laid a solid foundation for our future expansion into refined chemicals and new materials from base chemicals. In 2015, the Group will further optimise the production workflow in order to achieve our targeted standard and output of synthetic ammonia and urea devices.

The 2nd Phase of the Project of Urea and Melamine in Dazhou is Expected to be Completed in the Second Half of 2015

During the year under review, after conducting different researches, the Group restarted the production 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). Our new production technology has won numerous technology awards and its performance in energy-saving, environmental protection and circular economy is highly efficient and outstanding. Currently, the project is applying for the supplemental approval for the change in production technology. Preparation for construction of the project has been completed and orders for most equipment have been placed. It is expected that the urea project and melamine project will be completed at the second half of 2015.

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.

Phosphoric Acid Project is Expected to be Completed at the Second Half of 2015

The phosphoric acid technology developed by Sichuan Ko Chang Technology Co., Ltd, a subsidiary of the Group, has obtained 10 patents from the Chinese State Intellectual Property Office. The project will use phosphate from the phosphate mine located at Qingping Township, Mianzhu City, Sichuan Province owned by Sichuan Chengyuan Chemical Industry Co., Ltd., a wholly-owned subsidiary of the Group to produce 100,000 tonnes 85% industrial phosphoric acid (including food-grade and electronic-grade), 60,000 tonnes sodium tripolyphosphate, 20,000 tonnes industrial ammonium polyphosphate, 20,000 tonnes monoammonium phosphate, 519,200 tonnes by-products of slagging ball and ceramic proppants and 3,600 tonnes industrial sodium fluorosilicate through Guangan Ko Yo Phos-chemical Technology Co., Ltd, a wholly-owned subsidiary of the Group ,at Xinqiao Energy and Chemical Park in Guangan. The annual production value of the project will be RMB1.073 billion, and its profit tax for the year is expected to be RMB296 million. The project will create 524 new positions.

The first phase of the project includes a demonstrative facility with a production capacity of 50,000 tonnes 85% industrial phosphoric acid with an investment amounting to approximately RMB315 million. Feasibility report of the project has been completed and we are applying for the preliminary approval of the project. All preparatory works for the construction of the project has been completed. It is expected that the project will be completed at the second half of 2015. Phosphate from low grade phosphate mine will be used by the project directly in response to the government policy to increase the utilization rate of low-grade phosphate mine. The production technology used will allow an energy-saving, environmentally friendly, clean and highly efficient production of phosphoric acid. Upon completion, the facility will become the first phosphoric acid facility in China and even in the world, which will become a new growth point for the business of the Company.

Chairman's Statement

Polyphenylene Sulfide Project is Expected to be Completed at the Second Half of 2015

The construction of fiber polyphenylene sulfide project, a project located at the chemical production base in Guang'an of the Group with 3,000 tons annual production capacity, commenced on 15th August 2014. The relevant approval procedures of the project have been completed and the Group has ordered standard equipment and primary non-standard equipment. The floor plan of the site has been finalized and we are undergoing surveying. The design of separated drawings for the construction of production building, maintenance workshops, warehouses, looping water station and sewage treatment plant has been completed and delivered. Site preparation for the project has been completed and site construction has commenced. After the completion of the project, the vacancy of polyphenylene sulfide in domestic market will be filled, representing an important step of the Company in new material segment and a new growing momentum of the Company.

In respect of project financing and capital sources, the Company entered into a placing agreement of shares and convertible bonds with Asia Pacific Resources Development Investment Limited on 30th July 2014. Pursuant to the agreement, the Company issued 800,000,000 shares and convertible bonds of HK$832,000,000, and the proceeds from the issue were used as working capital of the Group. In addition, the Company entered into a put option agreement with the Subscriber, Asia Pacific Resources Development Investment Limited on 18th January 2015, pursuant to which, the Company at any time during the Put Option Period, on one or more than one occasion, to require the Subscriber to subscribe from the Company the Convertible Bonds in the aggregate principal amount of no more than HK$1,440,000,000. The proceeds were used to fund the capital expenditure working capital of projects to ensure smooth construction.

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 safe and steady production with long cycle at Dazhou Plant, and commenced operation of the 1st Phase of the Project in Guangan smoothly 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 strive to bring more benefits and returns to our shareholders and the society.

Li Weiruo
Chairman

25th March 2015

Business Review

FINANCIAL PERFORMANCE

Results

For the year ended 31st December 2014, 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 RMB1,370 million, an increase of 2.3% as compared to last year. The loss attributable to shareholders of the Company amounted to approximately RMB490 million, representing an increase a loss of approximately RMB433 million as compared to last year. Basic loss per share amounted to approximately RMB0.2973.

Cost and profit margin

Cost of sales of the Group amounted to approximately RMB1,358 million, representing an increase of 13.0% as compared to the figure in 2013. The major reasons of increase in cost of sales were due to the increase in trading portion and the increase in natural gas price.

Gross profit margin of the Group decreased approximately from 10.2% in 2013 to 0.9% in 2014. The decrease in the gross profit margin was due to the decrease in selling price of products and the increase in natural gas price.

During the year under review, distribution costs increased approximately by 26% as compared with last year. The ratio of the distribution costs over sales was 5.0% in 2014 which was 1% higher than those in 2013.

In comparison with last year, there was an increase in administrative expenses of the Group by approximately 195.7% from RMB73.8 million in 2013 to RMB218.4 million in 2014. The increase in administrative expenses is mainly due to the loss on convertible bonds (RMB117 million).

The Group's income tax benefit in 2014 amounted to approximately RMB34.05 million. Details of tax schemes are set out in Note 33 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 2014. The Group has not declared any dividend for the year ended 31st December 2014 (2013: Nil).

Business Review

PRODUCTS

Sales of the Group's products for the year 2013 and 2014 are as follows:

	Turnover in year 2014		Turnover in year 2013		**Percentage Change in turnover**
	RMB'000	**Composite %**	RMB'000	Composite %	**%**
BB & compound fertilizers	**80,000**	**5.8**	86,000	6.4	(7.0)
Urea	**625,000**	**45.6**	730,000	54.5	(14.4)
Ammonia	**187,000**	**13.6**	186,000	13.9	0.5
Others	**478,000**	**35.0**	337,000	25.2	41.8

During the year under review, due to the decrease in selling price of our products, the turnover of urea and BB & compound fertilizers in year 2014 was decreased as compared with those in year 2013.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31st December 2014, the Group had net current liabilities of approximately RMB803,855,000. Current assets as at 31st December 2014 comprised cash and bank deposits of approximately RMB498,099,000, pledged bank deposits of approximately RMB689,603,000, inventories of approximately RMB62,327,000, trade receivables of approximately RMB17,899,000 and prepayments and other current assets of approximately RMB624,260,000. Current liabilities as at 31st December 2014 comprised short-term borrowings of approximately RMB1,719,041,000, short-term portion for long-term borrowings of approximately RMB286,572,000, trade and notes payables of approximately RMB108,156,000, advances from customers of approximately RMB148,481,000 and accrued charges and other payables of approximately RMB433,793,000. 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 2014, the Group had outstanding capital commitments of approximately RMB343,000,000. Details of the Group's capital commitments are set out in Note 37 to the consolidated financial statements.

FINANCIAL RESOURCES

As at 31st December 2014, the Group had cash and bank deposits of approximately RMB498,099,000 and pledged bank deposits of approximately RMB689,603,000. 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 2014, the total borrowings and notes payable balances of the Group amounted to RMB2,802,064,000.

GEARING RATIO

The Group's gearing ratios were approximately 48% and 65% as at 31st December 2014 and 31st December 2013 respectively. The gearing ratios were calculated as net debt divided by total capital. Details of the Group's gearing ratio is set out in Note 3.2 to the consolidated financial statements.

CONTINGENT LIABILITIES

The Group had no significant contingent liabilities as at 31st December 2014.

MATERIAL ACQUISITION/DISPOSAL

There was no material acquisition or disposal in the year 2014 which would have been required to be disclosed under the Rules Governing the Listing of Securities ("Listing Rules") on Stock Exchange.

SEGMENTAL INFORMATION

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

DETAILS OF FUTURE PLANS FOR MATERIAL INVESTMENT OR CAPITAL ASSETS

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

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 2014, certain land use rights with a total net book value of approximately RMB12,004,000 (2013: RMB45,094,000), property, plant and machinery and construction in progress with a total net book value of approximately RMB908,107,000 (2013: RMB1,390,511,000), and bank deposits approximately RMB689,603,000 (2013: RMB1,726,298,000) 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 2014.

NUMBER OF EMPLOYEES

As at 31st December 2014, the Group had 797 (2013: 827) employees, comprising 8 (2013: 6) in management, 132 (2013: 123) in finance and administration, 602 (2013: 646) in production and 55 (2013: 52) in sales and marketing, 791 (2013: 821) of these employees were located in the PRC and 6 (2013: 6) were located in Hong Kong.

Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Li Weiruo, aged 61, 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 56, is 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 59, 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 20 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 51, 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 62, is 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.

Mr. Li Feng, aged 49, is an Executive Director and 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.

Directors and Senior Management

Mr. Li Ciping, aged 50, is an Executive Director of the Group, the managing vice president of the Group and the general manager of Sichuan Ko Yo Agruchem Co., Ltd. He is principally responsible for the sales and marketing 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Hu Xiaoping, aged 64, 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 62, 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 72, 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 74, 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.

Directors and Senior Management

SENIOR MANAGEMENT

Mr. Chung Tin Ming, aged 44, 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.

Mr. Jiao Kangdi, aged 63, 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 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 51, 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 Group, he was the officer of Planning and Construction Office of Chemical Industrial Company under Sichuan Province Chemical Industrial Hall.

Ms. Shu Jing, aged 44, 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 53, is the vice 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 53, 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 the 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 2014.

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 2014 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 2014 (2013: Nil).

SHARE CAPITAL

Details of movements in share capital of the Company are set out in Note 17 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 19 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31st December 2014 amounted to approximately RMB1,317,487,000 (2013: RMB609,813,000).

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 2014 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

Mr. Li Feng (Appointed on 1st July 2014)

Mr. Li Ciping (Appointed on 1st July 2014)

Independent Non-Executive Directors

Mr. Hu Xiaoping

Mr. Woo Che-wor, Alex

Mr. Qian Laizhong

Mr. Sun Tongchuan

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

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

The Independent Non-Executive Directors of the Company are appointed with specific terms inside the letter of appointment for initial fixed terms of two years. Pursuant to A.4.3 of the Corporate Governance Code (the "Corporate Governance Code") set out in Appendix 14 of the Listing Rules, any further appointment of an Independent Non-Executive Director in excess of nine years should subject to a separate resolution to be approved by shareholders. Mr. Qian Laizhong appointed as Independent Non-Executive Directors in August 2004 and will severe on the Board for eleven years in August 2015. Therefore, Mr. Qian Laizhong should retire and re-election at the forthcoming annual general meeting.

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

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 18 to the consolidated financial statement.

