玖源生態農業科技(集團)有限公司

Ko Yo Ecological Agrotech (Group) Limited

(incorporated in the Cayman Islands with limited liability)

(Stock code: 00827)

Annual Report 2009

Contents

Corporate Information

DIRECTORS

Executive directors

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

Independent non-executive directors

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

COMPANY SECRETARY

Mr. Chung Tin Ming, HKICPA, FCCA

QUALIFIED ACCOUNTANT

Mr. Chung Tin Ming, HKICPA, FCCA

AUDIT COMMITTEE

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

AUTHORIZED REPRESENTATIVES

Mr. Li Weiruo
Ms. Man Au Vivian

COMPLIANCE OFFICER

Ms. Chi Chuan

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

SHARE REGISTRAR

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

AUDITOR

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

PRINCIPAL BANKERS

Industrial and Commercial Bank of China
-Chengdu City Xindu Branch

Agricultural Bank of China
-Chengdu City Wuhou Branch

China Mingsheng Banking Corp.
-Chengdu Branch

China Merchants Bank
-Chengdu City Hong Zhaobi Branch

China Construction Bank Corporation
-Dazhou Branch

Development Bank of Singapore
-Shanghai Branch

Industrial and Commercial Bank of China (Asia)
-Central Branch

STOCK CODE

827

WEBSITE

www.koyochem.com

Highlights

- For the year ended 31st December 2009, the loss attributable to shareholders was approximately RMB7.2 million, which represents a drop of RMB67.8 million as compared to year 2008.
- Basic loss per share was approximately RMB0.11 cents for the year ended 31st December 2009.
- For the year ended 31st December 2009, sale turnover was approximately RMB602 million, which represents a decrease of 8.0% as compared to year 2008.
- The sale amount and quantities of BB Fertilizers and compound fertilizers of the Group was approximately RMB159 million and 87,696 tonnes respectively, which represents a drop of 19.7% and 3.2% respectively as compared with year 2008.
- The Directors do not recommend the payment of any final dividend for the year ended 31st December 2009.

TO SHAREHOLDERS

It's my honour to report the results of Ko Yo Ecological Agrotech (Group) Limited (the "Company") together with its subsidiaries (collectively, the "Group") for the year ended 31st December 2009 to you. I wish to express appreciation on behalf of the Board of Directors to all shareholders and our friends from all sectors of the society who concern for the development of the Group.

Due to the continuous adverse impact of the international financial crisis, in 2009, the general chemical fertilizer industry suffered from recession: market demand decreased, product sales were sluggish and sector inventories stocked up. The ambient business environment of the Group changed dramatically, particularly the declining trend of fertilizer industry demand and price ever since the beginning of 2009, both making it tough for the Group's production and operation. In response to the challenging situation, the management of the Group strived to adjust corresponding strategies and to the greatest extent ensured the realization of operational objectives and led the Company to get over difficulties and retained stable operation.

During the year under review, the Group experienced downfall in its results for the first time ever since its establishment. For the year ended 31st December 2009, the audited loss attributable to shareholders of the Group amounted to approximately RMB 7.2 million, representing a drop of RMB67.8 million as compared to a profit RMB60.6 million of last year. Basic loss per share amounted to approximately RMB0.11 cents (2008: Basic profit per share RMB 1.0 cents). The Group's turnover amounted to approximately RMB602 million, representing a decrease of 8.0% as compared to RMB655 million in the same period of last year. The Group's sales volume excluding the trading portion which amounted to approximately 422,000 tonnes, representing an increase of approximately 6.3% as compared to 397,000 tonnes of last year.

Product sales in quantities of the Group increased over the same period of last year, however the substantial decrease in profits was mainly attributable to: (1) persistent impact of the international financial crisis, resulting in overall unsatisfactory performance during peak seasons and continuing low price rank of the domestic chemical fertilizer market. Take nitrogen for example, its price kept dropping during the year and signs of market recovery were not recognized until the end of the year. (2) market confidence was severely struck by the continual recession suffered by the fertilizer industry; agricultural distributors substantially reduced inventories and the comparatively low price of agricultural products further diminished farmers' intention to use fertilizers; with the adverse impact of financial crisis resulting in lower income of farmers, farmers' consumption power was lowered and the demand for fertilizers was further affected.

Chairman's Statement

Fighting against the operational difficulties in 2009, the management of the Company persisted in the "detail management and cost oriented" strategy and fully employed staff's enthusiasm. We on one hand ensured the stable operation of our production line and on the other hand endeavored to lower production consumption. In 2009, each of the subsidiaries maintained an utilization rate of apparatus at around 95%. Besides, we flexibly adjusted our corresponding strategies towards the market and establish a new agricultural resources company. The Group emphasized on enhancing the base of operation, securing major customers and assuring effective product promotion in 2009. In August 2009, in light of the Group's future developmental strategy and the trend of boosting productivity, the Group newly established an independent marketing company, namely Sichuan Ko Yo Agrochem Co., Ltd which specifically engaged in the agricultural resources and chemical sector, sales of chemical fertilizer products and provision of agrichemical services. Establishment of this company not only benefits the overall management planning, resources integration and cost reduction, but also further enhances the building of the Group's sales channels, boosts its brand and makes advance arrangement for the sales of Dazhou urea products. The new agricultural resource company was established via the consolidation of channel resources and remarkable increase in product sales. The establishment twisted the unfavourable situation faced by the Group and safeguard the materialization of basic operational objectives of the year.

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 2009. The Group has not declared any final dividend for the year ended 31st December 2009 (2008: HKD 0.03 cents per share).

OUTLOOK

Industry Review

Chemical fertilizer industry survived the dark times and moved on

Despite the continuous negative effects of the global financial crisis, with the support and encouragement of relevant policies of the State and gradual recovery of the global economy and increase in international agricultural product prices, the chemical fertilizer industry is gradually moving away from the dark times and onward. It is expected that the domestic fertilizer industry will show signs of recovery in 2010, the consolidated analysis of the underlying reasons is set out below:

1. *Increase in both domestic and international demand*

   According to the estimation of The Ministry of Agriculture of the PRC, Chemical fertilizers contribute to more than 40% to grain production increase. Base on the limited supply of grain farming area in the future, grain production increase would rely on chemical fertilizers. Stable development of agricultural industry in the PRC therefore secures the fundamental need for chemical fertilizers.

   In terms of the international market, international grain price is slowly increasing, the boost in oil price once again stimulates the development of biological resource; the international demand for chemical fertilizers is expected to increase accordingly in 2010. The IFA recently issued the Short-Term Prospect of Chemical Fertilizer Market in 2009-2010. It is expected that the global consumption of chemical fertilizer will increase 1% in 2010. Among them nitrogen fertilizer is expected to fully recover (+ 1.6%), phosphate fertilizer is expected to slightly increase (+3%) and potash fertilizer is expected to further decline (-4.5%). The global demand for urea, diammonium phosphate and potassium carbonate in 2010 is expected to increase 5%, 5% and 50%, respectively.

2. *Emphasis and support of agricultural industry in the PRC would benefit the chemical fertilizer industry*

   A number of policies regarding the agricultural resource industry were introduced during 2009, including: unleash the price of chemical fertilizers, unleash the operation of agricultural resources, control export tax, adjust transportation cost of chemical fertilizers and resources price, adjust the sector structure and eliminate underdeveloped productivity; all these measures would speed up the marketization of agricultural resources industry. In 2010 and the foreseeable future, it is expected that the chemical fertilizer industry will undergo marketization and structure adjustment, both will in turn benefit the integration and healthy development of the industry.

   The "Six main economical tasks of the PRC in 2010" issued during the "2009 China Central Economic Works Conference" which ended in December 2009 clearly specified the "3 agricultural development basis and increase grain subsidy". This would enhance the affordability of farmers towards agricultural resources and benefit the chemical fertilizer industry in the long term.

The directors of the Group ("Directors") believed that the adjustment in 2009, recovery of global economy, relatively rapid growth of PRC economy and the consistent support of "3 agricultures" by the Chinese Government would increase the farmers' income and facilitate the farmers' intention to use fertilizers.

It is expected that demand for chemical fertilizers would reinstate in 2010 and await full recovery of the chemical fertilizer industry.

OBJECTIVES AND STRATEGIES

The Dazhou, Sichuan Province project has commenced trial production, through 2nd phase project productivity expansion and technological transformation, it is expected that the productivity of synthetic ammonia and urea of the newly established urea plant in Dazhou could reach 500,000 tonnes per year and 800,000 tonnes per year respectively.

During the period under review, the Group's project with annual productivity of synthetic ammonia and urea of approximately 400,000 tonnes and 450,000 tonnes respectively in the Natural Gas Energy Utilization Area of Dazhou City, Sichuan Province ("Dazhou Project") demonstrated significant progress.

The Company entered into a RMB 300 million loan contract with China Construction Bank in February 2009. In April 2009, after the Company completed the agreement with International Finance Corporation, a member of the World Bank Group, the Group received an investment of USD10,000,000 and a loan of USD20,000,000 from International Finance Corporation. The Dazhou Project was financially secured and was progressing in full throttle.

At the end of April 2009, all imported equipment had been delivered and gradually entered different phases of inspection and installation. In August 2009, the equipment of synthetic ammonia under the project was ready to undergo trial production. China Petroleum & Chemical Corporation Gas Company started supplying natural gas to the site where the project was located on 16 January 2010. The equipment of the Dazhou project has entered the stage of trial production. According to the normal trial production procedure, such equipment is expected to enter production in the first half of the year and be well prepared for realizing its full production.

