

**SK GLOBAL CHEMICAL INVESTMENT HONG KONG LIMITED**  
(Incorporated in Hong Kong)

**DIRECTORS' REPORT AND FINANCIAL STATEMENTS**  
FOR THE YEAR ENDED 31ST DECEMBER 2014

SK GLOBAL CHEMICAL INVESTMENT HONG KONG LIMITED  
DIRECTORS' REPORT AND FINANCIAL STATEMENTS  
YEAR ENDED 31ST DECEMBER 2014

CONTENTS

	PAGES
REPORT OF THE DIRECTORS	1-2
INDEPENDENT AUDITORS' REPORT	3-4
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME	5
CONSOLIDATED STATEMENT OF FINANCIAL POSITION	6
COMPANY STATEMENT OF FINANCIAL POSITION	7
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	8
CONSOLIDATED STATEMENT OF CASH FLOWS	9-10
NOTES TO THE FINANCIAL STATEMENTS	11-43

**SK GLOBAL CHEMICAL INVESTMENT HONG KONG LIMITED  
REPORT OF THE DIRECTORS**

The directors have pleasure in submitting their report together with the audited financial statements of SK Global Chemical Investment Hong Kong Limited ("the Company") and its subsidiary (together "the Group") for the year ended 31st December 2014.

**PRINCIPAL ACTIVITIES**

The principal activity of the Company is investment holding. Details of the principal activities and other particulars of the subsidiary are set out in note 15 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

**FINANCIAL STATEMENTS**

The loss of the Group for the year ended 31st December 2014 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements on pages 5 to 43.

**DIVIDENDS**

The directors do not recommend the payment of a dividend for the year.

**PROPERTY, PLANT AND EQUIPMENT**

Details of movements in the property, plant and equipment of the Group during the year are set out in note 12 to the financial statements.

**SHARE CAPITAL**

Details of movements in the Company's share capital during the year are set out in note 23 to the financial statements.

**RESERVES**

Details of movements in the reserves of the Company and the Group during the year are set out in note 24(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

**DIRECTORS**

The directors during the financial year and up to the date of this report were:

KIM Bong Young (resigned on 1st January 2014)

CHA Jin Seok (resigned on 1st January 2014)

CHOI Joon Sung (resigned on 1st January 2014 and appointed on 20th April 2015)

YOO Sung Hyun (appointed on 1st January 2014)

CHA Sung Keun (appointed on 1st January 2014 and resigned on 20th April 2015)

SOK Chanho (appointed on 1st January 2014 and resigned on 30th June 2014)

LEE Seong Cheol (appointed on 30th June 2014)

There being no provision in the Company's Articles of Association for retirement by rotation, all directors continue in office.

SK GLOBAL CHEMICAL INVESTMENT HONG KONG LIMITED  
REPORT OF THE DIRECTORS (CONTINUED)

MANAGEMENT CONTRACTS

The Company has not entered into any contract, other than a contract of service with any director or any person engaged in the full-time employment of the Company, whereby any individual, firm or body corporate undertakes the management and administration of the whole or any substantial part of any business of the Company.

DIRECTOR'S INTERESTS IN SHARES

At no time during the year was the Company or any of its holding company, subsidiary or fellow subsidiary a party to any arrangements to enable the Company's directors to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate, nor were any such rights exercised by them.

DIRECTOR'S INTERESTS IN CONTRACTS

No contract of significance to which the Company, or any of its holding company, subsidiary or fellow subsidiary was a party, and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

AUDITORS

IL SHIN CPA Limited Certified Public Accountants retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of IL SHIN CPA Limited Certified Public Accountants as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

On behalf of the Board



Chairman

HONG KONG, 26th May 2015

# IL SHIN CPA LIMITED

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## INDEPENDENT AUDITORS' REPORT TO THE SOLE SHAREHOLDER OF SK GLOBAL CHEMICAL INVESTMENT HONG KONG LIMITED (Incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of SK Global Chemical Investment Hong Kong Limited ("the Company") and its subsidiary (together "the Group") set out on pages 5 to 43, which comprise the consolidated and company statements of financial position as at 31st December 2014, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

### AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, in accordance with section 80 of Schedule 11 to the Hong Kong Companies Ordinance (Cap. 622), and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

**INDEPENDENT AUDITORS' REPORT (CONTINUED)  
TO THE SOLE SHAREHOLDER OF SK GLOBAL CHEMICAL INVESTMENT  
HONG KONG LIMITED  
(Incorporated in Hong Kong with limited liability)**

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

**OPINION**

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st December 2014 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

**EMPHASIS OF MATTER**

Without qualifying our opinion, we draw attention to Note 16 to the financial. The management intended to indefinitely suspend the joint venture's business due to commercial feasibility. The recoverable amount of the assets could be adversely affected subject to ongoing assessment of the projected economy.

*IL Shin CPA Ltd.*

**IL SHIN CPA Limited  
Certified Public Accountants**

**CHAN TIK SANG  
Practising Certificate Number P05410**

**Hong Kong, 26th May 2015**

SK GLOBAL CHEMICAL INVESTMENT HONG KONG LIMITED  
 CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER  
 COMPREHENSIVE INCOME  
 FOR THE YEAR ENDED 31ST DECEMBER 2014