During the year ended 31st December 2014, the details of option outstanding and movements are disclosed in the following table:

Number of share options

	Held at 1 January 2014 ('000)	Grant during period ('000)	Exercised during period ('000)	Forfeited during period ('000)	Held at 31 December 2014 ('000)	*Share Options A ('000)	*Share Options B ('000)	*Share Options C ('000)	*Share Options D ('000)	*Share Options E ('000)	*Share Options F ('000)	*Share Options G ('000)
Directors												
Li Weiruo	1,300	–	(1,300)	–	**–**	–	–	–	–	–	–	–
Yuan Bai	3,400	–	–	–	**3,400**	–	400	–	800	–	2,200	–
Chi Chuan	4,600	–	(800)	–	**3,800**	–	–	–	–	–	3,800	–
Man Au Vivian	4,600	–	(3,800)	–	**800**	–	–	–	800	–	–	–
Li Shengdi	5,000	–	(5,000)	–	**–**	–	–	–	–	–	–	–
Li Ciping	2,400	–	(800)	–	**1,600**	–	–	–	1,600	–	–	–
Woo Che-wor Alex	1,200	–	–	–	**1,200**	–	–	–	–	800	400	–
Hu Xiaoping	1,200	–	–	–	**1,200**	–	–	–	–	800	400	–
Qian Laizhong	1,220	–	–	–	**1,220**	–	420	–	–	800	–	–
Sun Tongchuan	1,200	–	–	–	**1,200**	–	–	–	–	–	–	1,200
Employees	31,700	–	(20,300)	–	**11,400**	1,800	–	800	2,500	–	6,300	–
Total	57,820	–	(32,000)	–	**25,820**	1,800	820	800	5,700	2,400	13,100	1,200

* Share Options A: Grant at 11th April 2006, exercisable from grant date until 10th April 2016 with exercise price HK$0.750.
Share Options B: Grant at 16th May 2006, exercisable from grant date until 10th April 2016 with exercise price HK$0.750.
Share Options C: Grant at 10th September 2007, exercisable from grant date until 9th September 2017 with exercise price HK$0.580.
Share Options D: Grant at 14th January 2010, exercisable from grant date until 13th January 2020 with exercise price HK$1.150.
Share Options E: Grant at 23rd November 2010, exercisable from grant date until 22nd November 2020 with exercise price HK$1.100.
Share Options F: Gant at 28th March 2013, exercisable from grant date until 27th March 2023 with exercise price HK$0.595.
Share Options G: Grant at 15th November 2013, exercisable from grant date until 14th November 2023 with exercise price HK$0.48.

DIRECTORS' INTERESTS IN SHARES

As at 31st December 2014, 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	586,188,000	–	586,188,000	16.73%
Yuan Bai	72,292,800	3,400,000	75,692,800	2.16%
Chi Chuan	13,328,000	3,800,000	17,128,000	0.49%
Man Au Vivian	10,064,000	800,000	10,864,000	0.31%
Li Shengdi	5,000,000	–	5,000,000	0.14%
Li Feng	–	–	–	0.00%
Li Ciping	800,000	1,600,000	2,400,000	0.07%
Hu Xiaoping	–	1,200,000	1,200,000	0.03%
Woo Che-wor, Alex	–	1,200,000	1,200,000	0.03%
Qian Laizhong	–	1,220,000	1,220,000	0.03%
Sun Tongchuan	–	1,200,000	1,200,000	0.03%

(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	Number 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 2014, 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 HKD0.10 each of the Company

Name	Capacity	Number of shares	Approximate shareholding percentage
Cheng Kin Ming	Interest of corporation controlled	800,636,000	22.86%

Note: As at 31st December 2014, Asia Pacific Resources Development Investment Limited which is wholly owned by Cheng Kin Ming held a total amount of HK$435,680,000 convertible bonds of the Company which can be converted into 1,361,500,000 shares of the Company.

INTEREST OF OTHER PERSONS IN THE COMPANY

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

As at 31st December 2014, 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 23rd March 2015.

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.

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 2014.

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 2014, the five largest customers accounted for approximately 45.1% of the Group's total turnover and the five largest suppliers of the Group accounted for approximately 73.3% of the Group's total purchases. The largest customer of the Group accounted for approximately 11.7% of the Group's total turnover and the largest supplier accounted for approximately 40.7% 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.

SUBSEQUENT EVENTS

Details of subsequent events of the Company are set out in Note 40 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

25th March 2015

Corporate Social Responsibility Report

As an enterprise with social and public responsibilities, the Company has always been 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. In accordance with the PRC laws and regulations, the Company revised and issued the Safety and Environmental Protection Plan of the Group and the Safety and Environmental Objectives for 2014, in order to enhance the management of safety and environmental protection. The Company also formulated the Management System of Safety, Environmental Protection and Occupational Health of Ko Yo Group to further specify the safety and environmental protection duties of the Group, its subsidiaries and personnel of all levels as well as the management requirements and procedures regarding safety and environmental protection under laws and regulations.

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 Dazhou Plant:

Category of effluents	Standard of total emissions	Actual total emissions in 2013	Actual total emissions in 2014
Chemical Oxygen Demand (COD)	9.40 tons per annum	3.68 tons	2.55 tons
Ammonia and nitrogen (NH_3-N)	3.77 tons per annum	1.52 tons	0.65 tons
Carbon dioxide (CO_2)	–	20 million m^3	20 millions m^3
Dust and fumes	210.7 tons per annum	8.56 tons	2.38 tons

Dazhou Plant has been equipped with special environmental protection facilities, including wastewater and exhaust gas treatment devices. Its wastewater and exhaust gas have been emitted through industrial wastewater centralized treatment plants and high-level chimneys, respectively, in accordance to the standards. 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 zero emission can be achieved after the completion of Phase 2 of Dazhou project which is under construction. Dazhou Plant has registered a recycled and exported volume of approximately 1,309,410 m^3 of carbon dioxides in 2014. No treatment of hazardous solid waste was made by Dazhou Plant during the year. The total expenses for safety and environmental protection for 2014 amounted to RMB2,006,530.

2. ENVIRONMENTAL PROTECTION *(Continued)*

Emission *(Continued)*

Table of main effluents and emission standards of Guangan Plant:

Category of effluents	Standard of total emissions	Actual total emissions in 2013	Actual total emissions in 2014
Chemical Oxygen Demand (COD)	8.75 tons per annum	–	0.64 tons
Ammonia and nitrogen (NH_3-N)	0.87 tons per annum	–	0.23 tons
Carbon dioxide (CO_2)	–	–	130 millions m^3
Dust and fumes	134.6 tons per annum	–	0.074 tons

An online monitoring system for water emission has been installed in Guangan Plant pending inspection and acceptance. Its wastewater and exhaust gas have been emitted through industrial wastewater centralized treatment plants and high-level chimneys, respectively, in accordance to the standards. No treatment of hazardous solid waste was made by Guangan Plant during the year. The total expenses for safety and environmental protection for 2014 amounted to RMB8,245,411.

Energy Consumption

Table of Statistics of Energy Consumption in 2013 and 2014

No.	Name of energy	Unit	**2014 Dazhou plant**	2013 Dazhou plant	**2014 Guangan plant**	2013 Guangan plant
1	Natural gas	10^3 m^3	**329,486**	331,190	**9,730**	–
2	Electricity	10^4 kWh	**443**	459	**2,882**	–

All of the energy consumption indexes of Dazhou Plant decreased in 2014 compared with those in 2013, mainly attributable to the longer cycle of continuous operation of devices and reduced energy consumption of products; the reduced energy consumption of devices as a result of major repair and improvement; and the annual average reduction of integrated energy consumption by 28kg of standard coal to a record low as a result of enhanced staff operation level through streamlined management.

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. The Company will strive to carry out effective negotiation and execution of the natural gas supply contract for 2015 to maintain the advantages of natural gas supply and price.

In respect of suppliers of raw and auxiliary materials, the Company conducts long-term assessment on qualified suppliers and selects the best suppliers for cooperation through both document review and on-site inspection.

Every year, the Company holds national and regional sales meetings with its clients to discuss and forecast its future sales so as to prepare its 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 for management and production to ensure its product quality and safety.

The Company has set up a supervision and audit department to review and supervise its corporate account and operation so as to prevent corruption and fraud.

4. SOCIAL CONTRIBUTION

The Company donated 14 tons of urea to the victims of rainstorms and floods in Dazhu County, Dazhou City, Sichuan Province.

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 eleven directors of which seven 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
Mr. Li Feng (Appointed on 1st July 2014)
Mr. Li Ciping (Appointed on 1st July 2014)

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

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. Qian Laizhong was appointed as Independent Non-Executive Directors in August 2004 and will severe on the Board for eleven years in August 2015. Pursuant to A.4.3 of the Corporate Governance Code, any further appointment of an Independent Non-Executive Director in excess of nine years should subject to a separate resolution to be approved by shareholders. Therefore, Mr. Qian Laizhong should retire and re-election at the forthcoming annual general meeting. All Independent Non-Executive Directors are identified as such in all corporate communications that disclose the names of the directors. There is no family or other material relationship among members of the Board.

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

Board meeting

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

THE BOARD OF DIRECTORS *(Continued)*

Board meeting *(Continued)*

In the financial year ended 31st December 2014, 32 board meetings and 2 general meetings were held and the attendance record for the meetings by each director is as follow:

Attendants	Number of board meetings attended/total	Board meetings attendance percentage	Number of general meetings attended/total	General meetings attended percentage
Executive Directors				
Mr. Li Weiruo	32/32	100%	2/2	100%
Mr. Yuan Bai	32/32	100%	2/2	100%
Ms. Chi Chuan	32/32	100%	2/2	100%
Ms. Man Au Vivian	32/32	100%	2/2	100%
Mr. Li Shengdi	32/32	100%	2/2	100%
Mr. Li Feng	28/28	100%	1/1	100%
Mr. Li Ciping	28/28	100%	1/1	100%
Independent Non-Executive Directors				
Mr. Hu Xiaoping	6/32	18.8%	2/2	100%
Mr. Woo Che-wor, Alex	6/32	18.8%	2/2	100%
Mr. Qian Laizhong	6/32	18.8%	2/2	100%
Mr. Sun Tongchuan	6/32	18.8%	2/2	100%

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 six 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 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 Ciping is responsible for the sales and marketing matters of the Group. 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 27th April 2012 under the Investor Relations section of the Company's website at www.koyochem.com.

Procedures for directing shareholders' enquires to the Board

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

DIRECTORS' SECURITIES TRANSACTION

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

REMUNERATION OF DIRECTORS

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

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

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

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

NOMINATION OF DIRECTORS

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

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

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

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

TERM OF APPOINTMENT AND RE-ELECTION

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

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

Pursuant to A.4.3 of the Corporate Governance Code, any further appointment of an Independent Non-Executive Director in excess of nine years should subject to a separate resolution to be approved by shareholders. Mr. Qian Laizhong was appointed as Independent Non-Executive Director in August 2004 and will severe on the Board for eleven years in August 2015. Therefore, Mr. Qian Laizhong should retire and re-election at the forthcoming annual general meeting.

AUDIT COMMITTEE

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

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

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

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

The Audit Committee is responsible for reviewing the accounting principles and practices adopted by the Group, recommending the Board on the Group's internal control and risk management system, and ensuring the Group's financial statements present a true and fair view of the Group's financial position. The Audit Committee had reviewed with management the accounting principles and practices and discussed internal controls and financial reporting matters including a review of the audited financial statements of the Company and Group for the year ended 31st December 2014.

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

INDEPENDENT EXTERNAL AUDITORS

In 2014, the total remuneration paid to the independent external auditors amounted to approximately RMB2.47 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 2015. This resolution has been approved by the Board and is subject to final approval by the shareholders at the forthcoming annual general meeting.

INTERNAL CONTROL

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

Independent Auditor's Report

羅兵咸永道

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

We have audited the consolidated financial statements of Ko Yo Chemical (Group) Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 34 to 107, which comprise the consolidated and company balance sheets as at 31 December 2014, 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.

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T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

Independent Auditor's Report

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 2014, 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.

