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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 0827)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31ST DECEMBER 2013

HIGHLIGHTS

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

— Basic loss per share was approximately RMB0.80 cents for the year ended 31st December 2013.

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

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

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

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

The board of directors (the "Board") is pleased to present the audited annual results of Ko Yo Chemical (Group) Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31st December 2013.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December **2013** *RMB'000*	2012 *RMB'000*
Turnover		**1,339,252**	1,346,970
Cost of sales	*4*	**(1,202,342)**	(1,019,752)
Gross profit		**136,910**	327,218
Distribution costs		**(54,134)**	(54,463)
Administrative expenses		**(73,847)**	(63,993)
Other income — net	*5*	**9,273**	13,340
Operating profit		**18,202**	222,102
Finance income		**47,267**	26,859
Finance expenses		**(129,726)**	(120,363)
Finance expenses — net	*6*	**(82,459)**	(93,504)
(Loss)/Profit before income tax	*7*	**(64,257)**	128,598
Income tax benefit/(expense)		**6,868**	(26,986)
(Loss)/Profit for the year		**(57,389)**	101,612
Other comprehensive income		**–**	–
Total comprehensive (loss)/income for the year		**(57,389)**	101,612
Attributable to:			
Equity holders of the Company		**(57,056)**	101,612
Non-controlling interests		**(333)**	–
		(57,389)	101,612
(Loss)/Profit per share attributable to the equity holders of the Company during the year (expressed in RMB per share)			
— Basic	*8*	**(0.0080)**	0.0141
— Diluted	*8*	**(0.0080)**	0.0141
Dividend	*9*	**–**	–

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Company				
	Share capital *RMB'000*	**Reserves** *RMB'000*	**Total** *RMB'000*	**Non-controlling interests** *RMB'000*	**Total equity** *RMB'000*
Balance at 1 January 2012	138,618	881,442	1,020,060	–	1,020,060
Comprehensive income:					
Profit for the year	–	101,612	101,612	–	101,612
Total comprehensive income	–	101,612	101,612	–	101,612
Transactions with equity holders:					
Transfer of equity interest to non-controlling interests	–	(3,600)	(3,600)	3,600	–
	–	(3,600)	(3,600)	3,600	–
Balance at 31 December 2012	138,618	979,454	1,118,072	3,600	1,121,672
Balance at 1 January 2013	**138,618**	**979,454**	**1,118,072**	**3,600**	**1,121,672**
Comprehensive income:					
Loss for the year	**–**	**(57,056)**	**(57,056)**	**(333)**	**(57,389)**
Total comprehensive loss	**–**	**(57,056)**	**(57,056)**	**(333)**	**(57,389)**
Transactions with equity holders:					
Employee share option scheme: — Value of employees services	**–**	**8,016**	**8,016**	**–**	**8,016**
	–	**8,016**	**8,016**	**–**	**8,016**
Balance at 31 December 2013	**138,618**	**930,414**	**1,069,032**	**3,267**	**1,072,299**

CONSOLIDATED BALANCE SHEET

		As at 31 December	
		2013	2012
	Note	***RMB'000***	*RMB'000*
ASSETS			
Non-current assets			
Land use rights		**53,027**	54,216
Property, plant and equipment		**2,568,621**	2,087,704
Investment properties		**13,654**	–
Mining right		**334,306**	334,306
Other intangible assets		**10,898**	11,168
Deferred income tax assets		**10,208**	2,111
		2,990,714	2,489,505
Current assets			
Inventories		**43,259**	58,631
Trade and other receivables	*10*	**360,905**	112,908
Prepaid income tax, net		**7,300**	4,536
Pledged bank deposits		**1,726,298**	1,228,847
Cash and cash equivalents		**116,683**	350,752
		2,254,445	1,755,674
Non-current assets held for sale		**198,784**	198,784
		2,453,229	1,954,458
Total assets		**5,443,943**	4,443,963
EQUITY			
Capital and reserves attributable to the equity holders of the Company			
Share capital		**138,618**	138,618
Reserves		**930,414**	979,454
		1,069,032	1,118,072
Non-controlling interest		**3,267**	3,600
Total equity		**1,072,299**	1,121,672