	Notes	2014 US\$	2013 US\$
Other revenue	6	1,074,080	402,947
Administrative expenses		(6,281,944)	(4,340,690)
Foreign exchange difference, net		4,752	(1,129,562)
Other operating expenses		<u>(121,136)</u>	<u>(10,991)</u>
Loss from operations		(5,324,248)	(5,078,296)
Share of loss of a joint venture		<u>(4,970,482)</u>	<u>(1,084,665)</u>
Loss before taxation	7	(10,294,730)	(6,162,961)
Income tax credit	10	<u>1,253,320</u>	<u>1,275,561</u>
Loss for the year		<u>(9,041,410)</u>	<u>(4,887,400)</u>
Attributable to:			
Equity shareholder of the Company	11	(6,484,585)	(3,616,947)
Non-controlling interests		<u>(2,556,825)</u>	<u>(1,270,453)</u>
		<u>(9,041,410)</u>	<u>(4,887,400)</u>
Other comprehensive income for the year (after tax)			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of overseas operations		<u>(2,433,770)</u>	<u>2,896,716</u>
Total comprehensive income for the year		<u>(11,475,180)</u>	<u>(1,990,684)</u>
Attributable to:			
Equity shareholder of the Company		(8,457,922)	(1,269,810)
Non-controlling interests		<u>(3,017,258)</u>	<u>(720,874)</u>
		<u>(11,475,180)</u>	<u>(1,990,684)</u>

SK GLOBAL CHEMICAL INVESTMENT HONG KONG LIMITED  
 CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
 AT 31ST DECEMBER 2014

	Notes	2014 US\$	2013 US\$
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	12	172,900,149	90,663,300
Prepaid land lease payments	13	7,540,854	7,893,869
Intangible assets	14	1,176,224	225,821
Investment in a joint venture	16	3,098,497	8,177,459
Deferred tax assets	17	<u>2,527,120</u>	<u>1,315,783</u>
		<u>187,242,844</u>	<u>108,276,232</u>
<b>CURRENT ASSETS</b>			
Inventories	18	81,812	7,426
Other receivables	19	13,456,953	378,211
Cash and bank balances	20	<u>52,479,377</u>	<u>173,512,858</u>
		<u>66,018,142</u>	<u>173,898,495</u>
<b>CURRENT LIABILITY</b>			
Trade and other payables	21	<u>3,847,698</u>	<u>17,954,679</u>
<b>NET CURRENT ASSETS</b>		<u>62,170,444</u>	<u>155,943,816</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITY</b>		<u>249,413,288</u>	<u>264,220,048</u>
<b>NON-CURRENT LIABILITY</b>			
Interest-bearing borrowings	22	<u>152,420,046</u>	<u>155,951,626</u>
<b>NET ASSETS</b>		<u>96,993,242</u>	<u>108,268,422</u>
<b>CAPITAL AND RESERVES</b>			
Share capital	23	90,181,948	89,981,948
Reserves	24(a)	<u>(9,672,015)</u>	<u>(1,214,093)</u>
Total equity attributable to equity shareholder of the Company		80,509,933	88,767,855
Non-controlling interests		<u>16,483,309</u>	<u>19,500,567</u>
<b>TOTAL EQUITY</b>		<u>96,993,242</u>	<u>108,268,422</u>

Approved and authorised for issue by the board  
 of directors on 26th May 2015.



Director



Director

SK GLOBAL CHEMICAL INVESTMENT HONG KONG LIMITED  
 STATEMENT OF FINANCIAL POSITION  
 AT 31ST DECEMBER 2014

	Notes	2014 US\$	2013 US\$
<b>NON-CURRENT ASSETS</b>			
Investment in a subsidiary	15	80,834,548	80,834,548
Investment in a joint venture	16	3,098,497	9,117,377
Loan to a subsidiary	19	153,045,000	156,940,000
		<u>236,978,045</u>	<u>246,891,925</u>
<b>CURRENT ASSETS</b>			
Other receivables	19	2,167,884	1,994,350
Cash and bank balances	20	128,629	132,428
		<u>2,296,513</u>	<u>2,126,778</u>
<b>CURRENT LIABILITY</b>			
Trade and other payables	21	3,023,919	3,186,034
<b>NET CURRENT LIABILITIES</b>		<u>(727,406)</u>	<u>(1,059,256)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITY</b>		<u>236,250,639</u>	<u>245,832,669</u>
<b>NON-CURRENT LIABILITY</b>			
Interest-bearing borrowings	22	<u>152,420,046</u>	<u>155,951,626</u>
<b>NET ASSETS</b>		<u>83,830,593</u>	<u>89,881,043</u>
<b>CAPITAL AND RESERVE</b>			
Share capital	23	90,181,948	89,981,948
Accumulated losses	24(b)	(6,351,355)	(100,905)
<b>TOTAL EQUITY</b>		<u>83,830,593</u>	<u>89,881,043</u>

Approved and authorised for issue by the board  
 of directors on 26th May 2015.



Director



Director

SK GLOBAL CHEMICAL INVESTMENT HONG KONG LIMITED  
 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
 FOR YEAR ENDED 31ST DECEMBER 2014

	Note	Attributable to equity shareholder of the Company			Non-controlling interests US\$	Total equity US\$
		Share capital US\$	Exchange reserve US\$	Accumulated losses US\$		
At 1st January 2013		19,040,000	147,153	(91,436)	19,095,717	4,025,139
Loss for the year		-	-	(3,616,947)	(3,616,947)	23,120,856
Other comprehensive income					(1,270,453)	(4,887,400)
Exchange differences on translation of financial statements of overseas operations			2,347,137	-	2,347,137	2,896,716
Total comprehensive income			2,347,137	(3,616,947)	(1,269,810)	(720,874)
Issue of shares		70,941,948	-	-	70,941,948	(1,990,684)
Capital contribution from a non-controlling shareholder		-	-	-	-	70,941,948
At 31st December 2013 and 1st January 2014		89,981,948	2,494,290*	(3,708,383)*	88,767,855	16,196,302
Loss for the year		-	-	(6,484,585)	(6,484,585)	19,500,567
Other comprehensive income					(2,556,825)	108,268,422
Exchange differences on translation of financial statements of overseas operations			(1,973,337)	-	(1,973,337)	(9,041,410)
Total comprehensive income			(1,973,337)	(6,484,585)	(8,457,922)	(2,433,770)
Issue of shares	23	200,000	-	-	200,000	(3,017,258)
At 31st December 2014		90,181,948	520,953*	(10,192,968)*	80,509,933	96,993,242

\* These reserves accounts comprise the consolidated reserves of -US\$9,672,015 (2013: -US\$1,214,093) in the consolidated statement of financial position.