In order to fully utilize the capacity of such equipment, to balance its remaining liquefied ammonia, to optimize the Company's product structure and to effectively synchronize the production of synthetic ammonia and urea during operation, the management of the Company decides to invest in the 2nd phase of the project, namely the "300,000 tonnes of Urea Project", after the Group's project with annual productivity of synthetic ammonia and urea of approximately 400,000 tonnes and 450,000 tonnes is well established. The Company has currently finished the planning for the 2nd phase of the project and has obtained approval for such project from the Development and Reform Commission of the Sichuan Provincial Government. With the productivity expansion and technological enhancement of the urea plant in Dazhou in the 2nd phase of the project, the annual productivity of synthetic ammonia and urea are expected to be increased from 400,000 tonnes to 500,000 tonnes and from 450,000 tonnes to 800,000 tonnes, respectively.

Dazhou Project is a new project initiated by the management of the Company after comprehensive consideration on the development trend of chemical and fertilizer industry and on the basis of the fact that rich natural gas resources exist in that place. The equipment of such project runs on natural gas (the annual 450 million m^3 of natural gas standard required under the project has been confirmed by the Development and Reform Commission of the Sichuan Provincial Government and China Petrochemical Corporation) to produce liquefied ammonia and processed into urea products. The project is cost effective. The aggregate amount of investment of the project is approximately RMB 1 billion, which is only 1/3 of the aggregate amount of investment of same level equipment in the industry. The project adopts Kellogg's Process and Stamicarbon's CO_2 Stripping Process. Both are international cutting edge technologies and are low in consumption and emission with the advantage of boosting productivity and efficiency.

Through integration of internal resources and sales channel, the Group established Sichuan Ko Yo Agrochem Co., Ltd in August 2009 to encourage smooth production of the project in 2010. Sichuan Ko Yo Agrochem Co., Ltd principally engages in the sales of chemical fertilizers and chemical products and the provision of agrichemical services. Currently, the deployment of production resources and marketing network of the project has been completed.

The Directors expect that the completion and production of the project will become a new source of profit for the Group and at the same time ensure the sustainable development of the Company in the future.

Update on exploitation licence application for a phosphorous mine

The application for the exploitation licence of a phosphorous mine of Sichuan Chengyuan Chemical Industry Company Limited ("Sichuan Cuyo"), a wholly-owned subsidiary of the Group, located at Qingping Township, Mianzhu City, Sichuan Province has been delayed due to the consequential impact brought about by the earthquakes occurred in Wenchuan, Sichuan Province of the PRC in May 2008. Sichuan Cuyo had been granted by the Bureau of Land and Resource of Sichuan Province（四川省國土資源廳） an extension of the exclusivity period of the Mine（礦區範圍預留期）, within which Sichuan Cuyo was conferred with a preferential right to apply for the exploitation licence, from 30 June 2009 to 30 June 2011.

Currently, Sichuan Cuyo has submitted the documents for exploitation licence application to the Ministry of Land and Resources according to the requirements of relevant PRC laws and has obtained the acceptance letter from Government authorities on 16 November 2009. Once approved, this phosphorous mine will become a strategic resource for the Company's middle-and-long-term development, allow the Company's industry chain to expand both upstream and downstream and lay a foundation for further improvement of economic benefits and the sustained development of the Group.

APPRECIATION

In 2009, the Group suffered the negative impact brought about by the financial crisis in the previous year and experienced the toughest situation ever since its establishment. Fighting against the crisis, management of the Company demonstrated accurate decision making ability; we fully employed staff's enthusiasm, persisted in the "detail management and cost oriented" strategy, progressed the new project in Dazhou into trial production and safeguard the materialization of the basic operational objectives of the year. We have successfully transformed the "crisis" into a "chance".

Looking forward, the Group perceives 2010 as the "year of change"! As the economy in the PRC is moving away from the financial crisis and approaching full recovery, the Group will capitalize the opportunity of reforming and integrating the fertilizer industry, fully elaborate the advantage of scale and cost, leverage on the capital market to become mighty and vast and ultimately grow into the most competitive fertilizer production enterprise in the PRC.

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

Li Weiruo
Chairman
30 April 2010

FINANCIAL PERFORMANCE

Results

For the year ended 31st December 2009, the Group remained focused on manufacture and distribution of chemical fertilizers and chemical products, including BB Fertilizers and complex fertilizers, sodium carbonate, urea, ammonium chloride, ammonium bicarbonate and ammonia.

During the year under review, the Group recorded turnover of approximately RMB602 million, a decrease of 8.0% over the previous year. The loss attributable to shareholders of the Company amounted to approximately RMB7.2 million, representing a drop of approximately RMB67.8 million as compared to last year. Basic loss per share amounted to approximately RMB0.11 cents.

Dividends

The Directors did not recommend the payment of any final dividend for the year ended 31st December 2009 (2008: Nil). No dividend was declared for the year ended 31st December 2009 (2008: HKD0.03 cents per share).

Cost and Profit Margin

Cost of sales of the Group amounted to approximately RMB533 million, representing an increase of 6.9% as compared to the figure in 2008. The reasons of increase in cost of sales were increase in sales quantities.

Gross profit margin of the Group decreased approximately from 23.9% in 2008 to 11.5% in 2009. The decrease in the gross profit margin was due to the decrease in selling price of the products.

During the year under review, distribution costs increased approximately by 8.6% as compared with last year. The ratio of the distribution costs over sales was 3.3% in 2009 which was higher than that of in 2008.

In comparison with last year, there was a decrease in administrative expenses of the Group by approximately 22.7% from RMB56.8 million in 2008 to RMB43.9 million in 2009.

Starting from the year under review, the Group prepaid income tax in 2009 of Enterprise Income Tax amounting to approximately RMB0.9 million. Details of tax schemes are set out in Note 28 to consolidated financial statements.

PRODUCTS

BB Fertilizers and Compound Fertilizers

Net sales of BB Fertilizers and compound fertilizers of the Group amounted to approximately RMB159 million, representing a decline of approximately 19.7% as compared to last year, and accounted for approximately 26.4% of the Group's aggregate net sales.

Sodium Carbonate and Ammonium Chloride

The net sales of sodium carbonate and ammonium chloride amounted to approximately RMB80 million and RMB50 million, which decrease approximately by 38.9% and 29.6% respectively as compared to previous year, which accounted for approximately 13.2% and 8.2% of the Group's aggregate net sales respectively.

Urea

The net sales of urea increased by 0.8% to RMB243 million in 2009 as compared to last year, which accounted for approximately 40.3% of the Group's aggregate net sales.

Ammonia and Ammonium Bicarbonate

The net sales of ammonia decreased approximately by 18.2% to RMB9 million in 2009 as compared to last year, which accounted for 1.6% of the Group's aggregate net sales. The net sales of ammonium bicarbonate increased by 483% to RMB14 million of sales as compared to last year, which accounted for approximately 2.4% of the Group's aggregate net sales.

Others

The net sales of other products including foliar fertilizer, highly water soluble fertilizer, trading of ammonium di-hydrogen phosphate, mono-ammonium phosphate and urea were approximately RMB47 million, which accounted for approximately 7.9% of the Group's aggregate net sales.

Awards & Recognitions

During the period under review Ko Yo Development Company Limited, a subsidiary of the Group, was accredited the ward of "2009 Top 100 Chemical Fertilizers Enterprises in China" by the Fertilizer Professional Committee of Chemical Industry and Engineering Society of China and the China Chemical Industry Information Association. On August 2009, Mr Li Weiruo, Chairman of the Board of the Company was a accredited the award of "建國六十周年創新人物" by the China Non-Governmental Entrepreneurs Association and the Centre for Information & Consultation for the China Academy of Sciences.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31st December 2009, the Group had net current liabilities of approximately RMB131,498,000. Current assets as at 31st December 2009 comprised cash and bank deposits of approximately RMB144,498,000, pledged bank deposits of approximately RMB83,325,000, inventories of approximately RMB100,263,000, trade receivables of approximately RMB24,094,000 and prepayments and other current assets of approximately RMB116,513,000. Current liabilities as at 31st December 2009 comprised short-term borrowings of approximately RMB252,030,000, short-term portion for long-term borrowings of approximately RMB128,141,000, trade and notes payables of approximately RMB119,405,000, deposits from customers of approximately RMB72,865,000 and accrued charges and other payables of approximately RMB27,750,000. 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 2009, the Group had outstanding capital commitments of approximately RMB26.9 million. Details of the Group's capital commitments are set out in Note 33 to the consolidated financial statements.

FINANCIAL RESOURCES

As at 31st December 2009, the Group had cash and bank deposits of approximately RMB144,498,000 and pledged bank deposits of approximately RMB83,325,000. 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 2009, the total borrowings and notes payable balances of the Group amounted to RMB733,746,000.

GEARING RATIO

The Group's gearing ratios were approximately 116% and 68% as at 31st December 2009 and 31st December 2008 respectively. The gearing ratios were calculated based on total liabilities over total equity as at the respective balance sheet dates. Details of the Group's gearing ratio is set out in Note 3.2 to the consolidated financial statements.

CONTINGENT LIABILITIES

The Group had no significant contingent liabilities as at 31st December 2009.

MATERIAL ACQUISITION/DISPOSAL

There was no material acquisition or disposal in the year 2009 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 investment of new urea plant with an annual capacity of 400,000 tonnes of ammonia in and 450,000 tonnes of urea as per announcement dated 5th October 2006, the Directors do not have any future plans for material investment or capital assets.