		As at 31 December	
		2013	2012
	Note	***RMB'000***	*RMB'000*
LIABILITIES			
Non-current liabilities			
Long-term borrowings		**1,040,218**	808,324
Derivative financial liabilities		**–**	36,530
Deferred subsidy income		**3,892**	4,546
Deferred income tax liabilities		**86,352**	86,352
		1,130,462	935,752
Current liabilities			
Trade and other payables	*11*	**419,606**	323,480
Short-term borrowings		**2,583,575**	1,933,961
Current portion of long-term borrowings		**207,510**	129,098
Derivative financial liabilities		**30,491**	–
		3,241,182	2,386,539
Total liabilities		**4,371,644**	3,322,291
Total equity and liabilities		**5,443,943**	4,443,963
Net current liabilities		**(787,953)**	(432,081)
Total assets less current liabilities		**2,202,761**	2,057,424

Notes:

1 GENERAL INFORMATION

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

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

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

These consolidated financial statements are presented in Renminbi ("RMB"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 24 March 2014.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

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

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

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

In the opinion of the directors, in light of the above, the Group will have sufficient working capital to finance its operations and fulfill its financial obligations as and when they fall due in the coming 12 months from the date of the financial statements. Accordingly, the directors are satisfied that it is appropriate to prepare the financial statements on a going concern basis.

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

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

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Group

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

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

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

- HKFRS 9, 'Financial instruments' addresses the classification, measurement and recognition of financial assets and financial liabilities. HKFRS 9 was issued in November

2009 and October 2010. It replaces the parts of HKAS 39 that relate to the classification and measurement of financial instruments. HKFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the HKAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Group is yet to assess HKFRS 9's full impact.

2.2 Subsidiaries

2.2.1 Consolidation

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

(a) Business combinations

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

Acquisition-related costs are expensed as incurred.

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

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

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

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

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

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

(c) Disposal of subsidiaries

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

2.2.2 Separate financial statements

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

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

2.3 Segment reporting

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

2.4 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

2.5 Property, plant and equipment

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

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

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

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

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

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

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

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

2.6 Investment properties

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

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

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

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

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

2.7 Mining right

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

2.8 Land use rights

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

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

2.9 Non-current assets held-for-sale

Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell. Deferred tax assets, even if held for sale, would continue to be measured in accordance with the policies set out elsewhere in Note 2.24.

2.10 Intangible assets

(a) Goodwill

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

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

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

(b) Construction permits

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

2.11 Impairment of interests in subsidiaries and non-financial assets

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

2.12 Financial assets

2.12.1Classification

The Group classifies its financial assets in the following categories: loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. During 2012 and 2013, other than loans and receivables, the Group did not hold any financial assets in other categories.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the balance sheet (Notes 2.16 and 2.17).

2.12.2Recognition and measurement

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

2.13 Offsetting financial instruments

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

2.14 Impairment of financial assets carried at amortised cost

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

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

The Group first assesses whether objective evidence of impairment exists.

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.

2.19 Derivative financial liabilities

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

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

2.20 Embedded derivatives

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

The Group separates embedded derivatives from the host contract and accounts for these as derivatives, if all of the following three conditions are met:

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

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

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

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

2.21 Trade payables

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

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

2.22 Borrowings

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

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

2.23 Borrowings Costs

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

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

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

2.24 Current and deferred income tax

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

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

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

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

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

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

2.25 Employee benefits

(a) Employee leave entitlements

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

(b) Pension obligations

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

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

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

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

(c) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of HKAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

2.26 Share-based compensation

(a) Equity-settled share-based payment transactions

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

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

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

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

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

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

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

2.27 Provisions

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

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

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

2.28 Contingent liabilities

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

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

2.29 Revenue recognition

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

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

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

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

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

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

2.30 Government grants

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

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

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

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

2.31 Leases

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

2.32 Dividend distribution

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

(a) Useful lives of property, plant and equipment

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

(b) Provision for impairment of trade receivables

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

(c) Fair value of derivative financial liabilities

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

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

(d) Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in Note 2.10(a). The recoverable amounts of cash-generating units have been determined based on fair value less costs to sell calculations.