SK GLOBAL CHEMICAL INVESTMENT HONG KONG LIMITED  
 CONSOLIDATED STATEMENT OF CASH FLOWS  
 FOR THE YEAR ENDED 31ST DECEMBER 2014

	Notes	2014 US\$	2013 US\$
<b>OPERATING ACTIVITIES</b>			
Loss before taxation		(10,294,730)	(6,162,961)
Adjustments for:			
Share of loss of a joint venture		4,970,482	1,084,665
Interest income	6	(1,074,080)	(387,028)
Depreciation	7	81,669	12,185
Recognition of prepaid land lease payments	7	158,279	158,661
Amortisation of intangible assets	7	43,779	4,860
Loss on disposal of items of property, plant and equipment	7	245	-
Changes in working capital:			
Increase in inventories		(74,386)	(7,426)
Decrease/(increase) in other receivables		(13,078,742)	1,121,819
Increase/(decrease) in trade and other payables	21	<u>(14,912,481)</u>	<u>17,949,095</u>
<b>CASH GENERATED FROM/(USED IN) OPERATIONS AND NET CASH GENERATED FROM/(USED IN) OPERATING ACTIVITIES</b>		<u>(34,179,965)</u>	<u>13,773,870</u>
<b>INVESTING ACTIVITIES</b>			
Interest received		1,074,080	387,028
Purchases of items of property, plant and equipment		(78,359,845)	(87,531,275)
Additions to prepaid land lease payments		-	(210,273)
Additions to intangible assets		(1,006,955)	(227,264)
Purchase of a shareholding in a joint venture		-	(9,117,377)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		<u>(78,292,720)</u>	<u>(96,699,161)</u>
<b>FINANCING ACTIVITIES</b>			
Proceeds from issue of shares	23	200,000	87,138,250
Proceeds from issue of bonds		-	155,861,796
Loan from a related company	21	805,500	-
Interest paid		<u>(6,313,107)</u>	<u>(1,720,428)</u>
<b>NET CASH GENERATED FROM/(USED IN) FINANCING ACTIVITIES</b>		<u>(5,307,607)</u>	<u>241,279,618</u>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>			
CASH AND CASH EQUIVALENTS AT 1ST JANUARY		(117,780,292)	158,354,327
Effect of foreign exchange rate changes, net		173,512,858	13,988,004
<b>CASH AND CASH EQUIVALENTS AT 31ST DECEMBER</b>		<u>(3,253,189)</u>	<u>1,170,527</u>
		<u>52,479,377</u>	<u>173,512,858</u>

SK GLOBAL CHEMICAL INVESTMENT HONG KONG LIMITED  
CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)  
FOR THE YEAR ENDED 31ST DECEMBER 2014

	2014 US\$	2013 US\$
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Cash and bank balances as stated in the consolidated statement of financial position and cash and cash equivalents as stated in the consolidated statement of cash flows	<u>52,479,377</u>	<u>173,512,858</u>

SK GLOBAL CHEMICAL INVESTMENT HONG KONG LIMITED  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST DECEMBER 2014

1 CORPORATE INFORMATION

The Company is a limited liability company incorporated and domiciled in Hong Kong and has its registered office and principal place of business at Room 1808, 18/F, Tower II, Admiralty Centre, 18 Harcourt Road, Admiralty, Hong Kong.

The principal activity of the Company is investment holding. Details of the principal activities and other particulars of the subsidiary are set out in note 15 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and accounting principles generally accepted in Hong Kong. These financial statements also comply with the applicable requirements of the Hong Kong Companies Ordinance relating to the preparation of financial statements, which for this financial year and the comparative period continue to be those of the predecessor Companies Ordinance (Cap. 32), in accordance with transitional and saving arrangements for Part 9 of the Hong Kong Companies Ordinance (Cap. 622), "Accounts and Audit", which are set out in sections 76 to 87 of Schedule 11 to that Ordinance. The financial statements have been prepared under the historical cost convention. These financial statements are presented in United States dollars except when otherwise indicated.

(b) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary (collectively referred to as the "Group") for the year ended 31st December 2014. The financial statements of the subsidiary are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiary are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

SK GLOBAL CHEMICAL INVESTMENT HONG KONG LIMITED  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST DECEMBER 2014

**2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(b) Basis of consolidation (continued)**

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described in the accounting policy for subsidiaries below. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

**(c) Changes in accounting policies**

The HKICPA has issued a number of amendments to HKFRSs and new interpretations that are first effective for the current accounting period of the Group. There have been no significant changes to the accounting policies applied in these financial statements as a result of these developments.

The Group has not applied any new and revised HKFRSs that have been issued but are not yet effective, in these financial statements. The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application but is not yet in a position to state whether these new and revised HKFRSs would have a significant impact on its results of operations and financial position.

**(d) Subsidiaries**

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group's voting rights and potential voting rights.

The results of subsidiaries are included in the Company's statement of profit or loss to the extent of dividends received and receivable. The Company's investment in a subsidiary is stated at cost less any impairment losses.

SK GLOBAL CHEMICAL INVESTMENT HONG KONG LIMITED  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST DECEMBER 2014

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Investments in associates and joint ventures

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the consolidated statement of profit or loss and other comprehensive income. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrecognised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrecognised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

The results of associates and joint ventures are included in the Company's statement of profit or loss to the extent of dividends received and receivable. The Company's investment in an associates is treated as non-current assets and is stated at cost less any impairment losses.

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations".