EMPHASIS OF MATTER

We draw attention to Note 2.1.1 to the consolidated financial statements which states that the Group incurred a consolidated net loss of approximately RMB490,689,000 and had a net operating cash outflows of approximately RMB219,939,000 during the year ended 31 December 2014, and as at that date, the Group's current liabilities exceeded its current assets by approximately RMB803,855,000. These conditions, along with other matters as set forth in Note 2.1.1, 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, 25 March 2015

Consolidated Balance Sheet

	Note	As at 31 December 2014 RMB'000	2013 RMB'000
ASSETS			
Non-current assets			
Land use rights	*5*	**51,838**	53,027
Property, plant and equipment	*6*	**2,992,283**	2,568,621
Investment properties	*7*	**13,145**	13,654
Mining right	*8*	**334,306**	334,306
Other intangible assets	*9*	**10,628**	10,898
Deferred income tax assets	*24*	**38,869**	10,208
		3,441,069	2,990,714
Current assets			
Inventories	*12*	**62,327**	43,259
Trade and other receivables	*13*	**435,820**	360,905
Prepaid income tax, net		**7,555**	7,300
Pledged bank deposits	*14*	**689,603**	1,726,298
Cash and cash equivalents	*15*	**498,099**	116,683
		1,693,404	2,254,445
Non-current assets held for sale	*16*	**198,784**	198,784
		1,892,188	2,453,229
Total assets		**5,333,257**	5,443,943
EQUITY			
Equity attributable to owners of the company			
Share capital	*17*	**302,960**	138,618
Reserves	*19*	**1,450,264**	930,414
		1,753,224	1,069,032
Non-controlling interest		**3,434**	3,267
Total equity		**1,756,658**	1,072,299

Consolidated Balance Sheet

	Note	As at 31 December 2014 RMB'000	2013 RMB'000
LIABILITIES			
Non-current liabilities			
Long-term borrowings	*20*	**648,822**	1,040,218
Convertible bonds	*21*	**147,629**	–
Deferred subsidy income	*23*	**3,238**	3,892
Deferred income tax liabilities	*24*	**80,867**	86,352
		880,556	1,130,462
Current liabilities			
Trade and other payables	*25*	**690,430**	419,606
Short-term borrowings	*26*	**1,719,041**	2,583,575
Current portion of long-term borrowings	*20*	**286,572**	207,510
Derivative financial liabilities	*22*	**–**	30,491
		2,696,043	3,241,182
Total liabilities		**3,576,599**	4,371,644
Total equity and liabilities		**5,333,257**	5,443,943
Net current liabilities		**(803,855)**	(787,953)
Total assets less current liabilities		**2,637,214**	2,202,761

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 2014 RMB'000	2013 RMB'000
ASSETS			
Non-current assets			
Interests in subsidiaries	11	**750,770**	750,770
Loan to subsidiaries	11	**1,017,361**	116,564
		1,768,131	867,334
Current assets			
Trade and other receivables		**–**	476
Cash and cash equivalents		**65**	85
		65	561
Total assets		**1,768,196**	867,895
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	17	**302,960**	138,618
Reserves	19	**1,317,487**	609,813
Total equity		**1,620,447**	748,431
LIABILITIES			
Non-current liabilities			
Long-term borrowings	20	**–**	73,863
Convertible bonds	21	**147,629**	–
		147,629	73,863
Current liabilities			
Accruals and other payables		**120**	461
Current portion of long-term borrowings	20	**–**	14,649
Derivative financial liabilities	22	**–**	30,491
		120	45,601
Total liabilities		**147,749**	119,464
Total equity and liabilities		**1,768,196**	867,895
Net current liabilities		**(55)**	(45,040)
Total assets less current liabilities		**1,768,076**	822,294

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 2014 RMB'000	2013 RMB'000
Turnover	*27*	**1,369,590**	1,339,252
Cost of sales	*28*	**(1,357,771)**	(1,202,342)
Gross profit		**11,819**	136,910
Distribution costs	*28*	**(68,268)**	(54,134)
Administrative expenses	*28*	**(218,399)**	(73,847)
Other (loss)/income — net	*31*	**(172,739)**	9,273
Operating (loss)/profit		**(447,587)**	18,202
Finance income	*32*	**36,011**	47,267
Finance expenses	*32*	**(113,163)**	(129,726)
Finance expenses — net	*32*	**(77,152)**	(82,459)
Loss before income tax		**(524,739)**	(64,257)
Income tax benefit	*33*	**34,050**	6,868
Loss and total comprehensive loss for the year		**(490,689)**	(57,389)
Attributable to:			
Equity holders of the Company		**(490,047)**	(57,056)
Non-controlling interests		**(642)**	(333)
		(490,689)	(57,389)
Loss per share attributable to the equity holders of the Company during the year (expressed in RMB per share)			
— Basic and Diluted	*35*	**(0.2973)**	(0.0396)

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				
		Share capital	Reserves	Total	Non-controlling interests	Total equity
	Note	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2013		138,618	979,454	1,118,072	3,600	1,121,672
Comprehensive loss:						
Loss for the year		–	(57,056)	(57,056)	(333)	(57,389)
Transactions with owners:						
Employee share option scheme:						
— Value of employee services	*19*	–	8,016	8,016	–	8,016
Balance at 31 December 2013		138,618	930,414	1,069,032	3,267	1,072,299
Balance at 1 January 2014		**138,618**	**930,414**	**1,069,032**	**3,267**	**1,072,299**
Comprehensive loss:						
Loss for the year		**–**	**(490,047)**	**(490,047)**	**(642)**	**(490,689)**
Transactions with owners:						
Issue of shares:						
— New Shares	*17*	**63,368**	**124,791**	**188,159**	**–**	**188,159**
— Employee share option scheme	*17*	**2,535**	**14,660**	**17,195**	**–**	**17,195**
— Exercise of warrant rights	*17*	**17,119**	**296,887**	**314,006**	**–**	**314,006**
— Conversion of bonds	*17*	**81,320**	**5,690**	**87,010**	**–**	**87,010**
Issuance of convertible bonds	*21*	**–**	**567,778**	**567,778**	**–**	**567,778**
Changes in ownership interests in a subsidiary without change of control		**–**	**91**	**91**	**809**	**900**
Total transactions with owners		**164,342**	**1,009,897**	**1,174,239**	**809**	**1,175,048**
Balance at 31 December 2014		**302,960**	**1,450,264**	**1,753,224**	**3,434**	**1,756,658**

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 2014 RMB'000	2013 RMB'000
Cash used in operating activities	*36(a)*	**(51,448)**	(9,412)
Interest paid		**(168,140)**	(122,078)
Income tax paid		**(351)**	(3,993)
Net cash used in operating activities		**(219,939)**	(135,483)
Cash flows from investing activities			
Purchases of property, plant and equipment and payments for construction-in-progress		**(283,557)**	(578,494)
Proceeds from disposal of property, plant and equipment	*36(b)*	**16,128**	350
Sales of interest in a subsidiary		**900**	–
Interest received		**40,178**	34,732
Net cash used in investing activities		**(226,351)**	(543,412)
Cash flows from financing activities			
Issuance of New Shares, net of issue cost		**188,159**	–
Exercise of share options		**17,195**	–
Issuance of convertible bonds		**665,600**	–
Decrease/(increase) in pledged bank deposits		**1,036,694**	(497,451)
Proceeds from borrowings		**2,018,471**	2,008,270
Repayments of borrowings		**(3,096,580)**	(1,065,648)
Net cash generated from financing activities		**829,539**	445,171
Net increase/(decrease) in cash and cash equivalents		**383,249**	(233,724)
Cash and cash equivalents at beginning of the year		**116,683**	350,752
Exchange losses		**(1,833)**	(345)
Cash and cash equivalents at end of the year	*15*	**498,099**	116,683

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.

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

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

These consolidated financial statements are presented in Renminbi ("RMB"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 25 March 2015.

On 13 November 2014, the Company issued convertible bonds ("CB") with a principal amount of HKD832,000,000 (equivalent to approximately RMB665,600,000) and 800,000,000 new shares at an issue price of HKD0.32 per share (the "New Share") to Asia Pacific Resources Development Investment Limited (the "Subscriber" or "Asia Pacific"), a company incorporated in the British Virgin Islands and is wholly beneficially owned by Mr. Cheng Kin Ming.

Upon issuance of New Share, Mr. Cheng Kin Ming became the largest shareholder of the Company, who owns approximately 22.86% of the Company's issued shares as at 31 December 2014. Mr. Li Weiruo, a director of the Company, became the second largest shareholder, who owns approximately 16.73% of the Company's issued shares as at 31 December 2014 (2013: 40.7%).

On 13 October 2014, every five authorised and issued shares of HKD0.02 each in the share capital of the Company were consolidated into one consolidated share of HKD0.1 each in the share capital of the Company (the "Share Consolidation"). Share information disclosed in these consolidated financial statements has been adjusted on post-consolidation basis.

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 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 revaluation of 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)*

2.1.1 Going concern

The Group incurred a consolidated net loss of RMB490 million and had a net operating cash outflows of RMB220 million during the year ended 31 December 2014. As at 31 December 2014, the Group's current liabilities exceeded its current assets by approximately RMB804 million. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

In addition, the Group has contracted capital commitments of RMB343 million as at 31 December 2014.

The directors of the Company have reviewed the Group's cash flow projections, which cover a period of twelve months from 31 December 2014. They have assessed the appropriateness of adopting the going concern basis for the preparation of these financial statements for the year ended 31 December 2014 in light of the Group's plans and measures described below to improve its cash flows:

(a) As at 31 December 2014, the Group's total borrowings amounted to RMB2,802 million, of which RMB2,006 million will be due within twelve months from 31 December 2014. As at that date, the Group's bank deposits pledged for short-term borrowings amounted to RMB616 million. The Group has not experienced any significant difficulties in renewing its short-term borrowings upon their maturities and there is no indication that the banks will not renew the existing short-term borrowings if the Group applies for the renewal. Subsequent to the balance sheet date and up to the date of approval of these financial statements, the Group has renewed short-term borrowings of approximately RMB252 million for another twelve months. In addition, certain banks have advised their intention in writing, though not legally binding, to renew or to extend the loans of approximately RMB1,467 million for another twelve months when they fall due in 2015.

(b) On 18 January 2015, the Company and Asia Pacific entered into an agreement pursuant to which Asia Pacific has unconditionally and irrevocably granted a put option (the "Put Option") to the Company entitling the Company, at any-time during the put option period, to require Asia Pacific to subscribe from the Company new convertible bonds in the aggregate principal amount of no more than HKD1,440 million (equivalent to RMB1,160 million). The put option period is three years. The Put Option will only become exercisable if the following resolutions are passed by the independent shareholders at extraordinary general meeting approving: (i) the issue of the new convertible bonds and the transactions contemplated thereunder; and (ii) the granting of the specific mandate to the directors to issue the conversion shares. If any of the above conditions are not satisfied before 30 June 2015, the put option agreement will be terminated. The new convertible bonds, when issued, will bear interest at 7% per annum and will mature on the tenth anniversary of the date of issue. The directors believe Asia Pacific has adequate financial resources to honour the put option agreement when required and there is no legal obstacle which will prevent the issuance of the new convertible bonds.

(c) As at 31 December 2014, the contracted capital expenditure committed by the Group amounted to approximately RMB343 million, of which approximately RMB86 million is required to be settled in the coming twelve months. These commitments are mainly related to the construction of two new production facilities in GuangAn, Sichuan province. The directors of the Company will undertake close monitoring process to control the magnitude and timing of the expected cash outlays associated with the new projects.

(d) The directors also expect that sufficient sales orders will be secured in the coming year such that net operating cash inflows will be generated from its existing as well as the newly completed production facilities.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.1 Going concern *(Continued)*

In the opinion of the directors, in light of the above, the Group will have sufficient financial resources to finance its operations and fulfill its financial obligations as and when required in the coming twelve months from 31 December 2014. Accordingly, the directors are satisfied that it is appropriate to prepare these consolidated financial statements on a going concern basis.

Notwithstanding the above, significant uncertainties exist as to whether management of the Company will be able to achieve its plans and measures as described above. Whether the Group will be able to continue as a going concern would depend upon the Group's ability to generate adequate financing cash inflows through successful renewal of its current bank loans upon expiry, obtaining additional bank borrowing, and securing other sources of financing, including the issuance of convertible bonds under the Put Option as needed; and generate adequate operating cash inflows. Should the Group be unable to achieve the above plans and measures such that it would not be able to operate as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amounts, to provide for any future liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effect of these adjustments has not been reflected in these consolidated financial statements.