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

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

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

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

(g) Income taxes

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

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

Pursuant to the Corporate Income Tax Law and its implementation rules, effective from 1 January 2008, certain non-resident enterprises (for instance, those without an establishment or place of business in Mainland China or which have an establishment or place of business in Mainland China but whose relevant income is not effectively connected with the establishment or a place of business in the Mainland China) are subject to withholding tax at the rate of 5% or 10% on various types of passive income such as dividends derived from sources within the Mainland China. As at 31 December 2013, the deferred tax liabilities recognised for withholding tax on accumulated earning generated by Mainland China subsidiaries amount to RMB5,485,000 (2012: RMB5,485,000) on the earning of RMB109,700,000 (2012: RMB109,700,000) generated by other Mainland China subsidiaries.

4 TURNOVER

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

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

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

The Group has a number of customers and revenue generated from the top two customers are accounted for 19% and 10% respectively of the Group's turnover during the year.

5 OTHER INCOME — NET

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

6 FINANCE COSTS — NET

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

7 INCOME TAX EXPENSE

No provision for profits tax in the Cayman Islands, British Virgin Islands or Hong Kong has been made, as the Group had no assessable profit arising in or derived from those jurisdictions during the years ended 31 December 2012 and 2013.

Dazhou Ko Yo Chemical qualifies as a foreign investment production enterprise and is located in the western region in Mainland China. As approved by local tax bureau, it is subject to the preferential tax policies for the development of western region with Enterprise Income Tax ("EIT") at the rate of 15 % in 2012 and 2013.

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

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

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

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

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

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

8 EARNINGS PER SHARE

(a) Basic

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

	2013	2012
(Loss)/Profit attributable to equity holders of the Company (RMB'000)	**(57,389)**	101,612
Weighted average number of ordinary shares in issue (thousands)	**7,195,285**	7,195,285
Basic (loss)/profit per share (RMB per share)	**(0.0080)**	0.0141

(b) Diluted

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

	2013	2012
(Loss)/Profit attributable to equity holders of the Company (RMB'000)	**(57,389)**	101,612
Weighted average number of ordinary shares in issue (thousands)	**7,195,285**	7,195,285
Adjustment — warrants and share option (thousands)	**–**	6,156
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**7,195,285**	7,201,441
Diluted (loss)/earnings per share (RMB per share)	**(0.0080)**	0.0141

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

9 DIVIDEND

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

10 TRADE AND OTHER RECEIVABLES

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

As at 31 December 2013 and 2012, the fair value of trade and other receivables of the Group approximated to their carrying amounts.

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

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

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

As at 31 December 2013, trade receivables of RMB5,241,000 (2012: RMB5,241,000) were impaired and a full provision of RMB5,241,000 (2012: RMB5,241,000) was provided for. The individually impaired receivables mainly relate to wholesalers, which are in unexpected difficult economic situations. The ageing of these receivables is as follows:

	Group	
	2013	2012
	RMB'000	*RMB'000*
More than 2 years but not exceeding 3 years	**–**	133
More than 3 years	**5,241**	5,108
	5,241	5,241

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

	Group		**Company**	
	2013	2012	**2013**	2012
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
RMB	**350,613**	108,598	**–**	–
HKD	**10,292**	4,310	**476**	476
	360,905	112,908	**476**	476

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

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

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

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

11 TRADE AND OTHER PAYABLES

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

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

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

(a) Trade payables

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

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

(b) Notes payable

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

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

12 COMMITMENTS — GROUP

(a) Capital commitments for property, plant and equipment

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

(b) Commitments under operating leases

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

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

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

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

13 EVENT AFTER THE BALANCE SHEET DATE

Subsequent to the balance sheet date and up to the date of approval of the financial statements, short-term borrowings of approximately RMB170 million have been rolled over for a further year. New short-term borrowings of RMB80 million have been granted and drawn down with a term of 6 months.