SK GLOBAL CHEMICAL INVESTMENT HONG KONG LIMITED  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST DECEMBER 2014

**2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(f) Impairment of non-financial assets**

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises.

**(g) Related parties**

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person
  - (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

SK GLOBAL CHEMICAL INVESTMENT HONG KONG LIMITED  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST DECEMBER 2014

**2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

(g) Related parties (continued)

- (b) the party is an entity where any of the following conditions applies:
  - (i) the entity and the Group are members of the same group;
  - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
  - (iii) the entity and the Group are joint ventures of the same third party;
  - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
  - (vi) the entity is controlled or jointly controlled by a person identified in (a); and
  - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(h) Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant, and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Equipment, tools and furniture	20% - 33%
Construction in progress	Not depreciated

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

SK GLOBAL CHEMICAL INVESTMENT HONG KONG LIMITED  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST DECEMBER 2014

**2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

(h) **Property, plant and equipment (continued)**

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

(i) **Intangible assets (other than goodwill)**

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

(j) **Leases**

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of profit or loss on the straight line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

SK GLOBAL CHEMICAL INVESTMENT HONG KONG LIMITED  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST DECEMBER 2014

**2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(k) Investments and other financial assets**

**(i) Initial recognition and measurement**

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

**(ii) Subsequent measurement**

The subsequent measurement of financial assets depends on their classification as follows:

**(i) Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other revenue in the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in finance costs for loans and in other operating expenses for receivables.

SK GLOBAL CHEMICAL INVESTMENT HONG KONG LIMITED  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST DECEMBER 2014

**2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(I) Derecognition of financial assets**

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

SK GLOBAL CHEMICAL INVESTMENT HONG KONG LIMITED  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST DECEMBER 2014

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor 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 observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(i) Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified 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 yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to the statement of profit or loss.

SK GLOBAL CHEMICAL INVESTMENT HONG KONG LIMITED  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST DECEMBER 2014

**2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(n) Financial liabilities**

**(i) Initial recognition and measurement**

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include other payables and accruals and interest-bearing borrowings.

**(ii) Subsequent measurement**

The subsequent measurement of financial liabilities depends on their classification as follows:

**(i) Loans and borrowings**

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

**(o) Derecognition of financial liabilities**

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

**(p) Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

SK GLOBAL CHEMICAL INVESTMENT HONG KONG LIMITED  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST DECEMBER 2014

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

(r) Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditure expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

(s) Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

SK GLOBAL CHEMICAL INVESTMENT HONG KONG LIMITED  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST DECEMBER 2014

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Income tax (continued)

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investment in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

SK GLOBAL CHEMICAL INVESTMENT HONG KONG LIMITED  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST DECEMBER 2014

**2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

(t) **Revenue recognition**

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (i) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

(u) **Other employee benefits**

(i) **Pension scheme**

Pursuant to the relevant regulations of the government of the People's Republic of China (the "PRC"), the subsidiaries in PRC have each participated in a local municipal government retirement benefit scheme (the "Scheme"), pursuant to which the subsidiaries in PRC are required to contribute a certain percentage of the basic salaries of its employees to the Scheme to fund their retirement benefits. The local municipal government undertakes to assume the retirement benefit obligations of all existing and future retired employees of the Group's subsidiaries in PRC. The only obligation of the Group with respect to the Scheme is to pay the ongoing required contributions under the Scheme mentioned above. Contributions under the Scheme are charged to the statement of profit or loss as incurred. There are no provisions under the Scheme whereby forfeited contributions may be used to reduce future contributions.

(v) **Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowing pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

SK GLOBAL CHEMICAL INVESTMENT HONG KONG LIMITED  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST DECEMBER 2014

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(w) Foreign currencies

These financial statements are presented in United States dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of the certain overseas operations are currencies other than the United States dollars. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates prevailing at the end of the reporting period and their statement of profit or loss are translated into United States dollars at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

SK GLOBAL CHEMICAL INVESTMENT HONG KONG LIMITED  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST DECEMBER 2014

**3 FINANCIAL RISK MANAGEMENT AND POLICIES**

- **Financial risk factors**

The Group's activities expose it to a variety of financial risks: credit, liquidity, market risk (including interest rate, currency and price risks).

The Group's overall risk management programme focuses on the unpredictability and volatility of financial markets and seeks to minimise potential adverse effects on these risks. No derivative financial instruments are used to hedge any exposures of these risks.

**(a) Credit risk**

The Group's credit risk is primarily attributable to other receivables. The Group has no significant concentration of credit risk. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

The maximum exposure to credit risk without taking account of any collateral held is represented by the carrying amount of each financial asset at the end of the reporting period after deducting any impairment allowance. The Group does not provide any guarantees which would expose the Group to credit risk.

**(b) Liquidity risk**

The Group's policy is to regularly monitor its liquidity requirements and its compliance with the lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and long term.

The following table details the remaining contractual maturities at the end of the reporting period of the Group's and the Company's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group and the Company can be required to pay:

SK GLOBAL CHEMICAL INVESTMENT HONG KONG LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED 31ST DECEMBER 2014

3 FINANCIAL RISK MANAGEMENT AND POLICIES (CONTINUED)

- Financial risk factors (continued)

(b) Liquidity risk (continued)