EXPOSURE ON EXCHANGE RATE FLUCTUATION

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

CHARGES ON THE GROUP'S ASSETS

As at 31st December 2009, certain land use rights and buildings with a total net book value of approximately RMB71,287,000 (2008: RMB65,415,000), plant and machinery, construction in progress with a total net book value of approximately RMB478,170,000 (2008: RMB24,404,000) and bank deposits approximately RMB83,325,000 (2008: RMB59,336,000) were pledged as collateral for the Group's borrowings and notes payable.

DIVIDEND

After considering of the heavy capital expenditure of the new urea plant, the Directors do not recommend the payment of any final dividend for the year ended 31st December 2009.

NUMBER OF EMPLOYEES

As at 31st December 2009, the Group had 1,944 (2008: 2,042) employees, comprising 6 (2008: 6) in management, 85 (2008: 108) in finance and administration, 1,762 (2008: 1,846) in production, 87 (2008: 76) in sales and marketing and 4 (2008: 6) in research and development. 1,938 (2008: 2,036) of these employees were located in the PRC and 6 (2008: 6) were located in Hong Kong.

Pension schemes of the Group are set out in Note 2.20 to consolidated financial statements.

EXECUTIVE DIRECTORS

Mr. Li Weiruo, aged 56, is the Chairman of the Board and the founder of the Group. He graduated from Sichuan Institute of Finance and Economics with a certificate in economics in 1985. Mr. Li has over 20 years' experience in corporate management in the PRC. He was awarded a certificate for "Chief Economists of Large-to-Medium Sized Enterprises in the PRC" after completing "The Study Course for Chief Economists of Large-to-Medium Sized Enterprises" commissioned by the State Economics Commission at the Southwest University of Finance and Economics in 1986. He is one of the authors of "Modern Corporate Management" which was published by the Sichuan Education Publisher. Mr. Li was the former Vice-director of China Nonferrous Metal Corporation in Chengdu. Mr. Li moved to Hong Kong in 1994 and became a permanent resident of Hong Kong in 2001. He was appointed as an invited member of the Chinese People's Political Consultative Conference of Sichuan Province in 2003. Mr. Li was appointed as the vice chairman of the China Association for Quality Inspection in August 2005. In May 2006, Mr. Li was awarded the "Outstanding Entrepreneur of Privately-owned Petroleum and Chemical Enterprises in China 2006" (二零零六全國石油和化工優秀民營企業家) by the China Petroleum and Chemical Industry Association. In September 2007, Mr. Li received the "Asia 10 Brand Innovative Personality Award" (亞洲品牌十大創新人物獎) by the Asia Brand Ceremony Organizing Committee (亞洲品牌盛典組委會). In December 2008, he was accredited the award of "World Economy Top 10 Outstanding Chinese Entrepreneurs" (世界十大華人傑出企業家獎) by the "2008 Asia Pacific Annual Chinese-Economy Council for Investment & Financing" (2008 亞太(投融資)華人經濟年會暨第三屆中國國際循環經濟高峰論壇). Mr. Li is responsible for the overall management, strategic planning and business development of the Group.

Mr. Yuan Bai, aged 51, is the Chief Executive Officer of the Group. Mr. Yuan is responsible for the cost management and general operations and research and development of the Group. Mr. Yuan graduated from Northeast Institute of Technology with a bachelor degree in engineering in 1982 and obtained a certificate as Senior Engineer in 1992. Mr. Yuan studied economy management in Qinghua University from September 1995 to March 1996. Prior to joining the Group in August 1999, Mr. Yuan was the Deputy General Manager of Chongqing Sanjiu Industrial Co., Ltd., which focused on the manufacture and trading of non-ferrous metal. Mr. Yuan was elected as a people's delegate of the first session of the People's Congress of Chongqing in 1997.

Ms. Chi Chuan, aged 54, is the Compliance Officer of the Group. She graduated from Sichuan Normal College with a bachelor degree in science in 1982. Ms. Chi has over 10 years' experience in finance and accounting. Prior to joining the Group in July 1999, Ms. Chi was the finance manager of Leshan Economic and Trade General Company, a trading company in the PRC. Ms. Chi is primarily responsible for the financial management of the Group since she joined the Group in July 1999.

Ms. Man Au Vivian, aged 46, is responsible for business development and investment activities of the Group. Ms. Man graduated from the University of International Business and Economics with a bachelor degree in economics in 1986. Ms. Man has over 15 years' experience in international trade. She formerly worked for China National Light Industrial Products Import and Export Corporation of MOFTEC. She joined the Group in January 1997.

Mr. Li Shengdi, aged 57, responsible for the construction and administrations of the Group's new area plant in Dazhou. Mr. Li graduated from Chinese Communist Party School and North China University of Technology studying industrial enterprise management with a degree majoring economics and was entitled as an economist. Prior to joining the Group, he was the deputy manager of China Nonferrous Huludao Zinc Corporation, from 1983 to 1993, general manager of Hainan Hui Yuantang Medicine Co., Ltd. from 1996 to 1999 and general manager of Shanghai Haos Water Rectified Co., Ltd., a Sino-US joint venture from 2000 to 2002. Mr. Li joined the Group in October 2002 and was appointed as a Director of the Company on 29th April 2004.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Hu Xiaoping, aged 59, is an independent non-executive director. He obtained a bachelor degree in Economics from Sichuan Institute of Finance and Economics in 1982 and a master degree in Economics from Southwest University of Finance and Economics in 1987. Mr. Hu is currently the head of the Economics Research Centre of the Southwest University of Finance and Economics. Mr. Hu has been involved in various research projects at both the provincial and state level and has published numerous articles in financial and economics publications in the PRC. He was appointed as an independent non-executive director in June 2003.

Mr. Woo Che-wor, Alex, aged 57, is an independent non-executive director. Mr. Woo has been the Chairman and Chief Executive Director of STI Certified Products Inc., a private company in California, U.S.A. since February 1988. From January 1976 to December 1988, Mr. Woo was the corporate treasurer of Fairchild Semiconductor Corporation, a multi-national semiconductor company with its headquarters in California, U.S.A.. Mr. Woo is qualified as Certified Management Accountant from Chartered Institute of Management Accountants of England and obtained an M.B.A. from San Jose State University of the U.S.A. in 1987. He was appointed as an independent non-executive director in June 2003.

Mr. Qian Laizhong, aged 67, is an independent non-executive director. Mr. Qian graduated from Sichuan Fine Arts Institute in 1968. Over the past 20 years, Mr. Qian actively participated in cultural and economical researches and publishes in Sichuan province, the PRC. Currently, Mr. Qian is a member of Sichuan Provincial Committee of Chinese Peoples Political Consultative Conference. He was appointed as an independent non-executive director on 16th August 2004.

SENIOR MANAGEMENT

Mr Jiao Kang Di, aged 58, the vice president of the Group and responsible person of the new urea plant in Dazhou city. Mr. Jiao is responsible for managing and coordinating the Group's large-scale chemical engineering projects. He graduated from Sichuan University of Science and Engineering（四川輕化工業院）in 1980, and further studied Economics at Sichuan Professional College of Finance & Economics（四川財經學院）in 1983. Mr. Jiao was given the name "Excellent Entrepreneur"（優秀企業家）by the People's Government of Zigong City（自貢市人民政府）; he became a Senior Engineer in 1993; he was given the name "Labour Model"（勞動模範）by the Human Resources Department of the National Light Industry Department（國家輕工部人民部）. Mr. Jiao joined the Koyo Group in 2005, before joining the Group, he was the Chief Executive Officer of Zigong Tongming Lighting Appliances Company Limited（自貢通明照具有限公司）, and has outstanding ability in cost control and corporate management experiences.

Mr. Chung Tin Ming, aged 39, is the company secretary and qualified accountant of the Group and is responsible for financial management of the Group. He graduated from Chinese University of Hong Kong with a bachelor degree in science and City University of Hong Kong with a master degree each of in financial engineering and electronic engineering. He is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellowship member of Association of Chartered Certified Accountants. Prior to joining the Group in January 2006, he was a director of Keen Ocean Industrial Limited in Hong Kong.

Report of the Directors

The Directors have the pleasure of presenting their report together with the audited financial statements of the Company and its subsidiaries for the year ended 31st December 2009.

GENERAL INFORMATION

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

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

PRINCIPAL ACTIVITIES

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

RESULTS AND APPROPRIATIONS

Details of the Group's profits for the year ended 31st December 2009 are set out in the consolidated statement of comprehensive income.

The Directors do not recommend the payment of any final dividend for the year ended 31st December 2009 (2008: Nil).

SHARE CAPITAL

Details of movements in share capital of the Company are set out in Note 14 to the consolidated financial statements.

RESERVES

Movements in the reserves of the Group and of the Company during the year are set out in Note 15 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31st December 2009 amounted to approximately RMB557,330,000 (2008: RMB507,706,000).

RIGHTS OF DIRECTORS AND EMPLOYEES TO ACQUIRE SHARES OR DEBENTURES

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

PRE-EMPTIVE RIGHTS

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

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out in page 108.

PROPERTY, PLANT AND EQUIPMENT

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

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The Directors who held office during the year ended 31st December 2009 and up to the date of this report are:

Executive directors

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

Independent non-executive directors

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

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS *(Continued)*

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

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

The independent non-executive directors of the Company are appointed with specific terms inside the letter of appointment for initial fixed terms of two years.

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

SHARE OPTIONS

On 10th June 2003, the Company adopted a share option scheme and amended at an extraordinary general meeting on 28th July 2004 (the "GEM Share Option Scheme"). The GEM Share Option Scheme was terminated on 25 August 2008. A new share option scheme (the "Existing Share Option Scheme") was adopted on 18 September 2008. A summary of the principle terms and conditions of the GEM Share Option Scheme is set out under the section headed "Share Option Scheme" in Appendix IV of the prospectus of the Company dated 30th June 2003. The amendments of the GEM Share Option Scheme are explained in the announcement and circular of the Company dated 12th July 2004. The details of the Existing Share Option Scheme can be found in the circular of the Company dated 29 August 2008. Details of the share option schemes of the Company are set out in Note 14 to the consolidated financial statement.