EXTRACT OF INDEPENDENT AUDITOR'S REPORT

The following is the extract of the independent auditor's report from the external auditors of the Company:

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2013, and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Emphasis of Matter

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

CHAIRMAN'S STATEMENT

TO SHAREHOLDERS

It's my honour to report to you the results of Ko Yo Chemical (Group) Limited (the "Company") together with its subsidiaries (collectively, the "Group") for the year ended 31st December 2013. I wish to express sincere appreciation on behalf of the Board of Directors to all shareholders and our friends from all sectors of the society who concern for the development of the Group.

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

For the year ended 31st December 2013, the audited loss attributable to shareholders of the Group amounted to approximately RMB57.1 million. Basic loss per share amounted to approximately RMB0.80 cents (2012: earnings of RMB1.41 cents). The Group's turnover amounted to approximately RMB1,339 million, representing a decrease of 0.6% as compared to RMB1,347 million for the same period in 2012. The Group's sales volume (excluding trading portion) amounted to approximately 531,000 tonnes, representing a decrease of approximately 9.2% as compared to 585,000 tonnes of last year.

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

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

As to the production:

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

As to the market:

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

As to the management:

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

PROSPECT

Industry Review

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

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

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

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

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

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

OBJECTIVES AND STRATEGIES

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

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

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

The project is located in Xinqiao Energy and Chemical Park in Guangan, which is a national economic and technological development zone approved by the State Council and enjoys a number of preferential policies and funding support from the government. The Project's necessary synthetic ammonia and methanol cogeneration equipment was jointly imported by Guangan Koyo Chemical Industry Co., Ltd and Guangan Lotusan Natural Gas Chemical Industry Co., Ltd from Canada. The equipment represents advanced processes and operates in good conditions. To safeguard the successful completion and operation of the project, the

Company learned from its past experience in the commencement of operation of Dazhou urea plant, and established a production preparation department for the project at the preliminary phase of the construction of the project. This department is exclusively responsible for preliminary production preparation, organisational structure and the allocation and training of human resources for the project; early this year, the Company also established an inspection team responsible for the trial operation preparation work of the project in Guangan, which has further ensured the conditions for the successful operation of the production facilities.

For the financing and financial support of the project, the Company entered into a subscription agreement with the subscribers (PA International Opportunity VII Limited and Asian Equity Special Opportunities Portfolio Master Fund Limited) in relation to the proposed issue of HK$140,000,000 9% senior notes due 2015. The estimated proceeds from such issue of senior notes was approximately HK$138,000,000, which was used as general working capital of the plant situated in Guangan, Sichuan, the PRC and general working capital of the Group. In addition, the Company secured a five-year loan in an amount of RMB600 million and RMB200 million in December 2012 and June 2013 respectively in ensure the successful completion of the project.

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

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

During the year under review, for the project with an annual production of 300,000 tonnes of urea and 40,000 tonnes of melamine (the 2nd Phase of the Project in Dazhou), the Company has mainly focused on further optimising the production process of the project. By optimising the process solutions, desired multiple effects, including reduced production costs, improved product quality, and improved production environment, can be finally achieved. The construction work of 2nd Phase of the Project in Dazhou is expected to be carried out on second quarter this year.

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

Progress on project of phosphate mine

We obtained the mining rights in relation to a phosphate mine located at Qingping Township, Mianzhu City, Sichuan Province and owned by Sichuan Chengyuan Chemical Industry Co., Ltd. ("Sichuan Cuyo"), a wholly-owned subsidiary of the Group, with the approval of the Ministry of Land and Resources in 2010. In order to carry out the phosphate mine project, the

Group established a new holding company named Sichuan Ko Chang Technology Co., Ltd. in May 2012, which focused on the research and development of technology for using medium- and low-grade phosphate as materials to produce industrial-grade phosphoric acid. The mining and related work remained the responsibility of Sichuan Chengyuan. Currently, Sichuan Ko Chang Technology Co., Limited has made patent application to the Chinese State Intellectual Property Office for ten technologies which has been accepted. Once these technologies are granted patent licensing, the Company will have the intellectual property rights of the patented technology and form its core competitiveness. Preparation of feasible reports on this project, together with the approval for its preliminary phase, will be continued.