	Carrying amount US\$	Within 1 year or on demand US\$	1 to 5 years US\$	Total US\$
<b>Group – 2014</b>				
Trade and other payables	3,847,698	3,847,698	-	3,847,698
Interest-bearing borrowings	<u>152,420,046</u>	<u>6,313,106</u>	<u>158,750,449</u>	<u>165,063,555</u>
	<u>156,267,744</u>	<u>10,160,804</u>	<u>158,750,449</u>	<u>168,911,253</u>
<b>Group - 2013</b>				
Trade and other payables	17,954,679	17,954,679	-	17,954,679
Interest-bearing borrowings	<u>155,951,626</u>	<u>6,473,775</u>	<u>168,347,286</u>	<u>174,821,061</u>
	<u>173,906,305</u>	<u>24,428,454</u>	<u>168,347,286</u>	<u>192,775,740</u>
<b>Company – 2014</b>				
Trade and other payables	3,023,919	3,023,919	-	3,023,919
Interest-bearing borrowings	<u>152,420,046</u>	<u>6,313,106</u>	<u>158,750,449</u>	<u>165,063,555</u>
	<u>155,443,965</u>	<u>9,337,025</u>	<u>158,750,449</u>	<u>168,087,474</u>
<b>Company – 2013</b>				
Trade and other payables	3,186,034	3,186,034	-	3,186,034
Interest-bearing borrowings	<u>155,951,626</u>	<u>6,473,775</u>	<u>168,347,286</u>	<u>174,821,061</u>
	<u>159,137,660</u>	<u>9,659,809</u>	<u>168,347,286</u>	<u>178,007,095</u>

(c) Market risk

(i) Interest rate risk

At the end of the reporting period, the Group did not have significant interest rate risk exposure as the interest-bearing borrowings are borrowed at fixed interest rates.

SK GLOBAL CHEMICAL INVESTMENT HONG KONG LIMITED  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST DECEMBER 2014

3 FINANCIAL RISK MANAGEMENT AND POLICIES (CONTINUED)

- Financial risk factors (continued)

(c) Market risk (continued)

(ii) Currency risk

The Group is exposed to currency risk primarily through transactions that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily Renminbi.

The Group does not have any hedging instrument; however the Group will monitor its foreign exchange position in collaboration with the ultimate holding company and its subsidiary and when necessary, will take appropriate action to minimise potential exchange risk.

Sensitivity analysis

The following table demonstrates the approximate change in the Group's loss before taxation and accumulated losses and other components of equity in response to reasonably possible changes in the foreign exchange rate to which the Group has significant exposure at the balance sheet date.

	Increase/ (decrease) in foreign exchange rate %	Effect on loss after tax and accumulated losses US\$	Effect on other components of equity US\$
<u>2014</u> Renminbi	<u>5</u>	<u>(5,342,132)</u>	<u>-</u>
<u>2013</u> Renminbi	<u>5</u>	<u>(1,533,065)</u>	<u>-</u>

(iii) Price risk

The Group is not exposed to equity or commodity price risks.

SK GLOBAL CHEMICAL INVESTMENT HONG KONG LIMITED  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST DECEMBER 2014

3 FINANCIAL RISK MANAGEMENT AND POLICIES (CONTINUED)

- Capital risk management

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

The Group manages capital by regularly monitoring its current and expected liquidity requirements rather than using debt/equity ratio analysis.

The Group is not subject to either internally or externally imposed capital requirements.

- Fair value estimation

The Group did not have any financial instruments measured at fair value as at 31st December 2014 (2013: Nil).

All financial instruments are carried at amounts not materially different from fair values as at 31st December 2013 and 2014.

4 ACCOUNTING ESTIMATE AND JUDGEMENTS

Sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

(a) Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

SK GLOBAL CHEMICAL INVESTMENT HONG KONG LIMITED  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST DECEMBER 2014

5 OPERATING SEGMENT INFORMATION

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

- (a) Ethylene Propylene Diene Monomer ("EPDM") industry: Manufacturing of EPDM products through a plant in the PRC and sale to the international and the PRC markets; and
- (b) the corporate and others segment consists of corporate income and expense items.

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

Segment assets exclude deferred tax assets and tax recoverable as these assets are managed on a group basis.

Segment assets exclude deferred tax assets, tax recoverable, investment in a joint venture and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude tax payable, deferred tax liabilities and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

SK GLOBAL CHEMICAL INVESTMENT HONG KONG LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED 31ST DECEMBER 2014

5 OPERATING SEGMENT INFORMATION (CONTINUED)

	Production of EPDM US\$	Corporate and others US\$	Total US\$
<b>2014</b>			
Segment results	(5,883,831)	(514,497)	(6,398,328)
<b><u>Reconciliation:</u></b>			
Bank interest income			1,074,080
Share of loss of a joint venture			<u>(4,970,482)</u>
Loss before taxation			<u>(10,294,730)</u>
Segment assets	247,506,740	128,629	247,635,369
<b><u>Reconciliation:</u></b>			
Investment in a joint venture			3,098,497
Deferred tax assets			<u>2,527,120</u>
Total assets			<u>253,260,986</u>
Segment liabilities and total liabilities	155,989,608	278,136	<u>156,267,744</u>
<b>Other segment information:</b>			
Depreciation	81,669	-	81,669
Amortisation of intangible assets	43,779	-	43,779
Amortisation of land lease payments	<u>158,279</u>	<u>-</u>	<u>158,279</u>

SK GLOBAL CHEMICAL INVESTMENT HONG KONG LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED 31ST DECEMBER 2014

5 OPERATING SEGMENT INFORMATION (CONTINUED)

	Production of EPDM US\$	Corporate and others US\$	Total US\$
2013			
Segment results	(5,239,372)	(225,952)	(5,465,324)
<u>Reconciliation:</u>			
Bank interest income			387,028
Share of loss of a joint venture			<u>(1,084,665)</u>
Loss before taxation			<u>(6,162,961)</u>
Segment assets	272,548,797	132,688	272,681,485
<u>Reconciliation:</u>			
Investment in a joint venture			8,177,459
Deferred tax assets			<u>1,315,783</u>
Total assets			<u>282,174,727</u>
Segment liabilities and total liabilities	173,631,903	274,402	<u>173,906,305</u>
Other segment information:			
Depreciation	12,185	-	12,185
Amortisation of intangible assets	4,860	-	4,860
Amortisation of land lease payments	<u>158,661</u>	<u>-</u>	<u>158,661</u>
Geographical information			
		2014 US\$	2013 US\$
Non-current assets			
Mainland China	<u>181,617,227</u>	<u>98,782,990</u>	

The non-current assets information above is based on the locations of the assets and excludes investment in a joint venture and deferred tax assets.