2.1.2 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 2014 that have a material impact on the Group.

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

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 2014 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. The complete version of HKFRS 9 was issued in July 2014. It replaces the guidance in HKAS 39 that relates to the classification and measurement of financial instruments. HKFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income ("OCI") and fair value through profit and loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in HKAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. HKFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under HKAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Group is yet to assess HKAS 9's full impact.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.2 Changes in accounting policy and disclosures *(Continued)*

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

- HKFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces HKAS 18 'Revenue' and HKAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2017 and earlier application is permitted. The Group is assessing the impact of HKAS 15.

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.

(a) Business combinations

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

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

Acquisition-related costs are expensed as incurred.

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Subsidiaries *(Continued)*

2.2.1 Consolidation *(Continued)*

(a) Business combinations (Continued)

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.

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

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

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

(c) Disposal of subsidiaries

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

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.3 Segment reporting

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

2.4 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.5 Property, plant and equipment *(Continued)*

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.11).

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.

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 other than mining right and land use rights

(a) Goodwill

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

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

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs 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 an impairment are 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.

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' (Note 2.16), 'pledged bank deposits' and 'cash and cash equivalents' (Note 2.17) in the balance sheet.

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. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

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 indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

The Group first assesses whether objective evidence of impairment exists.

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/(loss) — 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".

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 Borrowing costs

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

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

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

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 HKD1,250 from January 2014 to May 2014 and HKD1,500 from June 2014 to December 2014 for each eligible employee) as calculated under the MPF legislation. The assets of this MPF Scheme are held separately from those of the Group in independently administered funds.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.26 Share-based payment transactions

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

(a) Share options

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

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

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

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

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the profit and loss account, with a corresponding adjustment to equity. There is no share options granted by the Group during the year 2014.

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.26 Share-based payment transactions *(Continued)*

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

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

The debt component (i.e the bondholder's right to demand payment in cash) of the convertible bond will be accounted for as a cash-settled share-based payment transaction while the equity component (i.e the bondholder's right to demand settlement in the Company's shares) of the convertible bond will be accounted for as an equity-settled share-based payment transaction. The entity first measures the fair value of the debt component, and then measure the fair value of the equity component by taking into account that the bondholder must forfeit the right to receive cash in order to receive the equity instrument. Subsequent to initial recognition, the debt component of the convertible bond is stated at fair value, with changes recorded in the income statement under financial expenses. The equity component is not re-measured subsequent to initial recognition.

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

2.30 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.

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 2014, 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 RMB993,000 (2013: post-tax loss increased/decreased by RMB2,216,000), mainly as a result of foreign exchange losses/gains on translation of the USD-denominated long-term borrowings.

As at 31 December 2014, 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 decreased/increased by RMB9,944,000 (2013: post-tax loss increased/decreased by RMB2,067,000), mainly as a result of foreign exchange losses/gains on translation of the HKD-denominated cash and cash equivalents.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Cash flow and fair value interest rate risk

The Group's interest rate risk mainly arises from pledged bank deposits and borrowings. Long-term borrowing issued at variable rates expose the Group to cash flow risk which is partially offset by cash held at variable rates. The Group's pledged bank deposits, short-term borrowings and convertible bonds were issued at fixed rates and exposed the Group to fair value interest rate risk. During 2014 and 2013, 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 2014, 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 RMB1,938,000 (2013: post-tax loss increased/decreased by RMB2,121,000), 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 2014				
Trade and other payables	**408,463**	**–**	**–**	**–**
Short-term borrowings	**1,719,041**	**–**	**–**	**–**
Long-term borrowings	**291,507**	**635,000**	**214,960**	**–**
Convertible bonds	**–**	**–**	**–**	**405,376**
Interest payment on borrowings and convertible bonds	**84,259**	**63,788**	**100,027**	**141,882**
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	–
Company				
At 31 December 2014				
Accruals and other payables	**120**	**–**	**–**	**–**
Convertible bonds	**–**	**–**	**–**	**405,376**
Interest payment on convertible bonds	**24,645**	**28,376**	**85,129**	**141,882**
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	–	–

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 RMB804 million as at 31 December 2014 (2013: RMB788 million). Nevertheless, the Group has not experienced any difficulties in renewing its short-term borrowings upon their maturities.

The directors, having considered the current operation and business plan of the Group as well as the available funding sources as described in Note 2.1.1, are of opinion that the Group will have sufficient working capital to maintain its liquidity.

3.2 Capital management

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

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

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Capital management *(Continued)*

The gearing ratio as at 31 December 2014 was as follows:

	2014	2013
	RMB'000	RMB'000
Short-term borrowings *(Note 26)*	**1,719,041**	2,583,575
Long-term borrowings *(Note 20)*	**935,394**	1,247,728
Convertible bonds *(Note 21)*	**147,629**	–
Total borrowings	**2,802,064**	3,831,303
Less:		
Cash and cash equivalents *(Note 15)*	**(498,099)**	(116,683)
Pledged bank deposits	**(689,603)**	(1,726,298)
Net debt	**1,614,362**	1,988,322
Total equity	**1,756,658**	1,072,299
Total capital	**3,371,020**	3,060,621
Gearing ratio	**48%**	65%

The decrease in the gearing ratio resulted mainly from the issuance of new shares.

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:

	2014			
	Level 1	**Level 2**	**Level 3**	**Total**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Liabilities				
Financial liabilities at fair value through profit or loss				
— convertible bonds *(Note 21)*	**–**	**–**	**147,629**	**147,629**

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Fair value estimation *(Continued)*

	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 22)*	–	–	30,491	30,491

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

The following table presents the changes in level 3 instruments for the year ended 31 December 2014 and 2013.

	2014		2013
	Convertible bonds measured at share-based payment transaction RMB'000	**Derivative financial liabilities RMB'000**	Derivative financial liabilities RMB'000
Opening balance	**–**	**30,491**	36,530
Issuance of convertible bonds	**214,988**	**–**	–
Interest expense recognised in profit or loss	**19,651**	**–**	–
Fair value change recognised in profit or loss	**–**	**175,228**	(6,039)
Exercise	**(87,010)**	**(205,719)**	–
Closing balance	**147,629**	**–**	30,491
Total gains or losses for the period included in profit or loss for liabilities held at the end of the reporting period	**–**	**–**	(6,039)

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 (Note 20).

The carrying amounts less impairment allowance 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) Share-based payment transactions

The CB and New Shares (refer to Note 1) were issued at a total cash consideration less than their total fair value measurement. According to HKFRS 2 — Share-based Payment ("HKFRS 2") paragraph 13A, such difference indicates unidentifiable services have been received (or will be) by the Group. Management considers it is appropriate to account for the issuance of CB and New Shares based on HKFRS 2.

For recognising the share-based payment transactions, the fair value of New Shares on the grant date is determined based on the quoted prices of the Company's ordinary shares and adjustments made to reflect the factors that the market participants would take into account. The fair value of CB on the grant date is determined using valuation techniques including discounted cash flow analysis and option pricing model. The inputs to these models are taken from observable markets where possible, but a degree of judgement is required in establishing the fair values.

(c) 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 8).

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(d) 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 in the cash flow projections, could materially affect the net present value used in the impairment test.

The key assumptions used are:

Sales growth rate	3%
Gross margin	6%–21%
Discount rate (pre-tax)	16%–18%

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

As disclosed in Note 16, 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.

(f) Income taxes

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

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

5 LAND USE RIGHTS — GROUP

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

	2014	2013
	RMB'000	RMB'000
At 1 January		
Cost	**59,289**	59,289
Accumulated amortisation	**(6,262)**	(5,073)
Net book amount	**53,027**	54,216
Opening net book amount	**53,027**	54,216
Amortisation charge for the year	**(1,189)**	(1,189)
	51,838	53,027
At 31 December		
Cost	**59,289**	59,289
Accumulated amortisation	**(7,451)**	(6,262)
	51,838	53,027

All the Group's land use rights are located in Mainland China. The remaining lease periods of the land use rights are between 2 to 44 years (2013: 3 to 45 years).

As at 31 December 2014, certain land use rights with a total net book value of approximately RMB12,004,000 (2013: RMB45,094,000) were pledged as collateral for the Group's long-term borrowings (Note 20(a)(b)).

Amortisation charge 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 2013						
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 36)*	–	–	(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
At 1 January 2014						
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**
Year ended 31 December 2014						
Opening net book amount	**358,799**	**620,153**	**7,731**	**15,354**	**1,566,584**	**2,568,621**
Additions	**2,730**	**26,578**	**1,216**	**7,826**	**483,626**	**521,976**
Disposals *(Note 36)*	**–**	**(14,972)**	**–**	**(5,448)**	**–**	**(20,420)**
Depreciation	**(8,306)**	**(66,830)**	**(833)**	**(1,925)**	**–**	**(77,894)**
Closing net book amount	**353,223**	**564,929**	**8,114**	**15,807**	**2,050,210**	**2,992,283**
At 31 December 2014						
Cost	**385,922**	**828,229**	**14,597**	**20,208**	**2,050,210**	**3,299,166**
Accumulated depreciation	**(32,699)**	**(263,300)**	**(6,483)**	**(4,401)**	**–**	**(306,883)**
Net book amount	**353,223**	**564,929**	**8,114**	**15,807**	**2,050,210**	**2,992,283**

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

Depreciation expense of RMB65,664,000 (2013: RMB64,406,000) had been charged in cost of sales and RMB12,230,000 (2013: RMB10,444,000) in administrative expenses.

All the Group's buildings are located in Mainland China. As at 31 December 2014, property, plant and equipment with a total net book value of approximately RMB908,107,000 (2013: RMB1,390,511,000) were pledged as collateral for the Group's long-term borrowings (Note 20(a)(b)).

Borrowing costs of RMB128,201,000 (2013: RMB65,316,000) (Note 32) have been capitalised in the construction-in-progress at average capitalisation rate of 7.60% (2013: 8.14%).

7 INVESTMENT PROPERTIES — GROUP

	2014 **RMB'000**	2013 RMB'000
Cost		
As at 1 January	**13,862**	–
Transfers from property, plant and equipment *(Note 6)*	**–**	13,862
As at 31 December	**13,862**	13,862
Accumulated depreciation		
As at 1 January	**(208)**	–
Charge for the year	**(509)**	(208)
As at 31 December	**(717)**	(208)
Net book value		
As at 31 December	**13,145**	13,654
As at 1 January	**13,654**	–
Fair value as at 31 December	**24,370**	24,370

The fair values of the investment properties as at 31 December 2014 were estimated by the Group, based on valuation performed by an independent valuer. It falls under level 3 in the fair value hierarchy. For all investment properties, their current use equates to the highest and best use. The valuation was determined using the sale comparison approach. Sales prices of comparable properties in close proximity are adjusted for differences in key attributes such as property size. The most significant input into this valuation approach is price per square meter.

7 INVESTMENT PROPERTIES — GROUP *(Continued)*

The rental income arising from investment properties for the year 2014 of RMB1,721,000 (2013: RMB1,312,000) and depreciation charges are included in other income.

As at 31 December 2014, the Group had no unprovided contractual obligations for future repairs and maintenance (2013: 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 25 years, expiring in 2039.

The Group has not commenced any mining activities, therefore no amortisation was charged in this year. The impairment test information of mining right is set out in Note 10.