SHARE OPTIONS *(Continued)*

During the year ended 31st December 2009, the details of option outstanding and movements are disclosed in the following table:

	Number of options							Number of options		
	Held at 1 January 2009	Grant during period	Exercised during period	Cancelled during period	Held at 31 Dec 2009	Grant date	Exercise price (HK$)	Exercisable from grant date until 22 September 2013	Exercisable from grant date until 10 April 2016	Exercisable from grant date until 9 September 2017
Directors										
Li Weiruo	2,100,000	—	—	—	2,100,000	16 May 2006	0.150	—	2,100,000	—
Yuan Bai	2,000,000	—	—	—	2,000,000	16 May 2006	0.150	—	2,000,000	—
Chi Chuan	21,000,000	—	—	—	21,000,000	23 September 2003	0.124	21,000,000	—	—
Man Au Vivian	19,000,000	—	—	—	19,000,000	23 September 2003	0.124	19,000,000	—	—
Li Shengdi	21,000,000	—	—	—	21,000,000	23 September 2003	0.124	21,000,000	—	—
Hu Xiaoping	2,000,000	—	—	—	2,000,000	23 September 2003	0.124	2,000,000	—	—
Woo Che-wor Alex	2,000,000	—	—	—	2,000,000	23 September 2003	0.124	2,000,000	—	—
Qian Laizhong	2,100,000	—	—	—	2,100,000	16 May 2006	0.150	—	2,100,000	—
Employees	57,000,000	—	—	—	57,000,000	23 September 2003	0.124	57,000,000	—	—
	47,000,000	—	—	5,000,000	42,000,000	11 April 2006	0.150	—	42,000,000	—
	30,000,000	—	—	—	30,000,000	10 September 2007	0.116	—	—	30,000,000
Total	205,200,000	—	—	5,000,000	200,200,000			122,000,000	48,200,000	30,000,000

DIRECTORS' INTERESTS IN SHARES

As at 31st December 2009, the interests and short positions of the Directors and chief executives in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) to be recorded in the register required to be kept under section 352 of the SFO; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in Listing Rules were as follows:

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

Directors	Personal long position in shares (beneficial owner)	Personal long position in share options (beneficial owner)	Aggregate long position in shares and underlying shares	Total interests in the issued share capital
Li Weiruo	2,924,440,000	2,100,000	2,926,540,000	41.54%
Yuan Bai	366,464,000	2,000,000	368,464,000	5.23%
Chi Chuan	62,640,000	21,000,000	83,640,000	1.19%
Man Au Vivian	31,320,000	19,000,000	50,320,000	0.71%
Li Shengdi	—	21,000,000	21,000,000	0.30%
Hu Xiaoping	—	2,000,000	2,000,000	0.03%
Woo Che-wor, Alex	—	2,000,000	2,000,000	0.03%
Qian Laizhong	—	2,100,000	2,100,000	0.03%

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

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

Note: a wholly-owned subsidiary of the Company

DIRECTORS' INTERESTS IN SHARES *(Continued)*

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

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

SUBSTANTIAL SHAREHOLDERS

As at 31st December 2009, so far as is known to any Director or chief executive of the Company, no person (not being a director or a chief executive of the Company) had an interest or short positions in the shares or underlying shares of the Company which are required to be notified to the Company and the Stock Exchange under Divisions 2 and 3 of Part XV of the SFO and recorded in the register required to be kept under section 336 of the SFO, and who were directly or indirectly deemed to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company.

INTEREST OF OTHER PERSONS IN THE COMPANY

(i) Long positions in the shares of the Company

As at 31st December 2009, so far as is known to any Director or chief executive of the Company and save as disclosed above, the following person had an interest or short positions in the shares or underlying shares of the Company which are required to be notified to the Company and the Stock Exchange under Divisions 2 and 3 of Part XV of the SFO and recorded in the register required to be kept under section 336 of the SFO, and who were directly or indirectly deemed to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company.

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

Name	Capacity	Number of shares	Approximate shareholding percentage
International Finance Corporation	Beneficial Owner	650,000,000	9.23%

INTEREST OF OTHER PERSONS IN THE COMPANY *(Continued)*

(ii) Long position in the underlying shares of the Company

The following persons in the underlying shares of equity derivatives of the Company were recorded in the register.

Long positions in Warrant Shares *(Note)*

Name	Capacity	Number of Warrant Shares	Approximate shareholding percentage
International Finance Corporation	Beneficial Owner	500,000,000	7.10%

Note: Details in set out in page 91.

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

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

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

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

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

SUFFICIENCY OF PUBLIC FLOAT

Based on the public information available to and within the knowledge of the Directors, it is confirmed that there is sufficient public float of more than 25% of the Company's issued shares at 29 April 2010.

DIRECTORS' INTEREST IN COMPETING BUSINESS

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

DIRECTORS' INTERESTS IN CONTRACTS

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

MANAGEMENT CONTRACTS

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

AUDIT COMMITTEE

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

The audit committee has reviewed with management the accounting principles and practices adopted by the Company and the Group and discussed internal controls and financial reporting matters including a review of the audited financial statements of the Company and the Group for the year ended 31st December 2009.

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.

SHARE PLACING

On 29 April 2009, 650,000,000 new ordinary shares (the "New Shares") of HKD0.02 each in the share capital of the Company with the aggregate nominal value of HKD13,000,000 were issued at HKD0.12 per share (the "Placing Price"). The subscriber of the New Shares was International Finance Corporation (the "IFC"), a member of the World Bank Group who was independent of and not connected with the Company or its connected persons. The Placing Price represented a discount of approximately 14.29% to the closing price of HKD0.14 per Share as quoted on the Stock Exchange on 16 April 2009. The New Shares represented approximately 10.17% of the issued share capital of the Company prior to the issue of New Shares. A net proceed of approximately HKD76 million in aggregate after expenses and commissions was received. Such proceeds was applied to the new urea plant with an annual production capacity of 400,000 tonnes of ammonia and 450,000 tonnes of urea in Dazhou, Sichuan Province, the PRC as per announcement dated 17 April 2009.

On 29 April 2009, 500,000,000 warrant shares (the "Warrant Shares") were issued at nil consideration to IFC and each Warrant Shares has the subscription right to subscribe a share of the Company at a price of HKD0.156 within a 5 years period starting from 29 April 2009.

CUSTOMERS AND SUPPLIERS

For the year ended 31st December 2009, the five largest customers accounted for approximately 19% of the Group's total turnover and the five largest suppliers of the Group accounted for approximately 41% of the Group's total purchases. The largest customer of the Group accounted for approximately 7.8% of the Group's total turnover and the largest supplier accounted for approximately 12.4% of the Group's total purchases.

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

SUBSEQUENT EVENTS

Details of subsequent events of the Company are set out in Note 35 to the consolidated financial statements.

CORPORATE GOVERNANCE

A report on the corporate governance practices adopted by the Company is set out on pages 27 to 31 of the annual report.

AUDITORS

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

On behalf of the Board,

Li Weiruo
Chairman

30 April 2010

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 "Code") as set out in Appendix 14 of the Listing Rules and the Company had complied with the Code.

THE BOARD OF DIRECTORS

Board Composition

The Board of directors currently comprises eight directors of which five are executive directors and three are independent non-executive directors. The detail is as follow:

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

Independent non-executive directors
Mr. Hu Xiaoping
Mr. Woo Che-wor, Alex
Mr. Qian Laizhong

The independent non-executive directors represent over one-third of the Board. Among the three independent non-executive directors, at least one has appropriate professional qualifications or accounting or related financial management expertise which satisfies the requirement under the rule 3.10 (1) and (2) of the Listing Rules. An annual confirmation of the independence of each independent non-executive director had been received in accordance with each and every guideline set out in rule 3.13 of the Listing Rules. No independent non-executive director has served the Group for more than nine years. All independent non-executive directors are identified as such in all corporate communications that disclose the names of the directors. There is no family or other material relationship among members of the Board.

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

THE BOARD OF DIRECTORS *(Continued)*

Board Meeting

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

In the financial year ended 31st December 2009, 12 board meetings were held and the attendance record for the meetings by each director is as follow:

Attendants	Number of meetings attended/Total	Attendance percentage
Executive Directors		
Mr. Li Weiruo	12/12	100%
Mr. Yuan Bai	12/12	100%
Ms. Chi Chuan	12/12	100%
Ms. Man Au Vivian	12/12	100%
Mr. Li Shengdi	12/12	100%
Independent Non-Executive Directors		
Mr. Hu Xiaoping	4/12	33%
Mr. Woo Che-wor, Alex	4/12	33%
Mr. Qian Laizhong	4/12	33%

Chairman and Chief Executive Officer

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

DIRECTORS' SECURITIES TRANSACTION

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

REMUNERATION OF DIRECTORS

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

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

The majority of the members of the remuneration committee are independent non-executive directors.

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

NOMINATION OF DIRECTORS

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

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

NOMINATION OF DIRECTORS *(Continued)*

The majority of the members of the Nomination Committee are independent non-executive directors.

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

TERM OF APPOINTMENT AND RE-ELECTION

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

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

AUDIT COMMITTEE

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

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

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

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

AUDIT COMMITTEE *(Continued)*

The Audit Committee is responsible for reviewing the accounting principles and practices adopted by the Group, recommending the Board on the Group's internal control and risk management system, and ensuring the Group's financial statements present a true and fair view of the Group's financial position. The Audit Committee had reviewed with management the accounting principles and practices and discussed internal controls and financial reporting matters including a review of the audited financial statements of the Company and Group for the year ended 31st December 2009.