SK GLOBAL CHEMICAL INVESTMENT HONG KONG LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED 31ST DECEMBER 2014

6 OTHER REVENUE

The Group did not generate any turnover during the year. An analysis of other revenue is as follows:

	2014 US\$	2013 US\$
Other revenue		
Bank interest income	1,074,080	387,028
Sundry income	-	15,919
	<u>1,074,080</u>	<u>402,947</u>

7 LOSS BEFORE TAXATION

The Group's loss before taxation is arrived at after charging:

	Notes	2014 US\$	2013 US\$
Depreciation	12	81,669	12,185
Amortisation of intangible assets	14	43,779	4,860
Minimum lease payments under operating leases in respect of land and building		352,124	230,272
Amortisation of land lease payments	13	158,279	158,661
Auditors' remuneration		31,169	19,480
Staff costs (including directors' remuneration (note 9))		4,038,622	2,720,572
Wages and salaries		<u>749,249</u>	<u>181,345</u>
Other employee benefits		<u>4,787,871</u>	<u>2,901,917</u>
Loss on disposal of items of property, plant and equipment	245		

8 FINANCE COSTS

An analysis of finance costs from continuing operations is as follows:

	2014 US\$	2013 US\$
Interest on bonds issued	6,714,299	1,810,258
Other borrowing costs	927,520	247,713
Less: interest capitalised	<u>(7,641,819)</u>	<u>(2,057,971)</u>
	-	-

SK GLOBAL CHEMICAL INVESTMENT HONG KONG LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED 31ST DECEMBER 2014

9 DIRECTORS' REMUNERATION

The directors received no fees or other emoluments for his services rendered to the Group during the year (2013: Nil).

10 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year (2013: Nil). No provision for taxation on an overseas subsidiary has been made as the subsidiary has no estimated assessable profits for the year (2013: Nil).

	2014 US\$	2013 US\$
Group:		
Deferred (note 17)	<u>1,253,320</u>	<u>1,275,561</u>

A reconciliation of the of the tax credit applicable to loss before taxation at the statutory rates to the tax position at the effective tax rate, are as follows:

	2014 US\$	2013 US\$
Loss before taxation	<u>(10,294,730)</u>	<u>(6,162,961)</u>
Tax at the statutory tax rate	(2,146,217)	(1,448,366)
Income not subject to tax	(10)	(2,736)
Expenses not deductible for tax	39,654	28,046
Loss attributable to a joint venture	820,130	178,970
Temporary differences not recognised	<u>33,123</u>	<u>(31,475)</u>
Tax position at the Group's effective rate	<u>1,253,320</u>	<u>1,275,561</u>

11 LOSS ATTRIBUTABLE TO SOLE EQUITY SHAREHOLDER OF THE COMPANY

The consolidated loss attributable to sole equity shareholder of the Company for the year ended 31st December 2014 includes a loss of US\$6,250,450 (2013: US\$85,718) which has been dealt with in the financial statements of the Company (note 24(b)).

SK GLOBAL CHEMICAL INVESTMENT HONG KONG LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED 31ST DECEMBER 2014

12 PROPERTY, PLANT AND EQUIPMENT

	Equipment, tools and furniture US\$	Construction in progress US\$	Total US\$
<b>Cost:</b>			
At 1st January 2013	-	-	-
Additions	75,551	89,265,982	89,341,533
Exchange realignment	1,161	1,332,978	1,334,139
At 31st December 2013 and 1st January 2014	76,712	90,598,960	90,675,672
Additions	869,867	84,204,277	85,074,144
Disposals	(388)	-	(388)
Exchange realignment	(8,375)	(2,747,920)	(2,756,295)
At 31st December 2014	937,816	172,055,317	172,993,133
<b>Accumulated depreciation:</b>			
At 1st January 2013	-	-	-
Charge for the year	12,185	-	12,185
Exchange realignment	187	-	187
At 31st December 2013 and 1st January 2014	12,372	-	12,372
Charge for the year	81,669	-	81,669
Write back on disposals	(143)	-	(143)
Exchange realignment	(914)	-	(914)
At 31st December 2014	92,984	-	92,984
<b>Net book value:</b>			
At 31st December 2014	844,832	172,055,317	172,900,149
At 31st December 2013	64,340	90,598,960	90,663,300

SK GLOBAL CHEMICAL INVESTMENT HONG KONG LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED 31ST DECEMBER 2014

13 PREPAID LAND LEASE PAYMENTS

	2014 US\$	2013 US\$
<b>Cost:</b>		
At 1st January	8,054,968	7,618,371
Additions	-	210,273
Exchange realignment	<u>(199,912)</u>	<u>226,324</u>
At 31st December	<u>7,855,056</u>	<u>8,054,968</u>
 <b>Accumulated amortisation:</b>		
At 1st January	161,099	-
Recognised during the year	158,279	158,661
Exchange realignment	<u>(5,176)</u>	<u>2,438</u>
At 31st December	<u>314,202</u>	<u>161,099</u>
 <b>Net book value:</b>		
At 31st December	<u>7,540,854</u>	<u>7,893,869</u>

The leasehold land is situated in Mainland China and is held under a long term lease.