New materials projects

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

APPRECIATION

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

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

Li Weiruo
Chairman

24th March 2014

BUSINESS REVIEW

FINANCIAL PERFORMANCE

Results

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

During the year under review, the Group recorded turnover of approximately RMB1,339 million, a decrease of 0.6% as compared to last year. The loss attributable to shareholders of the Company amounted to approximately RMB57.1 million, representing a decrease of approximately RMB158.7 million as compared to last year. Basic loss per share amounted to approximately RMB0.80 cents.

Cost and profit margin

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

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

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

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

The Group's income tax benefit in 2013 amounted to approximately RMB6.9 million. Details of tax schemes are set out in Note 7 to consolidated financial statements.

Dividends

Considering the Group's result during the year under review, the Directors do not recommend the payment of any final dividend for the year ended 31st December 2013. The Group has not declared any dividend for the year ended 31st December 2013 (2012: Nil).

PRODUCTS

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

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

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

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31st December 2013, the Group had net current liabilities of approximately RMB787,953,000. Current assets as at 31st December 2013 comprised cash and bank deposits of approximately RMB116,683,000, pledged bank deposits of approximately RMB1,726,298,000, inventories of approximately RMB43,259,000, trade receivables of approximately RMB5,207,000 and prepayments and other current assets of approximately RMB561,782,000. Current liabilities as at 31st December 2013 comprised short-term borrowings of approximately RMB2,583,575,000, short-term portion for long-term borrowings of approximately RMB207,510,000, trade and notes payables of approximately RMB132,162,000, advances from customers of approximately RMB221,690,000 and accrued charges and other payables of approximately RMB96,245,000. Details of the Group's adoption of going concern basis in preparing the consolidated financial statements is set out in Note 2.1 to the consolidated financial statements.

CAPITAL COMMITMENTS

As at 31st December 2013, the Group had outstanding capital commitments of approximately RMB33.8 million. Details of the Group's capital commitments are set out in Note 12 to the consolidated financial statements.

FINANCIAL RESOURCES

As at 31st December 2013, the Group had cash and bank deposits of approximately RMB116,683,000 and pledged bank deposits of approximately RMB1,726,298,000. The Company intends to finance the Group's future operations, capital expenditure and other capital requirements with the existing bank balances and the capital market.

As at 31st December 2013, the total borrowings and notes payable balances of the Group amounted to RMB3,842,006,000.

GEARING RATIO

The Group's gearing ratios were approximately 65% and 54% as at 31st December 2013 and 31st December 2012 respectively. The gearing ratios were calculated as net debt divided by total capital as at the respective balance sheet dates.

CONTINGENT LIABILITIES

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

MATERIAL ACQUISITION/DISPOSAL

There was no material acquisition or disposal in the year 2013 which would have been required to be disclosed under the Rules Governing the Listing of Securities ("Listing Rules") on Stock Exchange.

SEGMENTAL INFORMATION

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

DETAILS OF FUTURE PLANS FOR MATERIAL INVESTMENT OR CAPITAL ASSETS

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

CHARGES ON THE GROUP'S ASSETS

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

DIVIDEND

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

NUMBER OF EMPLOYEES

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

AUDIT COMMITTEE

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

The audit committee has reviewed with management the accounting principles and practices adopted by the Company and the Group and discussed internal controls and financial reporting matters including a review of the audited financial statements of the Company and the Group for the year ended 31st December 2013.

AUDITORS' PROCEDURES PERFORMED ON THIS RESULTS ANNOUNCEMENT

The figures in respect of the announcement of the Group's results for the year ended 31 December 2013 have been agreed by the Auditors, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an audit, review or other assurance engagement, and consequently no assurance has been expressed by PricewaterhouseCoopers on this announcement.

CORPORATE GOVERNANCE PRACTICES

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

PURCHASE, SALE OR REDEMPTION OF SHARES

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

By Order of the Board
Ko Yo Chemical (Group) Limited
Li Weiruo
Chairman

Hong Kong 24th March 2014

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