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

INTERNAL CONTROL

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

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

We have audited the consolidated financial statements of Ko Yo Ecological Agrotech (Group) Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 34 to 107, which comprise the consolidated and company balance sheets as at 31 December 2009, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements 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 financial statements.

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2009 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 30 April 2010

Consolidated Balance Sheet

	Note	As at 31 December 2009 RMB'000	2008 RMB'000
ASSETS			
Non-current assets			
Land use rights	5	**90,128**	42,284
Property, plant and equipment	6	**1,069,949**	759,835
Exploration and evaluation assets	7	**332,613**	331,547
Goodwill	8	**8,900**	8,900
Deferred income tax assets	19	**2,586**	2,071
		1,504,176	1,144,637
Current assets			
Inventories	10	**100,263**	98,258
Trade and other receivables	11	**134,490**	78,200
Prepaid income tax, net		**6,117**	4,205
Pledged bank deposits	12	**83,325**	59,336
Cash and cash equivalents	13	**144,498**	44,902
		468,693	284,901
Total assets		**1,972,869**	1,429,538
EQUITY			
Capital and reserves attributable to the equity holders of the Company			
Share capital	14	**136,082**	124,642
Reserves	15	**775,721**	727,765
Total equity		**911,803**	852,407

Consolidated Balance Sheet

	Note	As at 31 December 2009 RMB'000	2008 RMB'000
LIABILITIES			
Non-current liabilities			
Long-term borrowings, secured	16	**331,575**	104,070
Derivative financial liabilities	17	**41,029**	—
Deferred subsidy income	18	**7,404**	5,534
Deferred income tax liabilities	19	**80,867**	80,867
		460,875	190,471
Current liabilities			
Trade and other payables	20	**220,020**	173,059
Short-term borrowings, secured	21	**252,030**	171,000
Current portion of long-term borrowings, secured	16	**128,141**	42,601
		600,191	386,660
Total liabilities		**1,061,066**	577,131
Total equity and liabilities		**1,972,869**	1,429,538
Net current liabilities		**(131,498)**	(101,759)
Total assets less current liabilities		**1,372,678**	1,042,878

Li Weiruo
Director

Yuan Bai
Director

The notes on pages 41 to 107 are an integral part of these consolidated financial statements.

Balance Sheet

	Note	As at 31 December 2009 RMB'000	2008 RMB'000
ASSETS			
Non-current assets			
Interests in subsidiaries	9	**760,030**	703,332
Current assets			
Other receivables	11	**39,652**	39,656
Cash and cash equivalents	13	**200**	167
		39,852	39,823
Total assets		**799,882**	743,155
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	14	**136,082**	124,642
Reserves	15	**557,330**	507,706
Total equity		**693,412**	632,348
LIABILITIES			
Non-current liabilities			
Long-term borrowings, secured	16	**—**	76,070
Derivative financial liabilities	17	**41,029**	—
		41,029	76,070

The notes on pages 41 to 107 are an integral part of these consolidated financial statements.

	Note	As at 31 December 2009 RMB'000	2008 RMB'000
Current liabilities			
Accruals and other payables	20	**300**	2,136
Current portion of long-term borrowings, secured	16	**65,141**	32,601
		65,441	34,737
Total liabilities		**106,470**	110,807
Total equity and liabilities		**799,882**	743,155
Net current (liabilities)/assets		**(25,589)**	5,086
Total assets less current liabilities		**734,441**	708,418

Li Weiruo
Director

Yuan Bai
Director

The notes on pages 41 to 107 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

	Note	Year ended 31 December 2009 RMB'000	2008 RMB'000
Turnover	22	**602,468**	654,920
Cost of sales	23	**(532,951)**	(498,318)
Gross profit		**69,517**	156,602
Distribution costs	23	**(19,670)**	(18,106)
Administrative expenses	23	**(43,892)**	(56,771)
Other (expenses)/income - net	26	**(703)**	2,199
Operating profit		**5,252**	83,924
Finance costs - net	27	**(12,061)**	(16,207)
(Loss)/profit before income tax		**(6,809)**	67,717
Income tax expense	28	**(375)**	(7,060)
(Loss)/profit for the year	29	**(7,184)**	60,657
Other comprehensive income		**—**	—
Total comprehensive (loss)/income for the year		**(7,184)**	60,657
(Loss)/profit and total comprehensive (loss)/ income attributable to equity holders of the Company		**(7,184)**	60,657
(Loss)/earnings per share for (loss)/profit attributable to the equity holders of the Company during the year (expressed in RMB per share)			
– Basic	30	**(0.0011)**	0.0100
– Diluted	30	**(0.0011)**	0.0100
Dividend	31	**—**	1,703

The notes on pages 41 to 107 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

	Note	Share capital RMB'000	Reserves RMB'000	Total RMB'000
Balance at 1 January 2008		97,746	489,693	587,439
Comprehensive income:				
Profit for the year		—	60,657	60,657
Total comprehensive income		—	60,657	60,657
Transactions with owners:				
Issue of ordinary shares	14	26,896	183,040	209,936
Dividend		—	(5,625)	(5,625)
Balance at 31 December 2008		124,642	727,765	852,407
Balance at 1 January 2009		124,642	727,765	852,407
Comprehensive income:				
Loss for the year		—	(7,184)	(7,184)
Total comprehensive loss		—	(7,184)	(7,184)
Transactions with owners:				
Issue of ordinary shares	14	11,440	55,140	66,580
Balance at 31 December 2009		136,082	775,721	911,803

The notes on pages 41 to 107 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

	Note	2009 RMB'000	2008 RMB'000
		Year ended 31 December	
Cash generated from operating activities	32 (a)	**17,005**	147,383
Interest paid		**(12,935)**	(18,225)
Income tax paid		**(2,802)**	(10,992)
Net cash inflow from operating activities		**1,268**	118,166
Cash flows from investing activities			
Payments for land use rights		**(49,619)**	—
Payments for exploration and evaluation assets		**(1,066)**	(448)
Purchases of property, plant and equipment and payments for construction-in-progress		**(328,347)**	(327,246)
Proceeds from disposal of property, plant and equipment	32 (b)	**702**	716
Proceeds from disposal of a subsidiary		**—**	100
Interest income received		**2,157**	2,620
Net cash used in investing activities		**(376,173)**	(324,258)
Cash flows from financing activities			
Increase in pledged bank deposits		**(23,989)**	(13,121)
Issue of ordinary shares		**66,580**	209,936
Proceeds from borrowings		**726,980**	213,601
Repayment of borrowings		**(295,070)**	(172,998)
Dividend paid		**—**	(5,625)
Net cash inflow from financing activities		**474,501**	231,793
Net increase in cash and cash equivalents		**99,596**	25,701
Cash and cash equivalents at beginning of the year		**44,902**	19,201
Cash and cash equivalents at end of the year	13	**144,498**	44,902

The notes on pages 41 to 107 are an integral part of these consolidated financial statements.

1 GENERAL INFORMATION

Ko Yo Ecological Agrotech (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 25th 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 30 April 2010.

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

As at 31 December 2009, the Group reported net current liabilities of approximately RMB131,498,000 (2008: RMB101,759,000) and capital commitments of RMB26,850,000 (2008: RMB212,549,000) (see Note 33(a)). The directors of the Company have given due consideration to the liquidity of the Group and have adopted the going concern basis in preparing the consolidated financial statements based on the following assessment:

– In March and April 2010, new short-term borrowings of RMB110 million have been granted and drawn down with a term of one year. In addition, the Group has obtained a committed one year credit facility of RMB80 million from a domestic bank in Mainland China in April 2010;

– The Group has not experienced any difficulties in renewing its short-term borrowings upon their maturities and there is no evidence indicating that the banks will not renew the existing short-term borrowings if the Group applies for the renewal. Subsequent to the balance sheet date and up to the date of approval of the financial statements, short-term borrowings of approximately RMB88.3 million have been rolled over for a further year. In addition, certain banks have advised their intention in writing, though not legally binding, to renew or to extend the loans for a further year when they fall due in 2010;

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

– The Group has completed the construction of the new production line project located in Dazhou, Sichuan Province ("New Dazhou Project") and started its trial production in April 2010. The New Dazhou Project is expected to generate operating cash inflow in 2010.

In the opinion of the directors, in light of the above, the Group will have sufficient working capital to finance its operations and remain as a going concern in the foreseeable future. Accordingly, the directors are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

Changes in accounting policy and disclosures

(a) New and Amended standards adopted by the Group

The Group has adopted the following new and amended HKFRSs as of 1 January 2009:

- HKFRS 7 'Financial Instruments – Disclosures' (amendment) – effective 1 January 2009. The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. As the change in accounting policy only results in additional disclosures, there is no impact on earnings per share.

- HKAS 1 (revised). 'Presentation of financial statements' – effective 1 January 2009. The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income. As a result the group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

- HKFRS 2 (amendment), 'Share-based payment' (effective 1 January 2009) deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. These features would need to be included in the grant date fair value for transactions with employees and others providing similar services; they would not impact the number of awards expected to vest or valuation there of subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group and Company has adopted HKFRS 2 (amendment) from 1 January 2009. The amendment does not have a material impact on the Group's or Company's financial statements.