SK GLOBAL CHEMICAL INVESTMENT HONG KONG LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED 31ST DECEMBER 2014

14 INTANGIBLE ASSETS

	Software US\$
<b>Cost:</b>	
At 1st January 2013	
Additions	227,264
Exchange alignment	<u>3,492</u>
At 31st December 2013 and 1st January 2014	230,756
Additions	1,006,955
Exchange alignment	<u>(13,221)</u>
At 31st December 2014	<u>1,224,490</u>
<b>Accumulated amortisation:</b>	
At 1st January 2013	
Charge for the year	4,860
Exchange alignment	<u>75</u>
At 31st December 2013 and 1st January 2014	4,935
Charge for the year	43,779
Exchange alignment	<u>(448)</u>
At 31st December 2014	<u>48,266</u>
<b>Net book value:</b>	
At 31st December 2014	<u>1,176,224</u>
At 31st December 2013	<u>225,821</u>

SK GLOBAL CHEMICAL INVESTMENT HONG KONG LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED 31ST DECEMBER 2014

15 INVESTMENT IN A SUBSIDIARY

	2014 US\$	2013 US\$
Unlisted shares, at cost	<u>80,834,548</u>	<u>80,834,548</u>

Particulars of the subsidiary are as follows:

Name of Company	Place of incorporation and business	Particulars of issued and paid up capital	Proportion of ownership interest		Principal activity
			Held by the Company	Held by a subsidiary	
寧波愛思開合成橡膠有限公司 *	The People's Republic of China ("PRC")	RMB630,000,000	80%	-	Development and wholesale of rubber products

\* Not audited by IL SHIN CPA Limited Certified Public Accountants

16 INVESTMENT IN A JOINT VENTURE

	Group		Company	
	2014 US\$	2013 US\$	2014 US\$	2013 US\$
Unlisted shares, at cost	-	-	9,117,377	9,117,377
Share of net assets	3,098,497	8,177,459	-	-
Impairment #	-	-	<u>(6,018,880)</u>	<u>-</u>
	<u>3,098,497</u>	<u>8,177,459</u>	<u>3,098,497</u>	<u>9,117,377</u>

# An impairment was recognised for the unlisted investment in 重慶川維愛思開化工有限公司 with an aggregate carrying amount of US\$9,117,377 (before deducting the impairment loss) as a result of management's intention of indefinite suspension of the joint venture's business due to commercial feasibility.

Particulars of the principal joint venture are as follows:

Name of company	Place of incorporation and business	Particulars of issued and paid up capital	Proportion of ownership interest		Principal activity
			Held by the Company	Held by a subsidiary	
重慶川維愛思開化工 有限公司 *	PRC	RMB113,052,000	50%	-	Production and trading of 1,4-butanediol and other chemical products

\* Not audited by IL SHIN CPA Limited Certified Public Accountants

The above investment in a joint venture is directly held by the Company.

SK GLOBAL CHEMICAL INVESTMENT HONG KONG LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED 31ST DECEMBER 2014

16 INVESTMENT IN A JOINT VENTURE (CONTINUED)

The following table illustrates the aggregate financial information of the Group's joint venture that is not individually material:

	2014 US\$	2013 US\$
Share of the joint venture's loss and total comprehensive income for the year	(4,970,482)	(1,084,665)
Aggregate carrying amount of the Group's investment in a joint venture	<u>3,098,497</u>	<u>8,177,459</u>

17 DEFERRED TAX

The movements in deferred tax assets during the year are as follows:

Deferred tax assets

Group	Other deductible temporary differences US\$	Losses available for offsetting against future taxable profits US\$	Total US\$
At 1st January 2013	(9,302)	29,337	20,035
Deferred tax credited to the statement of profit or loss during the year (note 10)	29,468	1,246,093	1,275,561
Exchange realignment	<u>180</u>	<u>20,007</u>	<u>20,187</u>
At 31st December 2013 and 1st January 2014	20,346	1,295,437	1,315,783
Deferred tax charged to the statement of profit or loss during the year (note 10)	24,473	1,228,847	1,253,320
Exchange realignment	<u>(687)</u>	<u>(41,296)</u>	<u>(41,983)</u>
At 31st December 2014	<u>44,132</u>	<u>2,482,988</u>	<u>2,527,120</u>

The Group has tax losses arising in Mainland China of US\$9,931,951 (2013: US\$5,181,748) that will expire in one to five years for offsetting against future taxable profits.

SK GLOBAL CHEMICAL INVESTMENT HONG KONG LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED 31ST DECEMBER 2014

18 INVENTORIES

Inventories represent raw materials.

19 OTHER RECEIVABLES

	Group 2014 US\$	2013 US\$	Company 2014 US\$	2013 US\$
Other receivables	13,378,898	27,807	-	-
Amounts due from a subsidiary	-	-	2,167,884	1,994,090
Amounts due from a fellow subsidiary	-	350,404	-	-
Loan to a subsidiary	-	-	153,045,000	156,940,000
Loans and receivables	13,378,898	378,211	155,212,884	158,934,090
Prepayments	78,055	-	-	260
Less: Loan to a subsidiary classified as non-current assets	-	-	(153,045,000)	(156,940,000)
	<u>13,456,953</u>	<u>378,211</u>	<u>2,167,884</u>	<u>1,994,350</u>

The other receivables are non-interest-bearing.

The amounts due from a subsidiary and a fellow subsidiary are unsecured, interest-free and are repayable on demand.

The loan to a subsidiary is unsecured, bears interest of 4.83% per annum and is repayable in 2016.

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

20 CASH AND BANK BALANCES

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to US\$33,890,896 (2013: US\$141,370,218). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

SK GLOBAL CHEMICAL INVESTMENT HONG KONG LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED 31ST DECEMBER 2014

21 TRADE AND OTHER PAYABLES

	Group 2014 US\$	2013 US\$	Company 2014 US\$	Company 2013 US\$
Trade payables	29,013	5,971	-	-
Other payables and accruals	2,908,405	17,948,708	3,023,919	3,186,034
Amount due to a fellow subsidiary	104,780	-	-	-
Loan from a related company	805,500	-	-	-
Financial liabilities measured at amortised cost	<u>3,847,698</u>	<u>17,954,679</u>	<u>3,023,919</u>	<u>3,186,034</u>

Trade and other payables are non-interest-bearing, and are repayable on demand.