9 OTHER INTANGIBLE ASSETS — GROUP

	Goodwill	Construction permits	Total
	RMB'000	RMB'000	RMB'000
At 1 January 2013			
Cost	8,900	2,700	11,600
Accumulated amortisation	–	(702)	(702)
Closing net book amount	8,900	1,998	10,898
At 1 January 2014	**8,900**	**1,998**	**10,898**
Amortisation charge	**–**	**(270)**	**(270)**
Closing net book amount	**8,900**	**1,728**	**10,628**
At 31 December 2014			
Cost	**8,900**	**2,700**	**11,600**
Accumulated amortisation	**–**	**(972)**	**(972)**
Net book amount	**8,900**	**1,728**	**10,628**

Construction permits represent the permissions granted by the government for the construction of GuangAn Project. Amortisation charge of RMB270,000 (2013: RMB270,000) is included in administrative expenses.

10 IMPAIRMENT OF GOODWILL AND MINING RIGHT — GROUP

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:

	2014	2013
Gross margin	**31%**	30%
Growth rate	**3%**	3%
Discount rate (post-tax discount rate applied to the cash flow projections)	**17.25%**	16.71%
Years of cash flows projection (expected mining period of the phosphate mine)	**30 years**	30 years

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

11 INTERESTS IN SUBSIDIARIES AND LOANS TO SUBSIDIARIES — COMPANY

(a) Interests in subsidiaries

	2014 **RMB'000**	2013 RMB'000
Unlisted investments, at cost	**332,113**	332,113
Investment arising from share-based compensation *(Note i)*	**11,378**	11,378
Amounts due from subsidiaries *(Note ii)*	**407,279**	407,279
	750,770	750,770

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

(ii) The amounts due from subsidiaries are unsecured, non-interest bearing, denominated in HKD. The repayments are at the discretion of the subsidiaries.

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

(b) Loans to subsidiaries

	2014 RMB'000	2013 RMB'000
Loans to subsidiaries	**1,017,361**	116,564

The loans to subsidiaries are unsecured, denominated in HKD, due by 11 November 2024 and bear interest at 7% (2013: 9%) per annum.

The following is a list of the subsidiaries as at 31 December 2014, all of which are limited liability Company:

Name (Note i)	Place of incorporation/ establishment	Principal activities and place of operation	Particulars of issued share capital	Interest held
Held directly:				
Ko Yo Ecological Agrotech (BVI) Limited ("Ko Yo BVI")	British Virgin Islands ("BVI")	Investment holding, BVI	100 ordinary shares of USD1 each	100%
Bright Bridge Investments Limited	BVI	Investment holding, BVI	1 ordinary share of USD1 each	100%
Held directly:				
Ko Yo Development Company Limited ("Ko Yo Hong Kong") *(Note ii)*	Hong Kong	Investment holding, 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	Manufacture and sale of chemical products and chemical fertilisers, Mainland China	RMB27,000,000	100%
Chengdu Ko Yo Compound Fertilisers Co., Ltd. ("Chengdu Ko Yo Compound")	Mainland China	Manufacture, research, development and sale of bulk blended fertilisers, Mainland China	RMB15,000,000	100%

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

The following is a list of the subsidiaries as at 31 December 2014, all of which are limited liability Company: *(Continued)*

Name (Note i)	Place of incorporation/ establishment	Principal activities and place of operation	Particulars of issued share capital	Interest held
Dazhou Ko Yo Chemical Industry Co., Ltd ("Dazhou Ko Yo Chemical") *(Note ii)*	Mainland China	Manufacture and sale of chemical products, Mainland China	RMB350,000,000	100%
Qingdao Ko Yo Chemical Industry Co., Ltd. ("Qingdao Ko Yo Chemical")	Mainland China	Manufacture, research, development and sale of bulk blended fertilisers, Mainland China	USD2,100,000	100%
Hong Kong Cuyo Investment Limited ("Hong Kong Cuyo")	Hong Kong	Investment holding, Hong Kong	4,720,000 ordinary shares	100%
Sichuan Chengyuan Chemical Industry Co., Ltd ("Sichuan Cuyo") *(Note ii)*	Mainland China	Exploration and exploitation of a phosphorous mine, Mainland China	RMB5,000,000	100%
Sichuan Ko Yo Agrochem Co., Ltd ("Ko Yo Agrochem")	Mainland China	Sale of chemical products and chemical fertilisers, Mainland China	RMB24,000,000	100%
Guangan Ko Yo Chemical Industry Co., Ltd ("Ko Yo GuangAn")	Mainland China	Manufacture and sale of chemical products, Mainland China	RMB160,000,000	100%
Chengdu Dayuan Chemical Industry Co., Ltd ("Ko Yo Dayuan")	Mainland China	Investment holding, Mainland China	RMB100,000	100%
Chengdu Meiyuan Chemical Industry Co., Ltd ("Ko Yo Meiyuan")	Mainland China	Investment holding, Mainland China	RMB100,000	100%

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

The following is a list of the subsidiaries as at 31 December 2014, all of which are limited liability Company: *(Continued)*

Name (Note i)	Place of incorporation/ establishment	Principal activities and place of operation	Particulars of issued share capital	Interest held
Guangan Lotusan Natural Gas Chemicals Co., Ltd ("Ko Yo Lotusan")	Mainland China	Manufacture and sale of chemical products, Mainland China	RMB43,000,000	100%
Sichuan Ko Chang Technology Co., Ltd ("Ko Yo Ko Chang") *(Note iv)*	Mainland China	Development of phosphoric acid production technology	RMB10,000,000	55%
Ko Yo Hong Kong New Material Company Limited ("Hong Kong New Material")	Hong Kong	Investment holding, Hong Kong	10,000 ordinary shares	100%
Guangan Ko Yo New Material Co., Ltd ("Guangan New Material")	Mainland China	Manufacture and sale of engineering plastics, Mainland China	RMB64,000,000	100%
Sichuan KoYo Chemical Sci-tech Development Co., Ltd *(Note iii)*	Mainland China	Development of chemical production technology, Mainland China	–	100%
Guangan Ko Yo Phos-chemical Technology Co., Ltd *(Note iii)*	Mainland China	Manufacture and sale of chemical products, Mainland China	–	100%

Notes:

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

ii. 100% equity interest of Ko Yo Hong Kong, Dazhou Ko Yo Chemical, and Sichuan Cuyo were pledged as collateral for the Group's borrowings (Note 20(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.

iii. In 2014, Sichuan Ko Yo Chemical Sci-tech Development Co., Ltd and Guangan Ko Yo Phos-chemical Technology Co., Ltd were newly established by the Group with registered capital of RMB5,000,000 and RMB100,000,000 respectively, which have not been paid up.

iv. The total NCI for the year is RMB3,434,000, which is attributed to Ko Yo Ko Chang. During the year, 9% equity interest in Ko Yo Ko Chang was transferred to Changsha Haosheng Chemical Technology Co., Ltd, a non-controlling interest.

12 INVENTORIES — GROUP

	2014 RMB'000	2013 RMB'000
Raw materials	50,048	38,353
Finished goods	12,279	4,906
	62,327	43,259

The cost of inventories recognised as expense and included in "cost of sales" and in "other (loss)/income, net" amounted to RMB634,759,000 (2013: RMB516,599,000) and RMB5,067,000 (2013: Nil), respectively.

There is no inventory write-down as at 31 December 2014 (2013: Nil).

13 TRADE AND OTHER RECEIVABLES — GROUP

	2014 RMB'000	2013 RMB'000
Trade receivables	23,140	10,448
Less: provision for impairment of trade receivables	(5,241)	(5,241)
Trade receivables — net	17,899	5,207
Notes receivable	2,112	3,285
Prepayments for raw materials	221,411	217,219
Prepaid input value-added tax	167,081	90,003
Due from employees	8,177	5,447
Others	19,140	39,744
	435,820	360,905

As at 31 December 2014 and 2013, the fair value of trade and other receivables of the Group approximated to their carrying amounts.

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

13 TRADE AND OTHER RECEIVABLES — GROUP *(Continued)*

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

	2014 RMB'000	2013 RMB'000
Less than 3 months	**17,899**	5,207
More than 3 years	**5,241**	5,241
	23,140	10,448
Less: provision for impairment of trade receivables	**(5,241)**	(5,241)
	17,899	5,207

As of 31 December 2014, trade receivables of RMB17,899,000 (2013: RMB5,207,000) that are under credit term were fully performing.

As at 31 December 2014, trade receivables of RMB5,241,000 (2013: RMB5,241,000) were impaired and a total provision of RMB5,241,000 (2013: RMB5,241,000) was provided for. The individually impaired receivables mainly relate to wholesalers, which are in unexpected difficult economic situations. The ageing of these receivables is more than 3 years.

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

	2014 RMB'000	2013 RMB'000
RMB	**431,233**	350,613
HKD	**4,587**	10,292
	435,820	360,905

There are no movements on the provision for impairment of trade receivables during the year.

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

14 PLEDGED BANK DEPOSITS — GROUP

The deposits are denominated in RMB and pledged for certain bank borrowings. The effective interest rates on pledged bank deposits are ranging from 2.35% to 4.75% (2013: 2.60% to 4.75%).

15 CASH AND CASH EQUIVALENTS — GROUP

	2014 **RMB'000**	2013 RMB'000
Cash at bank	**498,089**	116,650
Cash in hand	**10**	33
	498,099	116,683
Maximum exposure to credit risk	**498,089**	116,650

The weighting average effective interest rate on cash at bank at 31 December 2014 is 0.35% (2013: 0.35%).

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

	2014 **RMB'000**	2013 RMB'000
RMB	**264,070**	109,297
HKD	**234,029**	7,386
	498,099	116,683

16 NON-CURRENT ASSETS HELD FOR SALE

In 2011, due to municipal planning arrangement, at the request of the People's Government of Chengdu, the manufacturing plant of Ko Yo Chemical at Chengdu, Sichuan Province is required to be discontinued. The Group therefore has applied to the government to approve the change of the usage of Ko Yo Chemical's land use rights from industrial usage to commercial usage ("Government Approval") and is arranging the disposal of the non-current assets of Ko Yo Chemical to other parties. Ko Yo Chemical ceased operation since 2011.

In 2011, the Group and Chengdu Hexin Real Estate Co, Ltd (the "Purchaser") entered into various agreements to sell 100% equity interest in Ko Yo Chemical, at a total cash consideration of RMB219.44 million.

RMB69.44 million was received for the transferring of 40% equity interest in Ko Yo Chemical to the Purchaser. A deposit of RMB30.66 million has also been received from the Purchaser for acquiring the remaining 60% equity interest in Ko Yo Chemical.

Pursuant to the agreements, the Group is required to settle remaining liabilities of Ko Yo Chemical and is entitled to the proceeds from disposal of certain machinery of Ko Yo Chemical. The Group has received a consideration of RMB31 million for such disposal from an independent third party.

Due to the delay of Government Approval and fulfilment of certain terms and conditions, the sale of the wholly 100% equity interest in Ko Yo Chemical has not been completed. And thus all the amounts received in relation to the disposal of Ko Yo Chemical and the machinery totalling RMB131.1 million are classified as advances from the Purchasers (Note 25).

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 the Government Approval, the directors consider the assets of Ko Yo Chemical should remain being classified as non-current assets held for sale.

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

Subsequent to the balance sheet date and up to the date of approval of these financial statements, a deposit payment of RMB2,980,000 for the Government Approval has been paid by the Group to the Bureau of Land and Resources of Xindu.