- HKAS 23 (Revised), 'Borrowing costs' (effective from 1 January 2009). The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs had been removed. The change in accounting policy had no material impact on earnings per share.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

Changes in accounting policy and disclosures *(Continued)*

(a) New and Amended standards adopted by the Group (Continued)

- HKFRS 8, 'Operating segments' (effective 1 January 2009). HKFRS 8 replaces HKAS 14, 'Segment reporting'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. This has no material impact on the Group's financial statements.

(b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2010 or later periods, but the Group has not early adopted them:

- HK(IFRIC) 17 'Distribution of non-cash assets to owners' (effective on or after 1 July 2009). The interpretation is part of the HKICPA's annual improvements project published in April/May 2009. This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. HKFRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable. The Group and Company will apply HK(IFRIC) 17 from 1 January 2010. It is not expected to have a material impact on the Group's or Company's financial statements.

- HKAS 27 (revised), 'Consolidated and separate financial statements', (effective from 1 July 2009). The revised standard requires the effects of all transactions with minority interest to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The Group will apply HKAS 27 (revised) prospectively to transactions with minority interest from 1 January 2010.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

Changes in accounting policy and disclosures *(Continued)*

(b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group (Continued)

- HKFRS 3 (revised), 'Business combinations' (effective from 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the statement of comprehensive income. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair vale or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply HKFRS 3 (revised) prospectively to all business combinations from 1 January 2010.

- HKAS 38 (amendment), 'Intangible Assets' (effective from 1 July 2009). The amendment is part of the HKICPA's annual improvements project published in April/May 2009 and the Group and Company will apply HKAS 38 (amendment) from the date HKFRS 3 (revised) is adopted. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and it permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives. The amendment will not result in a material impact on the Group's or Company's financial statements.

- HKFRS 5 (amendment), 'Measurement of non-current assets (or disposal groups) classified as held for sale'. The amendment is part of the HKICPA's annual improvements project published in April/May 2009. The amendment provides clarification that HKFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirement of HKAS 1 still apply, particularly paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of HKAS 1. The Group and Company will apply HKFRS 5 (amendment) from 1 January 2010. It is not expected to have a material impact on the Group's or Company's financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

Changes in accounting policy and disclosures *(Continued)*

(b) *Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group (Continued)*

- HKAS 1 (amendment), 'Presentation of financial statements'. The amendment is part of the HKICPA's annual improvements project published in April/May 2009. The amendment provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. The Group and Company will apply HKAS 1 (amendment) from 1 January 2010. It is not expected to have a material impact on the Group's or Company's financial statements.

- HKFRS 2 (amendments), 'group cash-settled share-based payment transactions' (effective from 1 January 2010). In addition to incorporating HK(IFRIC)-Int 8, 'Scope of HKFRS 2', and HK(IFRIC)-Int 11, 'HKFRS 2 – group and treasury share transactions', the amendments expand on the guidance in IFRIC 11 to address the classification of group arrangements that were not covered by the interpretation. The new guidance is not expected to have a material impact on the Group's financial statements.

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 31 December.

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Consolidation *(Continued)*

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

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the statement of comprehensive income (Note 2.8).

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses (Note 2.9). The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

2.3 Segment reporting

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

(c) Group companies

The results and financial position of all the group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each consolidated statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.5 Property, plant and equipment

Construction-in-progress represents plant and properties under construction and is stated at cost, which includes development and construction expenditure incurred and other direct costs attributable to the construction, less accumulated impairment losses. Construction-in-progress is not depreciated until such time as the assets are completed and put into operational use.

Other assets, comprising buildings, plant and machinery, motor vehicles, office equipment and others, are stated at cost less accumulated depreciation and accumulated impairment losses.

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 flow 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 the statement of comprehensive income during the financial period in which they are incurred.

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

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

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 2.9).

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

2.6 Land use rights

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.7 Exploration and evaluation assets

Exploration and evaluation assets are recognised at cost on initial recognition. Subsequent to initial recognition, exploration and evaluation assets are stated at cost less any accumulated impairment losses.

Exploration and evaluation assets include the cost of exploration rights and the expenditures incurred in the search for mineral resources as well as the determination of the technical feasibility and commercial viability of extracting those resources.

When the technical feasibility and commercial viability of extracting a mineral resource becomes demonstrable, any previously recognised exploration and evaluation assets are reclassified as property, plant and equipment, mining rights or other intangible assets. These assets are assessed for impairment and any impairment loss is recognised before reclassification.

2.8 Intangible assets

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose identified according to operating segment.

2.9 Impairment of investments in subsidiaries and non-financial assets

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.10 Impairment of exploration and evaluation assets

In the following cases, or similar cases, the Group shall test exploration and evaluation assets for impairment.

(a) The period for which the Group has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;

(b) Substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;

(c) Exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area;

(d) Sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

For the purpose of impairment testing, exploration and evaluation assets are allocated to the relevant cash-generating units expected to benefit from the assets. Cash-generating units to which exploration and evaluation assets have been allocated are tested for impairment when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of exploration and evaluation assets allocated to the unit.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.11 Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss, 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 and re-evaluates this designation at every reporting date. During 2008 and 2009, other than loans and receivables, the Group did not hold any financial assets in other categories.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets.

Loans and receivables are carried at amortised cost using the effective interest method.

2.12 Inventories

Inventories comprise stocks 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. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.13 Trade and other receivables

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. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of comprehensive income within administrative expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against administrative expenses in the statement of comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.14 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

2.15 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.

2.16 Derivative financial liabilities

The derivative financial liabilities represent the warrant liabilities. 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. The warrant liability will be transferred to share capital and share premium upon exercise of the warrants.

2.17 Trade payables

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

2.18 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 balance sheet date.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.19 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated statement of comprehensive income, except to the extent that it relates to items recognised directly in equity. In this case, the tax is also recognised in equity.

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 provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or 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 to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

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

2.20 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.20 Employee benefits *(Continued)*

(b) Pension obligations

Pursuant to laws and regulations in the People's Republic of China ("Mainland China"), contributions to the basic old age insurance for the Group's Mainland China employees are made monthly to a government agency based on 28.6% of the standard salary set by the provincial government, of which 20.6% is borne by the Group and the remainder is borne by the employees. Except for the monthly contribution of 20.6% on standard salary to the government agency, the Group has no further obligation in connection with Mainland China employees' retirement benefits. The government agency is responsible for the pension liabilities relating to such employees on their retirement. The Group accounts for these contributions on an accrual basis.

The subsidiary in Hong Kong operates a defined contribution scheme which is available to qualified employees. The assets of the scheme are held separately from those of the subsidiary in independently administered funds. Monthly contributions made by the subsidiary are calculated based on certain percentages of the applicable payroll costs or HKD1,000, whichever is lower.

Contributions to the above retirement schemes are charged to the statement of comprehensive income as incurred.

(c) Share-based compensation

The Group operates a number of equity-settled, share-based compensation plans. 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, excluding the impact of any non-market service and performance vesting conditions (for example, profitability, sales growth targets remaining an employee of the entity over a specified time period). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest. The total amount expensed is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision of original estimates, if any, in the consolidated statement of comprehensive income, with a corresponding adjustment to equity.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.20 Employee benefits *(Continued)*

(d) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

2.21 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.

2.22 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.

2.23 Revenue recognition

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.23 Revenue recognition *(Continued)*

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 specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

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

Interest income is recognised on a time-proportion basis, using the effective interest method.

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

2.24 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 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 statement of comprehensive income on a straight-line basis over the expected lives of the related assets, except for the refund of value-added tax ("VAT") which is deducted in arriving at the carrying amount of property, plant and equipment.

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

2.25 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 statement of comprehensive income on a straight-line basis over the period of the lease.

2.26 Dividend distribution

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

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

(a) Foreign exchange risk

The Group exposes to foreign exchange risks as certain portion of cash and cash equivalent, trade and other payables, long-term borrowings and future commercial transactions are denominated in foreign currencies, primarily with respect to the US dollar ("USD") and Hong Kong dollar ("HKD"). The Group currently does not have a foreign currency hedging policy as the directors are of the opinion that the Group's exposure to foreign exchange risk is insignificant because most of the future export sales denominated in foreign currencies are guaranteed by letter of credit and the related trade receivables are collected when the goods are delivered. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

As at 31 December 2009, if RMB had weakened/strengthened by 5% against the USD with all other variables held constant, post-tax loss for the year would have been increased/decreased by RMB6,235,000 (2008: post-tax profit for the year would have been decreased/increased by RMB4,618,000), mainly as a result of foreign exchange losses/gains on translation of the USD-denominated long-term borrowings.

As at 31 December 2009, if RMB had weakened/strengthened by 5% against the HKD with all other variables held constant, post-tax loss for the year would have been increased/decreased by RMB7,000 (2008: post-tax profit for the year would have been decreased/increased by RMB17,000), mainly as a result of foreign exchange gains/losses on translation of HKD-denominated trade and other receivables (2008: Trade and other payables).

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Cash flow and fair value interest rate risk

The Group's interest rate risk mainly arises from pledged bank deposits and borrowings. The Group's long-term borrowings were issued at variable rates and exposed the Group to cash flow interest-rate risk. The Group's pledged bank deposits and short-term borrowings were issued at fixed rates and exposed the Group to fair value interest-rate risk. The Group's long-term borrowings at variable rate were denominated in USD and RMB.

The contractual repricing dates or maturity dates (whichever are shorter) of the Group's pledged bank deposit and borrowings are less than 1 year. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

As at 31 December 2009, if interest rates on long-term borrowings had been increased/decreased by 20 basis points with all other variables held constant, post-tax loss for the year would have been increased/decreased by RMB782,000 (2008: post-tax profit for the year would have been decreased/increased by RMB185,000), mainly as a result of higher/lower interest expense on floating rate borrowings.