The loan from a related company is unsecured, bears interest at 5% per annum and is repayable on demand.

The amount due to a fellow subsidiary is unsecured, non-interest-bearing and is repayable on demand.

22 INTEREST-BEARING BORROWINGS

	Group and Company					
	2014				2013	
	Contractual interest rate%	Maturity	US\$	Contractual interest rate%	Maturity	US\$
Non-current bond – secured	4.125%	2016	<u>152,420,046</u>	4.125%	2016	<u>155,951,626</u>

At 26th September 2013, the Group and the Company issued 4.125% Guaranteed Notes with face value of RMB950,000,000 due 26th September 2016 through Singapore Exchange in Singapore.

The bond is denominated in Renminbi, bears interest at 4.125% per annum and is secured by a corporate guarantee executed by the ultimate holding company.

SK GLOBAL CHEMICAL INVESTMENT HONG KONG LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED 31ST DECEMBER 2014

23 SHARE CAPITAL

	Group and Company 2014 US\$	2013 US\$
Authorised: (note (i)) Nil (2013: 89,981,948 ordinary shares of US\$1 each) (note (ii))	-	<u>89,981,948</u>
Issued and fully paid: 90,181,948 (2013: 89,981,948) ordinary shares	<u>90,181,948</u>	<u>89,981,948</u>

Notes:

- (i) Under the Hong Kong Companies Ordinance (Cap. 622), which commenced operation on 3rd March 2014, the concept of authorised share capital no longer exists.
- (ii) In accordance with section 135 of the Hong Kong Companies Ordinance (Cap. 622), the Company's shares no longer have a par or nominal value with effect from 3rd March 2014. There is no impact on the number of shares in issue or the relative entitlement of any of the members of the Company as a result of this transition.

On 4th February 2014, 200,000 ordinary shares of US\$1 each were issued at par for cash at a total consideration of US\$200,000.

24 RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 8 of the financial statements.

(b) Company

	Accumulated losses US\$
At 1st January 2013	(15,187)
Loss and total comprehensive income for the year	<u>(85,718)</u>
At 31st December 2013 and 1st January 2014	(100,905)
Loss and total comprehensive income for the year	<u>(6,250,450)</u>
At 31st December 2014	<u>(6,351,355)</u>

SK GLOBAL CHEMICAL INVESTMENT HONG KONG LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED 31ST DECEMBER 2014

25 OPERATING LEASE ARRANGEMENTS

The Group leases its production facilities, staff quarters and motor vehicles under operating lease arrangements. The lease for the production facilities is negotiated for a term of twenty years, and those for the staff quarters and motor vehicles are both negotiated for terms ranging from one to three years.

At 31st December 2014, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2014 US\$	2013 US\$
Within one year	1,461,452	218,351
In second to fifth years, inclusive	<u>56,498</u>	<u>86,079</u>
	<u>1,517,950</u>	<u>304,430</u>

26 COMMITMENTS

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

	2014 US\$	2013 US\$
Contracted but not provided for: Construction of plant and machinery	<u>1,054,269</u>	<u>73,421,653</u>

SK GLOBAL CHEMICAL INVESTMENT HONG KONG LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED 31ST DECEMBER 2014

27 RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

	2014 US\$	2013 US\$
<b>Fellow subsidiaries:</b>		
Construction fee	9,443,559	7,042,976
ERP system fee	997,256	355,549
Technical service income	147,747	-
Service fee	2,921	-
Consulting fee	17,529	-
<b>The ultimate holding company:</b>		
Construction fee	-	2,519,694
Management fee	<u>4,258</u>	<u>-</u>

(b) Compensation of key management personnel of the Group:

	2014 US\$	2013 US\$
Short term employee benefits	<u>856,134</u>	<u>921,421</u>

Further details of directors' emoluments are included in note 9 to the financial statements.

28 IMMEDIATE AND ULTIMATE HOLDING COMPANY

At 31st December 2014, the directors consider the immediate parent and ultimate controlling party of the Company to be SK Global Chemical Co., Limited, a company incorporated in the Republic of Korea.

SK GLOBAL CHEMICAL INVESTMENT HONG KONG LIMITED  
DETAILED STATEMENT OF PROFIT OR LOSS  
FOR THE YEAR ENDED 31ST DECEMBER 2014  
(For management purpose only)

	2014 US\$	2013 US\$
Other revenue		
Bank interest income	58	664
Loan interest income	7,447,503	1,994,090
Reimbursement income	1,073,667	457,764
Sundry income	-	15,919
	<u>8,521,228</u>	<u>2,468,437</u>
Administrative expenses		
Auditors' remuneration	(31,169)	(19,480)
Accounting fee	(1,558)	(3,571)
Bank charges	(4,644)	(1,598)
Business registration fee	(292)	(58)
Company secretarial fee	(779)	(519)
Government charges	(32)	-
Legal and professional fee	(4,907)	(13,156)
Management fee	(4,258)	-
Printing and stationery	(776)	(1,170)
Sundry expenses	-	(112)
Tax and dues	(477,186)	(203,451)
Travelling	(4,630)	-
	<u>(530,231)</u>	<u>(243,115)</u>
Impairment of investment in a joint venture	(6,018,880)	-
Foreign exchange difference, net	<u>15,733</u>	<u>1,244</u>
Profit from operations	<u>1,987,850</u>	<u>2,226,566</u>
Finance costs		
Loan interest expenses	(6,714,299)	(1,810,258)
Guarantee fee	(927,519)	(247,713)
	<u>(7,641,818)</u>	<u>(2,057,971)</u>
Profit/(loss) before taxation	<u>(5,653,968)</u>	<u>168,595</u>