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

	As at 31 December 2013 and 2014 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

17 SHARE CAPITAL

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

	Number of shares		**Share capital**	
	2014 **'000**	2013 '000	**2014** **HKD'000**	2013 HKD'000
Authorised:				
At the beginning of year	**20,000,000**	20,000,000	**400,000**	400,000
Share Consolidation *(Note a)*	**(16,000,000)**	–	**–**	–
Increase of authorised share capital *(Note b)*	**4,000,000**	–	**400,000**	–
At end of year	**8,000,000**	20,000,000	**800,000**	400,000

17 SHARE CAPITAL *(Continued)*

Ordinary shares, issued and fully paid:

	Number of shares		Share capital	
	2014	2013	**2014**	2013
	'000	'000	**RMB'000**	RMB'000
At the beginning of the year	**7,195,285**	7,195,285	**138,618**	138,618
Share Consolidation *(Note a)*	**(5,756,228)**	–	**–**	–
Issue of shares:				
— New Shares *(Note c)*	**800,000**	–	**63,368**	–
— Employee share option scheme *(Note 18)*	**32,000**	–	**2,535**	–
— Exercise of warrant rights *(Note d), (Note 22)*	**215,385**	–	**17,119**	–
— Conversion of bonds *(Note e)*	**1,016,500**	–	**81,320**	–
At end of the year	**3,502,942**	7,195,285	**302,960**	138,618

(a) Share consolidation

On 13 October 2014, every five authorised and issued shares of HKD0.02 each in the share capital of the Company were consolidated into one consolidated share of HKD0.1 each in the share capital of the Company. Accordingly, the number of authorised and issued shares of the Company was reduced by 16,000,000,000 and 5,756,228,000, respectively.

Share information disclosed in these consolidated financial statements has been adjusted on post-consolidation basis.

(b) Increase of authorised share capital

On 13 October 2014, the authorised share capital of the Company was increased from HKD400,000,000 to HKD800,000,000 by the creation of an additional 4,000,000,000 shares of HKD0.1 each.

(c) New Shares

On 13 November 2014, the Company issued 800,000,000 ordinary shares at an issue price of HKD0.32 (equivalent to RMB0.25) per share to Asia Pacific. Share premium of RMB124,791,000, representing the difference between the cash proceeds of RMB188,159,000 and the par value of issued shares amounting to RMB63,368,000, was recognised.

17 SHARE CAPITAL *(Continued)*

(d) Exercise of warrant rights

During the year, due to the issue of New Shares and CB, the Company adjusted the exercise price of warrants issued to Asian Equity and PA International from HKD0.8 per share to HKD0.65 per share. Asian Equity and PA International exercised all of the warrants to subscribe 215,385,000 new ordinary shares at an exercise price of HKD0.65 (equivalent to RMB0.517) per share. The weighted average share price at the time of exercise of warrants was HKD1.852 (equivalent to RMB1.472) per share. Share premium was recognised as below:

	RMB'000
Carrying amount of long-term borrowing	108,287
Fair value of derivative financial liabilities on exercise dates	205,719
	314,006
Less par value of share issued	(17,119)
Share premium	296,887

(e) Conversion of bonds

During the year, the CB holders exercised certain CB to subscribe 1,016,500,000 ordinary shares at an exercise price of HKD0.32 (equivalent to RMB0.256) per share. The weighted average share price at the time of exercise of CB was HKD2.025 (equivalent to RMB1.599). Share premium was recognised as below:

	RMB'000
Carrying amount of CB — liability component	87,010
Carrying amount of CB — equity component	222,001
	309,011
Less par value of share issued	(81,320)
Share premium	227,691

18 SHARE-BASED PAYMENT

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

(a) GEM Share Option Scheme

On 10 June 2003, the Company adopted a share option scheme (the "GEM Share Option Scheme").

The details of share options outstanding are as follows:

Date of grant	23 September 2003	11 April 2006	16 May 2006	10 September 2007	
Exercise price (HKD per option)	0.6	0.75	0.75	0.58	
Granted to	2 executive directors, 2 independent directors and 6 employees	18 employees	2 executive directors and 1 independent director	7 employees	
			(Note i)		**Total**
At 1 January 2013	24,400,000	6,800,000	1,240,000	5,000,000	37,440,000
Expired	(24,400,000)	–	–	–	(24,400,000)
Forfeited	–	(300,000)	–	(400,000)	(700,000)
At 31 December 2013	–	6,500,000	1,240,000	4,600,000	12,340,000
At 1 January 2014	**–**	**6,500,000**	**1,240,000**	**4,600,000**	**12,340,000**
Exercised	**–**	**(4,700,000)**	**(420,000)**	**(3,800,000)**	**(8,920,000)**
At 31 December 2014	**–**	**1,800,000**	**820,000**	**800,000**	**3,420,000**

18 SHARE-BASED PAYMENT *(Continued)*

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

(i) The remained outstanding options are as follows:

Exercisable period	Directors	Number of options 31 December 2014
16 May 2006 to 10 April 2016	Mr. Yuan Bai	**400,000**
16 May 2006 to 10 April 2016	Mr. Qian Laizhong	**420,000**
		820,000

(b) New Share Option Scheme

On 18 September 2008, the Company adopted a new share option scheme (the "New Share Option Scheme"). The details of share options outstanding are as follows:

Date of grant	**14 January 2010**	**23 November 2010**	**28 March 2013**	**15 November 2013**	
Exercise price (HKD per option)	1.15	1.1	0.595	0.48	
Granted to	5 executive directors and 8 employees	3 independent directors	4 executive directors and 2 independent directors and 21 employees	1 independent director	
	(Note i)	*(Note ii)*	*(Note iii)*	*(Note iv)*	**Total**
At 1 January 2013	11,380,000	2,400,000	–	–	13,780,000
Granted	–	–	32,700,000	1,200,000	33,900,000
Forfeited	(2,200,000)	–	–	–	(2,200,000)
At 31 December 2013	9,180,000	2,400,000	32,700,000	1,200,000	45,480,000
At 1 January 2014	**9,180,000**	**2,400,000**	**32,700,000**	**1,200,000**	**45,480,000**
Exercised	**(3,480,000)**	**–**	**(19,600,000)**	**–**	**(23,080,000)**
At 31 December 2014	**5,700,000**	**2,400,000**	**13,100,000**	**1,200,000**	**22,400,000**

18 SHARE-BASED PAYMENT *(Continued)*

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

(i) The remained outstanding options are as follows:

Exercisable period	Directors	Number of options 31 December 2014
14 January 2010 to 13 January 2020	Mr. Yuan Bai	800,000
14 January 2010 to 13 January 2020	Ms. Man Au Vivian	800,000
14 January 2010 to 13 January 2020	Mr. Li Ciping	1,600,000
		3,200,000
14 January 2010 to 13 January 2020	Other employees	2,500,000
		5,700,000

(ii) The remained outstanding options are as follows:

Exercisable period	Directors	Number of options 31 December 2014
23 November 2010 to 22 November 2020	Mr. Hu Xiaoping	800,000
23 November 2010 to 22 November 2020	Mr. Woo Che-wor, Alex	800,000
23 November 2010 to 22 November 2020	Mr. Qian Laizhong	800,000
		2,400,000

18 SHARE-BASED PAYMENT *(Continued)*

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

(iii) The remained outstanding options are as follows:

Exercisable period	Directors	Number of options 31 December 2014
28 March 2013 to 27 March 2023	Mr. Yuan Bai	**2,200,000**
28 March 2013 to 27 March 2023	Ms. Chi Chuan	**3,800,000**
28 March 2013 to 27 March 2023	Mr. Hu Xiaoping	**400,000**
28 March 2013 to 27 March 2023	Mr. Woo Che-wor, Alex	**400,000**
		6,800,000
28 March 2013 to 27 March 2023	Other employees	**6,300,000**
		13,100,000

(iv) The remained outstanding options are as follows:

Exercisable period	Directors	Number of options 31 December 2014
15 November 2013 to 14 November 2023	Mr. Sun Tongchuan	**1,200,000**

19 RESERVES

Movements of the Group's reserves are as follows:

	Note	Share premium RMB'000	Merger reserve RMB'000 (Note a)	Share-based compensation reserve — share options 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
Loss for the year		–	–	–	–	–	(57,056)	–	(57,056)
Appropriation	*19(b)*	–	–	–	321	–	(321)	–	–
Employee share option scheme									
— Value of employee services	*17*	–	–	8,016	–	–	–	–	8,016
At 31 December 2013		550,133	(22,041)	22,202	45,273	1,131	337,316	(3,600)	930,414

19 RESERVES *(Continued)*

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

	Note	Share premium RMB'000	Merger reserve RMB'000 *(Note a)*	Share-based compensation reserve — share options RMB'000	Share-based compensation reserve — convertible bonds RMB'000	Reserve fund RMB'000 *(Note b)*	Enterprise expansion fund RMB'000 *(Note b)*	Retained earnings/ (accumulated loss) RMB'000	Transaction with NCI RMB'000 *(Note d)*	Total RMB'000
At 1 January 2014		550,133	(22,041)	22,202	–	45,273	1,131	337,316	(3,600)	930,414
Loss for the year		–	–	–	–	–	–	(490,047)	–	(490,047)
Issue of shares:										
— New Shares	17	124,791	–	–	–	–	–	–	–	124,791
— Employee share option scheme	17	14,660	–	–	–	–	–	–	–	14,660
— Exercise of warrant rights	17	296,887	–	–	–	–	–	–	–	296,887
— Conversion of bonds	17	227,691	–	–	(222,001)	–	–	–	–	5,690
Issuance of convertible bonds	21	–	–	–	567,778	–	–	–	–	567,778
Changes in ownership interests in a subsidiary without change of control	19(d)	–	–	–	–	–	–	–	91	91
At 31 December 2014		1,214,162	(22,041)	22,202	345,777	45,273	1,131	(152,731)	(3,509)	1,450,264

19 RESERVES *(Continued)*

Movements of the Company's reserves are as follows:

	Notes	Share premium RMB'000	Contributed surplus RMB'000 *(Note c)*	Share-based compensation reserve — share options RMB'000	Share-based compensation reserve — convertible bonds RMB'000	Retained earnings/ (accumulated losses) RMB'000	Total RMB'000
At 1 January 2013		550,133	37,162	14,186	–	1,720	603,201
Loss for the year		–	–	–	–	(1,404)	(1,404)
Employee share option scheme							
— Value of employee services	*17*	–	–	8,016	–	–	8,016
At 31 December 2013		550,133	37,162	22,202	–	316	609,813
At 1 January 2014		**550,133**	**37,162**	**22,202**	**–**	**316**	**609,813**
Loss for the year	*34*	**–**	**–**	**–**	**–**	**(302,132)**	**(302,132)**
Issue of shares:							
— New Shares	*17*	**124,791**	**–**	**–**	**–**	**–**	**124,791**
— Employee share option scheme	*17*	**14,660**	**–**	**–**	**–**	**–**	**14,660**
— Exercise of warrant rights	*17*	**296,887**	**–**	**–**	**–**	**–**	**296,887**
— Conversion of bonds	*17*	**227,691**	**–**	**–**	**(222,001)**	**–**	**5,690**
Issuance of convertible bonds	*21*	**–**	**–**	**–**	**567,778**	**–**	**567,778**
At 31 December 2014		**1,214,162**	**37,162**	**22,202**	**345,777**	**(301,816)**	**1,317,487**

19 RESERVES *(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 established by the Group with fully paid share capital of RMB10,000,000 in May 2012.

On 19 October 2012, the Group transferred 36% equity interest in Ko Yo Ko Chang at a cash consideration of RMB1 to Changsha Research Institute of Mining and Metallurgy Co., Ltd. The resulting loss of RMB3,600,000 is recorded in equity, as a transaction with NCI.

On 28 April 2014, the Group transferred 9% equity interest in Ko Yo Ko Chang at a cash consideration of RMB900,000 to Changsha Haosheng Chemical Technology Co., Ltd. The resulting gain of RMB91,000 is recorded in equity, as a transaction with NCI.

20 LONG-TERM BORROWINGS

	Group		Company	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Bank borrowings *(Note a)*	**911,599**	1,107,067	**–**	–
Borrowing from IFC *(Note b)*	**23,795**	52,149	**–**	–
Borrowings from Asian Equity and PA International *(Note c)*	**–**	88,512	**–**	88,512
	935,394	1,247,728	**–**	88,512

(a) Bank borrowings

The long-term bank borrowings are secured by bank deposits of RMB73,433,000 (2013: RMB301,191,000), property, plant and equipment with a total net book value of RMB818,366,000 (2013: RMB1,242,351,000), 100% equity interest in Ko Yo Hong Kong, Dazhou Ko Yo Chemical, and Sichuan Cuyo and guaranteed by Mr. Li Weiruo. As at 31 December 2014, no investment property and land use rights were pledged for any long-term bank borrowings (2013: investment property and land use rights with net book value of RMB13,654,000 and RMB32,895,000 respectively were pledged for long-term bank borrowings).