(c) Credit risk

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

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

For trade and other receivables, the credit quality of the counterparties is assessed by taking into account their financial position, credit history and other factors. Individual credit limits are set based on the assessment of the credit quality. Given the constant repayment history, the directors are of the opinion that the risk of default by these counterparties is low.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(d) Liquidity risk

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

The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant. No maturity analysis of the derivative financial liabilities of the Group (Note 17) is presented as the derivative financial liabilities requires no cash outflow in the future.

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000
Group				
At 31 December 2009				
Trade and other payables	**220,020**	**—**	**—**	**—**
Current portion of long term borrowings, secured	**128,141**	**—**	**—**	**—**
Short-term borrowings, secured	**252,030**	**—**	**—**	**—**
Long-term borrowings, secured	**—**	**70,000**	**204,218**	**57,357**
Interest payment on borrowings	**7,043**	**8,667**	**48,383**	**12,599**
At 31 December 2008				
Trade and other payables	173,059	—	—	—
Current portion of long term borrowings, secured	42,601	—	—	—
Short-term borrowings, secured	171,000	—	—	—
Long-term borrowings, secured	—	104,070	—	—
Interest payment on borrowings	7,410	5,296	—	—

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(d) Liquidity risk (Continued)

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000
Company				
At 31 December 2009				
Accruals and other payables	**300**	**—**	**—**	**—**
Current portion of long term borrowings, secured	**65,141**	**—**	**—**	**—**
Interest payment on borrowings	**1,911**	**—**	**—**	**—**
At 31 December 2008				
Accruals and other payables	2,136	—	—	—
Current portion of long term borrowings, secured	32,601	—	—	—
Long-term borrowings, secured	—	76,070	—	—
Interest payment on borrowings	5,363	4,818	—	—

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

The Group has been investing in the construction of the New Dazhou Project and a significant amount of the financing was obtained from short-term borrowings. As a result, the Group had net current liabilities of approximately RMB131,498,000 as at 31 December 2009 (2008: RMB101,759,000). Nevertheless, the Group has not experienced any difficulties in renewing its short-term borrowings upon their maturities.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(d) Liquidity risk (Continued)

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

– In March and April 2010, new short-term borrowings of RMB110 million have been granted and drawn down with a term of one year. In addition, the Group has obtained a committed one year credit facility of RMB80 million from a domestic bank in Mainland China in April 2010;

– The Group has obtained written indication from various banks on their intention, although not legally binding, to renew or extend the existing short-term borrowings as and when they fall due. There is no evidence indicating that the banks will not renew the existing short-term borrowings if the Group applies for the renewal. Subsequent to the balance sheet date and up to the date of approval of the financial statements, short-term bank loans of approximately RMB88.3million have been rolled over for a further year;

– The Group has completed the construction of the New Dazhou Project and started its trial production in April 2010. The New Dazhou Project is expected to generate operating cash inflow in 2010.

3.2 Capital risk management

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

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

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total liabilities divided by total equity, as shown in the consolidated balance sheet.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Capital risk management *(Continued)*

The gearing ratio as at 31 December 2009 was as follows:

	2009	2008
	RMB'000	RMB'000
Total liabilities	**1,061,066**	577,131
Total equity	**911,803**	852,407
Gearing ratio	**116%**	68%

The increase in the gearing ratio from 68% in 2008 to 116% in 2009 mainly due to the increase of long-term borrowings.

3.3 Fair value estimation

Effective from 1 January 2009, the Group adopted the amendment to HKFRS 7 for financial instruments that are measured in the balance sheet at fair value, this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Fair value estimation *(Continued)*

The following table presents the Group's liabilities that are measured at fair value at 31 December 2009.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Liabilities				
Financial liabilities at fair value through profit or loss				
– Derivative financial liabilities *(Note 17)*	—	—	41,029	41,029

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

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

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgement are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates and assumptions

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.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

4.1 Critical accounting estimates and assumptions *(Continued)*

(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.

4.2 Critical judgements in applying the entity's accounting policies

In the process of applying the Group's accounting policies, management has made the judgements on impairment of assets and recognition of derivative financial liabilities, apart from those involving estimations as discussed above, which have the most significant effect on the amounts recognised in the financial statements.

(a) Impairment of exploration and evaluation assets

In determining whether the Group's exploration and evaluation assets are impaired, management has to exercise judgement in the area of asset impairment, particularly in assessing: (1) whether the Group is able to obtain the right to exploit in the specific mining site; (2) whether carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale. In any such case, the Group shall perform an impairment test in accordance with the accounting policy stated in Note 2.10.

(b) Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in Note 2.8. The recoverable amounts of cash-generating units have been determined based on fair value less costs to sell calculations. These calculations require the use of estimates (Note 8).

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

4.2 Critical judgements in applying the entity's accounting policies *(Continued)*

(c) Impairment of assets (other than exploration and evaluation assets and goodwill)

In determining whether an 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.

(d) Recognition of derivative financial liabilities

As mentioned in Note 17, the Company has granted warrants to International Finance Corporation ("IFC"). 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 income statement. 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.

(e) 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.

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. In addition, according to the notice Caishui 2008 No.1 released by Ministry of Finance and the State Administration of Taxation, distributions of the retained profits prior to 1 January 2008 of a foreign-invested enterprise to a foreign investor in 2008 or after are exempt from corporate income tax. Management have no current intention to distribute the retained profits of the Company's subsidiaries in the Mainland China earned in 2008 and 2009 to the subsidiaries incorporated outside the Mainland China. Accordingly, no provision for withholding tax has been made in this respect.

5 LAND USE RIGHTS - GROUP

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

	2009	2008
	RMB'000	RMB'000
At 1 January		
Cost	**50,759**	50,759
Accumulated amortisation	**(8,475)**	(7,444)
Net book amount	**42,284**	43,315
Opening net book amount	**42,284**	43,315
Addition	**49,619**	—
Amortisation charge for the year	**(1,775)**	(1,031)
	90,128	42,284
At 31 December		
Cost	**100,378**	50,759
Accumulated amortisation	**(10,250)**	(8,475)
	90,128	42,284

All the Group's land use rights are located in Mainland China. The remaining lease periods of the land use rights are between 7 to 49 years (2008: 8 to 48 years).

As at 31 December 2009, certain land use rights with a total net book value of approximately RMB29,016,000 (2008: RMB30,705,000) and RMB48,875,000 (2008: Nil) were pledged as collateral for the Group's short-term borrowings and long-term borrowings (Note 21).

Amortisation charge of RMB1,031,000 (2008: RMB1,031,000) had been charged in administrative expenses and RMB744,000 (2008: Nil) had been capitalised into construction-in progress.

6 PROPERTY, PLANT AND EQUIPMENT - GROUP

	Buildings	Plant and machinery	Motor vehicles	Office equipment and others	Construction -in-progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2008						
Cost	74,453	159,859	6,223	16,260	262,139	518,934
Accumulated depreciation	(11,443)	(47,281)	(1,879)	(7,630)	—	(68,233)
Net book amount	63,010	112,578	4,344	8,630	262,139	450,701
Year ended 31 December 2008						
Opening net book amount	63,010	112,578	4,344	8,630	262,139	450,701
Transfers	—	20,119	—	1,340	(21,459)	—
Additions	16	1,404	2,627	505	324,535	329,087
Refund of the VAT	—	(1,841)	—	—	—	(1,841)
Disposals *(Note 32)*	—	(1,346)	(109)	(92)	—	(1,547)
Disposal of a subsidiary	—	(465)	—	(57)	—	(522)
Depreciation	(1,857)	(12,596)	(667)	(923)	—	(16,043)
Closing net book amount	61,169	117,853	6,195	9,403	565,215	759,835
At 31 December 2008						
Cost	74,468	176,384	8,655	17,635	565,215	842,357
Accumulated depreciation	(13,299)	(58,531)	(2,460)	(8,232)	—	(82,522)
Net book amount	61,169	117,853	6,195	9,403	565,215	759,835

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

	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Office equipment and others RMB'000	Construction -in-progress RMB'000	Total RMB'000
Year ended 31 December 2009						
Opening net book amount	61,169	117,853	6,195	9,403	565,215	759,835
Transfers	1,368	686	—	—	(2,054)	—
Additions	270	1,899	2,059	785	324,737	329,750
Refund of the VAT	—	(543)	(42)	(74)	—	(659)
Disposals *(Note 32)*	(102)	(589)	(228)	(49)	—	(968)
Depreciation	(2,018)	(13,925)	(883)	(1,183)	—	(18,009)
Closing net book amount	60,687	105,381	7,101	8,882	887,898	1,069,949
At 31 December 2009						
Cost	75,992	177,319	10,278	18,280	887,898	1,169,767
Accumulated depreciation	(15,305)	(71,938)	(3,177)	(9,398)	—	(99,818)
Net book amount	60,687	105,381	7,101	8,882	887,898	1,069,949

Depreciation expense of RMB15,440,000 (2008: RMB14,328,000) had been charged in cost of goods sold and RMB2,569,000 (2008: RMB1,715,000) in administrative expenses.

All the Group's buildings are located in Mainland China. As at 31 December 2009, certain buildings with a total net book value of approximately RMB24,578,000 (2008: RMB34,710,000) and plant and machinery with a total net book value of approximately RMB21,099,000 (2008: RMB24,404,000) were pledged as collateral for the Group's short-term borrowings (Note 21); certain buildings with a total net book value of approximately RMB17,693,000 (2008: Nil) and plant and machinery, construction in progress with a total net book value of approximately RMB457,071,000 (2008: Nil) were pledged as collateral for the Group's long-term borrowings (Note 16).