The average effective interest rate of bank borrowings as at 31 December 2014 is 8.09% (2013: 7.83%).

(b) Borrowing from IFC

On 16 April 2009, the Group entered into a borrowing agreement and a warrant subscription agreement with IFC, pursuant to which, IFC granted a long-term loan 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 for nil consideration to IFC to subscribe for 100,000,000 ordinary shares in the Company at an exercise price of HKD0.78 per share (Note 22(a)). The borrowing will be due in 2015.

20 LONG-TERM BORROWINGS *(Continued)*

(b) Borrowing from IFC *(Continued)*

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	
	2014	2013
	RMB'000	RMB'000
Fair value at initial recognition	**94,619**	94,619
Accumulated interest expense accrued	**59,402**	51,896
Accumulated interest paid	**(29,069)**	(26,538)
Accumulated principal paid	**(100,039)**	(65,815)
Accumulated exchange difference	**(1,118)**	(2,013)
At 31 December	**23,795**	52,149

The effective interest rate of the borrowing as at 31 December 2014 is 11.74% (2013: 13.19%).

The borrowing is secured by certain land use rights with a total net book value of approximately RMB12,004,000 (2013: RMB12,199,000), and property, plant and equipment with a total net book value of RMB89,741,000 (2013: RMB148,160,000).

(c) Borrowing from Asian Equity and PA International

In order to finance the construction of GuangAn Project, the Company entered into a bonds subscription agreement and a warrant subscription agreement with Asian Equity and PA International on 29 June 2012, pursuant to which, Asian Equity and PA International subscribed for a bond of HKD140 million (equivalent to RMB113 million) issued by the Company at the nominal interest rate of 9% per annum and the Company issued warrants for nil consideration to Asian Equity and PA International to subscribe for 175,000,000 ordinary shares in the Company at an exercise price of HKD0.8 per share. The bonds are due by 7 July 2015, subject to an early redemption put options held by Asian Equity and PA International, and guaranteed by Mr. Li Weiruo.

20 LONG-TERM BORROWINGS *(Continued)*

(c) Borrowing from Asian Equity and PA International *(Continued)*

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

	Group and Company	
	2014	2013
	RMB'000	RMB'000
Fair value at initial recognition	**72,423**	72,423
Accumulated interest expense accrued	**47,556**	33,460
Accumulated interest paid	**(10,120)**	(14,836)
Accumulated exchange difference	**(1,572)**	(2,535)
Accumulated exercised value	**(108,287)**	–
At 31 December	**–**	88,512

The effective interest rate of the above borrowing as at 31 December 2014 is 26.21% (2013: 26.21%).

(d) Long-term borrowings

As at 31 December 2014, the Group's long-term borrowings were repayable as follows:

	Group		Company	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 1 year	**286,572**	207,510	**–**	14,649
Between 1 and 2 years	**433,885**	346,073	**–**	73,863
Between 2 and 3 years	**176,617**	429,476	**–**	–
Between 3 and 5 years	**38,320**	264,669	**–**	–
	935,394	1,247,728	**–**	88,512
Within 1 year included in current liabilities	**(286,572)**	(207,510)	**–**	(14,649)
	648,822	1,040,218	**–**	73,863

All above borrowings are wholly repayable within 5 years.

20 LONG-TERM BORROWINGS *(Continued)*

(d) Long-term borrowings *(Continued)*

The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates at the end of the years are as follows:

	2014	2013
	RMB'000	RMB'000
Within six months	**286,572**	779,216
Between 6 and 12 months	**433,885**	288,512
Between 2 and 3 years	**176,617**	–
Between 3 and 5 years	**38,320**	180,000
	935,394	1,247,728

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

	Group		**Company**	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
At floating rates in USD	**23,795**	52,149	**–**	–
At floating rates in RMB	**911,599**	1,107,067	**–**	–
At fixed rates in HKD	**–**	88,512	**–**	88,512
		–		–
	935,394	1,247,728	**–**	88,512

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 2014 is 8.06% (2013: 8.10%).

21 CONVERTIBLE BONDS

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

At 31 December 2014, a portion of CB with a principal amount of HKD325,280,000 had been converted by bondholders into 1,016,500,000 ordinary shares in the Company.

A convertible bond accounted for under share-based payment transactions consists of a liability component and an equity component. The equity component is presented in equity heading "share-based payment reserve". The movement of the liability and equity components during the year is set out below:

	Liability component RMB'000	**Equity component** RMB'000	**Total** RMB'000
Fair value of CB on grant date	214,988	567,778	782,766
Interest expense accrued	19,651	–	19,651
Fair value change	–	–	–
Converted during the year	(87,010)	–	(87,010)
At 31 December 2014	**147,629**	**567,778**	**715,407**

The difference between the fair value of the CB on grant date and that of the identifiable considerations of RMB117,166,000 is recognised in the administrative expenses (Note 28).

22 DERIVATIVE FINANCIAL LIABILITIES

	2014 RMB'000	2013 RMB'000
IFC Warrants (Note (a))	**–**	49
Warrants and Put Option of Bonds issued to Asian Equity and PA International (Note (b))	**–**	30,442
Total	**–**	30,491

Derivative financial liabilities comprise IFC Warrants and Warrants and put-option of bonds issued to Asian Equity and PA International, the movement of which is set out below:

	2014 RMB'000	2013 RMB'000
Opening balance at 1 January	**30,491**	36,530
Fair value changes charged/(credited) to profit or loss	**175,228**	(6,039)
Exercise of warrants	**(205,719)**	–
At 31 December	**–**	30,491

(a) IFC Warrants

These warrants were issued in accordance with the explanation in Note 20(b). Management has used the Black-Scholes valuation model to determine the fair value of the IFC Warrants, which was recognised as financial liabilities. IFC exercised a portion of the warrants to subscribe for 29,977,000 new shares of the Company on 31 March 2011. All the remaining IFC Warrants expired on 28 April 2014.

22 DERIVATIVE FINANCIAL LIABILITIES *(Continued)*

(a) IFC Warrants *(Continued)*

The movements of the IFC Warrants are as follows:

	2014	2013
	RMB'000	RMB'000
At 1 January	**49**	3,217
Fair value change credited to profit or loss	**(49)**	(3,168)
At 31 December	**–**	49

(b) Warrants and Put Option of Bonds issued to Asian Equity and PA International

As explain in Note 20(c), the Company issued warrants to Asian Equity and PA International for nil consideration (the "Warrants"), which provided Asian Equity and PA International the right to subscribe for 175,000,000 ordinary shares in the Company at an exercise price of HKD0.8 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, to require the Company to buy back the unexercised Warrants at an exercise price of HKD0.224 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 principal and the related interest accrued at a nominal interest rate of 9% per annum.

The Company adjusted the exercise price from HKD0.80 per share to HKD0.65 per share following the issue of the New Shares and CB. Accordingly, 40,385,000 additional shares would be issued to Asian Equity and PA International pursuant to the exercise of the subscription rights.

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

As stated in Note 17(d), Asian Equity and PA International exercised all of the warrants to subscribe for 215,385,000 new ordinary shares in the Company during the year.

22 DERIVATIVE FINANCIAL LIABILITIES *(Continued)*

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

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

	Warrants		Put Option of Bonds		Total	
	2014	2013	**2014**	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
At 1 January	**24,279**	25,865	**6,163**	7,448	**30,442**	33,313
Fair value change charged/ (credited) to profit or loss	**139,792**	(1,586)	**35,485**	(1,285)	**175,277**	(2,871)
Exercise of warrants	**(164,071)**	–	**(41,648)**	–	**(205,719)**	–
At 31 December	**–**	24,279	**–**	6,163	**–**	30,442

Upon exercise of the Warrants, the Put Option of Bonds expired in value.

23 DEFERRED SUBSIDY INCOME — GROUP

Government grant for production facilities

	2014	2013
	RMB'000	RMB'000
At 1 January	**3,892**	4,546
Amortisation *(Note 31)*	**(654)**	(654)
At 31 December	**3,238**	3,892

24 DEFERRED INCOME TAX — GROUP

There were no offsetting of deferred income tax assets and liabilities in 2014 and 2013.

	2014 **RMB'000**	2013 RMB'000
Deferred tax assets:		
— To be recovered after more than 12 months	**38,817**	10,156
— To be recovered within 12 months	**52**	52
	38,869	10,208
Deferred tax liabilities:		
— To be settled after more than 12 months	**(80,867)**	(80,867)
— To be settled within 12 months	**–**	(5,485)
	(80,867)	(86,352)

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

Deferred income tax assets:

	Tax losses RMB'000	**Impairment of assets** RMB'000	**Deferred subsidy income** RMB'000	**Total** RMB'000
At 1 January 2013	1,012	679	420	2,111
Credited/(charged) to profit or loss	8,149	–	(52)	8,097
At 31 December 2013	9,161	679	368	10,208
At 1 January 2014	**9,161**	**679**	**368**	**10,208**
Credited/(charged) to profit or loss	**28,713**	**–**	**(52)**	**28,661**
At 31 December 2014	**37,874**	**679**	**316**	**38,869**

24 DEFERRED INCOME TAX — GROUP

Deferred income tax liabilities:

	Mining right (Note 8) RMB'000	Withholding tax of the unremitted earnings of Mainland China subsidiaries RMB'000	Total RMB'000
At 1 January 2013, 31 December 2013 and 1 January 2014	(80,867)	(5,485)	(86,352)
Credited to profit or loss	–	**5,485**	**5,485**
At 31 December 2014	**(80,867)**	**–**	**(80,867)**

As at 31 December 2014, the Group had total unused tax losses of approximately RMB325,530,000 (2013: RMB154,088,000). No deferred tax asset has been recognised in respect of tax losses of certain subsidiaries of RMB23,229,000 (2013: RMB21,231,000) due to the unpredictability of future profit streams of these subsidiaries. Deferred tax asset of RMB52,804,000 (2013: RMB24,136,000) has been recognised in respect of the tax losses of certain subsidiaries of RMB302,301,000 (2013: RMB118,332,000) as management considered it is probable that these subsidiaries can generate sufficient taxable profit to utilise the above tax loss of RMB302,301,000.

The tax losses that are not recognised as deferred tax asset will be expired as follows:

	2014 RMB'000	2013 RMB'000
Not later than one year	**2,302**	4,289
More than one year and not exceeding three years	**11,822**	5,185
More than three years and not exceeding five years	**9,105**	11,757
At 31 December 2014	**23,229**	21,231

25 TRADE AND OTHER PAYABLES — GROUP

	2014 RMB'000	2013 RMB'000
Trade payables *(Note a)*	**108,156**	20,075
Notes payable *(Note b)*	**–**	10,703
Construction payable	**266,719**	101,384
Advances from customers	**148,481**	90,590
Advances from purchasers *(Note 16)*	**131,100**	131,100
Accrued expenses	**18,666**	41,514
Deposits from suppliers	**3,381**	885
Other taxes payable	**2,386**	1,154
Others	**11,541**	22,201
	690,430	419,606

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

	2014 RMB'000	2013 RMB'000
RMB	**690,310**	419,145
HKD	**120**	461
	690,430	419,606

25 TRADE AND OTHER PAYABLES — GROUP *(Continued)*

(a) Trade payables

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

	2014	2013
	RMB'000	RMB'000
Aged:		
Less than 1 year	**102,322**	16,681
More than 1 year but not exceeding 2 years	**3,702**	2,096
More than 2 years but not exceeding 3 years	**1,059**	1,006
More than 3 years	**1,073**	292
	108,156	20,075

(b) Notes payable

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

26 SHORT-TERM BORROWINGS — GROUP

The short-term borrowings are denominated in RMB and were issued at interest rates which range from 5.60 % to 7.80 % (2013: 5.60% to 8.86%) per annum.

Total short-term borrowings amounted to RMB1,127,278,000 (2013: RMB2,009,905,000) are secured by bank deposits of RMB616,170,000 (2013: bank deposit of RMB1,414,404,000) 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 is as follows:

	2014	2013
	RMB'000	RMB'000
6 months or less	**1,070,472**	2,191,575
Between 6 months to 1 year	**648,569**	392,000
	1,719,041	2,583,575

27 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. 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 12% and 10% respectively of the Group's turnover during the year.

28 EXPENSES BY NATURE

	2014 **RMB'000**	2013 RMB'000
Raw materials and consumables used	**647,199**	502,746
Changes in inventories of finished goods and work in progress	**(7,373)**	13,853
Power and natural gas consumed	**603,391**	552,643
Staff costs *(Note 29)*	**66,550**	68,669
Depreciation and amortisation charges	**79,353**	76,309
Transportation expenses	**58,946**	46,373
Maintenance expenses	**37,856**	29,298
Legal and professional fees	**6,572**	1,561
Stamp duty and other tax	**7,346**	6,747
Advertisement expenses	**1,292**	1,273
Auditors' remuneration — Audit services	**2,470**	2,267
Operating lease payments	**717**	1,016
Loss on disposal of property, plant and equipment	**4,292**	97
Share-based payment arising from the issue of CB *(Note 21)*	**117,166**	–
Other expenses	**18,661**	27,471
Total cost of sales, distribution costs and administrative expenses	**1,644,438**	1,330,323

29 STAFF COSTS

	2014 RMB'000	2013 RMB'000
Wages and salaries	**56,462**	51,459
Pension costs — defined contribution plans	**2,422**	2,207
Social security costs — defined contribution plans	**7,666**	6,987
Share options granted to directors and employees *(Note 18)*	**–**	8,016
	66,550	68,669

30 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The remuneration of every director for the year ended 31 December 2014 and 2013 is set out below:

Name of director	Fees		Salaries, allowances and benefits in kind		Contributions to pension schemes		Share Options		Total	
	2014 RMB'000	2013 RMB'000	2014 RMB'000	2013 RMB'000	2014 RMB'000	2013 RMB'000	2014 RMB'000	2013 RMB'000	2014 RMB'000	2013 RMB'000
Executive Directors										
Mr. Li Weiruo	**1,264**	1,248	**780**	780	**17**	17	**–**	–	**2,061**	2,045
Mr. Yuan Bai *(Note i)*	**237**	234	**942**	942	**40**	42	**–**	523	**1,219**	1,741
Ms. Chi Chuan	**237**	234	**642**	642	**–**	–	**–**	998	**879**	1,874
Mr. Li Shengdi	**237**	234	**642**	642	**–**	–	**–**	998	**879**	1,874
Ms. Man Au, Vivian	**237**	234	**408**	436	**14**	10	**–**	903	**659**	1,583
Mr. Li Feng *(Note i)*	**119**	–	**1,200**	–	**34**	–	**–**	–	**1,353**	–
Mr. Li Ciping *(Note ii)*	**119**	–	**600**	–	**40**	–	**–**	–	**759**	–
Independent non-executive directors										
Mr. Hu Xiaoping	**95**	94	**–**	–	**–**	–	**–**	95	**95**	189
Mr. Woo Che-wor, Alex	**95**	94	**–**	–	**–**	–	**–**	95	**95**	189
Mr. Qian Laizhong	**95**	94	**–**	–	**–**	–	**–**	–	**95**	94
Mr. Sun Tong Chuan	**95**	16	**–**	–	**–**	–	**–**	247	**95**	263
	2,830	2,482	**5,214**	3,442	**145**	69	**–**	3,859	**8,189**	9,852

Notes:

(i) Mr. Li Feng, who was appointed as director on 1 July 2014, has taken over from Mr. Yuan Bai as the Chief executive of the Group.

(ii) Mr. Li Ciping, was appointed as director on 1 July 2014.

30 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 five (2013: four) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one individual in 2013 are as follows:

	2014 **RMB'000**	2013 RMB'000
Basic salaries, housing allowances, other allowances and benefits in kind	**–**	967
Contributions to pension schemes	**–**	–
	–	967

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.

31 OTHER (LOSS)/INCOME — NET

	2014 **RMB'000**	2013 RMB'000
Loss of sales of scrap materials, net	**(2,455)**	–
Deferred subsidy income recognised *(Note 23)*	**654**	654
Subsidy income	**803**	140
Rental income, net	**1,226**	1,104
Fair value changes on derivative financial liabilities *(Note 22)*	**(175,228)**	6,039
Others, net	**2,261**	1,336
	(172,739)	9,273

32 FINANCE EXPENSES — NET

	2014 RMB'000	2013 RMB'000
Finance income:		
Interest income	**(36,011)**	(44,653)
Exchange gain	**–**	(2,614)
	(36,011)	(47,267)
Finance expenses:		
Interest expense:		
Borrowings wholly repayable within 5 years		
— bank borrowings	**189,007**	158,969
— borrowing from IFC	**8,585**	8,936
— borrowing from Asian Equity and PA International	**16,453**	23,966
Borrowings wholly repayable over 5 years		
— convertible bonds *(Note 21)*	**19,651**	–
Less: capitalisation in construction-in-progress *(Note 6)*	**(128,201)**	(65,316)
	105,495	126,555
Exchange loss	**5,737**	–
Others	**1,931**	3,171
	113,163	129,726
Finance expenses — net	**77,152**	82,459

33 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 2013 and 2014.

Dazhou Ko Yo Chemical qualifies as a foreign investment production enterprise and is located in the western region in Mainland China. As approved by local tax bureau, it is subject to the preferential tax policies for the development of western region with Corporate Income Tax ("CIT") at the rate of 15% in 2013 and 2014.

The applicable income tax rate of other subsidiaries located in Mainland China in 2014 and 2013 is 25%.

In accordance with the corporate 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.

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

	2014 **RMB'000**	2013 RMB'000
Current income tax for Mainland China	**96**	1,229
Deferred income tax	**(34,146)**	(8,097)
	(34,050)	(6,868)

The taxation on the Group's loss 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:

	2014 **RMB'000**	2013 RMB'000
Loss before income tax	**(524,739)**	(64,257)
Tax calculated at a taxation rate of 15% (2013: 15%)	**(78,711)**	(9,639)
Tax rate difference	**(7,370)**	(133)
Expenses not deductible for tax purposes	**55,847**	2,538
Reversal of withholding income tax	**(5,485)**	–
Tax losses for which no deferred income tax was recognised	**1,581**	1,272
Income not subject to tax *(Note 22)*	**(8)**	(906)
Adjustment in respect of prior years	**96**	–
Taxation	**(34,050)**	(6,868)

34 LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The loss attributable to equity holders of the Company is dealt with in these financial statements of the Company to the extent of RMB302,132,000 (2013: RMB1,404,000).

35 LOSS PER SHARE

Basic and diluted loss per share (RMB per share)	(0.2973)	(0.0396)

(a) Basic

Basic earnings per share are 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 17).

	2014	2013
Loss attributable to equity holders of the Company (RMB'000)	**(490,047)**	(57,056)
Weighted average number of ordinary shares in issue (thousands)	**1,648,594**	1,439,057

(b) Diluted

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

Potential ordinary shares arising from the assumed conversion of CB and the assumed exercise of share options have not been included in the calculation of diluted loss per share because they are anti-dilutive for the years ended 31 December 2014 and 2013.

(c) Comparatives

Comparative figures have been restated to reflect the effect of Share Consolidation (Note 1).

36 CASH GENERATED FROM OPERATIONS

(a) Reconciliation of loss before taxation to cash used in operating activities

	2014 RMB'000	2013 RMB'000
Loss before income tax	**(524,739)**	(64,257)
Depreciation of property, plant and equipment *(Note 6)*	**77,894**	74,850
Depreciation of investment properties *(Note 7)*	**509**	208
Amortisation of land use rights *(Note 5)*	**1,189**	1,189
Amortisation of intangible assets *(Note 9)*	**270**	270
Loss on disposal of property, plant and equipment *(Note 28)*	**4,292**	97
Interest income *(Note 32)*	**(36,011)**	(44,653)
Interest expense *(Note 32)*	**105,495**	126,555
Exchange loss	**5,738**	345
Share-based payment *(Note 28)*	**117,166**	–
Fair value of share option granted	**–**	8,016
Fair value change of derivative financial liabilities *(Note 22)*	**175,228**	(6,039)
Operating (loss)/profit before working capital changes	**(72,969)**	96,581
Working capital changes:		
(Increase)/decrease in inventories	**(19,068)**	15,372
Increase in trade and other receivables	**(79,083)**	(151,109)
Increase in trade and other payables	**120,326**	30,398
Decrease in deferred subsidy income	**(654)**	(654)
Cash used in operating activities	**(51,448)**	(9,412)

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

	2014 RMB'000	2013 RMB'000
Net book amount *(Note 6)*	**20,420**	447
Loss on disposal *(Note 28)*	**(4,292)**	(97)
Proceeds from disposal	**16,128**	350

37 COMMITMENTS — GROUP

(a) Capital commitments

	2014 RMB'000	2013 RMB'000
Constructions-in-progress:		
Contracted but not provided for	**342,644**	33,758

(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:

	2014 RMB'000	2013 RMB'000
Not later than 1 year	**800**	135
More than 1 year but not exceeding 2 years	**220**	–
Total operating commitments	**1,020**	135

The Company had no capital commitment and no commitments under operating leases as at 31 December 2014 (2013: Nil).

(c) Operating leases rental receivables

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

	2014 RMB'000	2013 RMB'000
Not later than 1 year	**1,721**	1,636
More than one year but not exceeding five years	**7,542**	7,256
More than five years	**5,675**	7,683
	14,938	16,575

38 RELATED-PARTY TRANSACTIONS

At 31 December 2014, long-term borrowings of RMB193,320,000 (2013: RMB358,512,000) and short-term borrowings of RMB81,300,000 (2013: RMB121,300,000) 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.

39 KEY MANAGEMENT COMPENSATION (EXCLUDING DIRECTORS' EMOLUMENTS)

	2014 **RMB'000**	2013 RMB'000
Salaries and other short-term employee benefits	**2,673**	4,337

The directors' emoluments are disclosed in Note 30.

40 EVENT AFTER THE BALANCE SHEET DATE

Save as the Put Option and new borrowing obtained as described in Note 2.1.1, the Group has the following events after the balance sheet date:

(a) Equity transactions

Subsequent to the balance sheet date and up to the date of approval of the consolidated financial statements, the Company issued 396,125,000 and 5,920,000 ordinary shares upon conversion of the CB and exercise of share options, respectively.

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 2014.

	2014	2013	2012	2011	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	**1,369,590**	1,339,252	1,346,970	1,426,888	872,582
(Loss)/Profit before taxation	**(524,739)**	(64,257)	128,598	105,783	(23,951)
Taxation	**34,050**	6,868	(26,986)	(5,629)	(1,654)
Minority interest	**(642)**	(333)	–	–	–
(Loss)/Profit after taxation	**(490,047)**	(57,056)	101,612	100,154	(25,605)
Total assets	**5,333,257**	5,443,943	4,443,963	3,249,116	2,435,374
Total liabilities	**(3,576,599)**	(4,371,644)	(3,322,291)	(2,229,056)	(1,540,397)
Shareholders' funds	**1,756,658**	1,072,299	1,121,672	1,020,060	894,977