Borrowing costs of RMB21,834,000 (2008: RMB7,614,000) have been capitalised in the construction-in-progress at average capitalisation rate of 5.64% (2008: 6.18%).

7 EXPLORATION AND EVALUATION ASSETS - GROUP

	Exploration rights	Evaluation expenditure	Total
	RMB'000	RMB'000	RMB'000
At 1 January 2008	326,090	5,009	331,099
Addition	—	448	448
Balance at 31 December 2008	326,090	5,457	331,547
At 1 January 2009	326,090	5,457	331,547
Addition	—	1,066	1,066
Balance at 31 December 2009	326,090	6,523	332,613

The exploration rights represent the fair value of the rights for exploration in a phosphate mine located in Sichuan, Mainland China. The application for the exploitation license of the mine for 30 years has been submitted by Sichuan Chengyuan Chemical Industry Company Limited ("Sichuan Cuyo", a subsidiary of the Company) and is subject to the final approval of Ministry of Land and Resources of the People's Republic of China. The directors of the Company believe that the exploitation license of the mine will be obtained by June 2010.

8 GOODWILL - GROUP

	Total
	RMB'000
At 1 January 2008	8,900
Addition	—
Balance at 31 December 2008 and 31 December 2009	8,900

Impairment tests for goodwill

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

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

	2009
Gross margin	**30%**
Growth rate	**3%**
Discount rate (post-tax discount rate applied to the cash flow projections)	**16%**
Years of cash flows projection (expected mining period of the phosphate mine)	**30 years**

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

9 INTERESTS IN SUBSIDIARIES - COMPANY

	2009 RMB'000	2008 RMB'000
Unlisted investments, at cost	**332,113**	332,113
Investment arising from share-based compensation *(Note i)*	**5,510**	5,510
Amounts due from subsidiaries *(Note ii)*	**428,190**	371,492
Amounts due to subsidiaries *(Note ii)*	**(5,783)**	(5,783)
	760,030	703,332

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

(ii) The amounts due from/to subsidiaries are unsecured, non-interest bearing, denominated in HKD and have no fixed repayment term.

The following is a list of the subsidiaries as at 31 December 2009:

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

9 INTERESTS IN SUBSIDIARIES - COMPANY *(Continued)*

Name	Place of incorporation/ establishment and kind of legal entity	Principal activities and place of operation	Particulars of issued, registered and fully paid up capital	Interest held
Chengdu Ko Yo Compound Fertilisers Co., Ltd. ("Chengdu Ko Yo Compound")	Mainland China, wholly foreign owned enterprise	Manufacture, research, development and sale of bulk blended fertilisers in Mainland China	RMB15,000,000	100%
Dazhou Koyo Chemical industry Co., Ltd ("Dazhou Ko Yo Chemical") *(Note b)*	Mainland China, wholly foreign owned enterprise	Manufacture and sale of chemical products including ammonia, ammonia carbonate and urea in Mainland China	RMB350,000,000	100%
Qingdao Ko Yo Chemical Industry Co., Ltd. ("Qingdao Ko Yo Chemical")	Mainland China, wholly foreign owned enterprise	Manufacture, research, development and sale of bulk blended fertilisers in Mainland China	USD2,100,000	100%
Hong Kong Cuyo Investment Limited ("Hong Kong Cuyo")	Hong Kong, limited liability company	Investment holding in Hong Kong	4,720,000 ordinary shares of HKD1 each	100%
Sichuan Cuyo	Mainland China, wholly foreign-owned enterprise	Exploration and exploitation of a phosphorous mine in Mainland China	RMB5,000,000	100%
Sichuan Ko Yo Agrochem Co., Ltd ("Ko Yo Agrochem") *(Note c)*	Mainland China, wholly foreign owned enterprise	Sale of chemical products including sodium carbonate, ammonia, and chemical fertilisers including urea and ammonium chloride in Mainland China	RMB24,000,000	100%

Notes:

(a) Shares held directly by the Company.

(b) 100% equity interest of Ko Yo Hong Kong and Dazhou Ko Yo Chemical were pledged as collateral for the Company's long-term borrowings (Note 16).

(c) Sichuan Ko Yo Agrochem Co., Ltd, a new subsidiary, was established in August 2009.

10 INVENTORIES - GROUP

	2009	2008
	RMB'000	RMB'000
Raw materials	**49,429**	76,788
Work in progress	**315**	259
Finished goods	**50,519**	21,211
	100,263	98,258

The cost of inventories recognised as expense and included in "cost of sales" amounted to RMB318,518,000 (2008: RMB296,272,000).

Inventory write-down of RMB274,000 has been reserved in 2009 (2008: write-down of RMB274,000). The amount reversed has been included in "cost of sales" in the consolidated statement of comprehensive income.

At 31 December 2009, there were no inventories stated at net realisable value (2008: RMB607,000).

11 TRADE AND OTHER RECEIVABLES

	Group		**Company**	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade receivables	**29,120**	12,552	**—**	—
Less: provision for impairment of trade receivables	**(5,026)**	(5,176)	**—**	—
Trade receivables - net	**24,094**	7,376	**—**	—
Prepayments	**88,250**	56,469	**476**	480
Prepaid input VAT	**10,463**	—	**—**	—
Notes receivable	**3,165**	5,860	**—**	—
Due from employees	**5,982**	3,689	**—**	—
Dividends receivable from a subsidiary	**—**	—	**39,176**	39,176
Others	**2,536**	4,806	**—**	—
	134,490	78,200	**39,652**	39,656

11 TRADE AND OTHER RECEIVABLES *(Continued)*

As at 31 December 2009, the fair value of trade and other receivables of the Group approximated 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	
	2009	2008
	RMB'000	RMB'000
Less than 3 months	**23,491**	6,667
More than 3 months but not exceeding 1 year	**603**	733
More than 1 year but not exceeding 2 years	**2**	352
More than 2 years but not exceeding 3 years	**255**	4,541
More than 3 years	**4,769**	259
	29,120	12,552
Less: provision for doubtful receivables	**(5,026)**	(5,176)
	24,094	7,376

Trade receivables that are less than three months past due are not considered impaired. As of 31 December 2009, trade receivables of RMB603,000 (2008: RMB587,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	Group	
	2009	2008
	RMB'000	RMB'000
More than 3 months but not exceeding 1 year	**603**	587

11 TRADE AND OTHER RECEIVABLES *(Continued)*

As at 31 December 2009, trade receivables of RMB5,026,000 (2008: RMB5,298,000) were impaired. The amount of the provision was RMB5,026,000 as of 31 December 2009 (2008: RMB5,176,000). The individually impaired receivables mainly relate to wholesalers, which are in unexpected difficult economic situations. It was assessed that a portion of the receivables is expected to be recovered. The ageing of these receivables is as follows:

	Group	
	2009	2008
	RMB'000	RMB'000
More than 3 months but not exceeding 1 year	**—**	146
More than 1 year but not exceeding 2 years	**2**	352
More than 2 years but not exceeding 3 years	**255**	4,541
More than 3 years	**4,769**	259
	5,026	5,298

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

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
RMB	**134,014**	77,720	**—**	—
HKD	**476**	480	**39,652**	39,656
	134,490	78,200	**39,652**	39,656

11 TRADE AND OTHER RECEIVABLES *(Continued)*

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

	Group	
	2009	2008
	RMB'000	RMB'000
At 1 January	**5,176**	5,647
Provision for receivables	**—**	56
Unused amounts reversed	**(150)**	(527)
At 31 December	**5,026**	5,176

The creation and release of provision for impaired receivables have been included in administrative expenses in the consolidated statement of comprehensive income (Note 23).

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

12 PLEDGED BANK DEPOSITS - GROUP

The carrying amounts of the Group's bank deposits are denominated in the following currencies:

	Group	
	2009	2008
	RMB'000	RMB'000
RMB	**83,325**	59,336

The deposits comprise the pledged deposits for short-term borrowings, long-term borrowings and bank acceptance notes issued by the Group. The effective interest rates on pledged bank deposits are ranging from 1.98% to 5.40% (2008: 3.33% to 3.78%).

13 CASH AND CASH EQUIVALENTS

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash at bank	**144,274**	44,813	**200**	167
Cash in hand	**224**	89	**—**	—
	144,498	44,902	**200**	167
Maximum exposure to credit risk	**144,274**	44,813	**200**	167

The effective interest rate on cash and cash equivalents is 0.36% (2008: 0.69%).

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

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
RMB	**143,460**	44,002	**—**	—
USD	**562**	—	**2**	—
HKD	**476**	900	**198**	167
	144,498	44,902	**200**	167

14 SHARE CAPITAL

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

	Number of shares of HKD0.02each		Share capital	
	2009	2008	**2009**	2008
	'000	'000	**HKD'000**	HKD'000
Authorised:				
Ordinary shares at beginning and end of year	**10,000,000**	10,000,000	**200,000**	200,000

	Notes	Number of shares of HKD0.02each		Share capital	
		2009	2008	**2009**	2008
		'000	'000	**HKD'000**	HKD'000
Issued and fully paid:					
Ordinary shares at beginning of year		**6,394,400**	4,894,400	**124,642**	97,746
Issue of ordinary shares	(a)	**650,000**	1,500,000	**11,440**	26,896
Ordinary shares at end of year		**7,044,400**	6,394,400	**136,082**	124,642

The total authorised number of ordinary share is 10,000 million shares (2008: 10,000 million shares) with a par value of HKD0.02 per share (2008: HKD0.02 per share). All issued shares are fully paid.

14 SHARE CAPITAL *(Continued)*

(a) Issue of ordinary shares

On 29 February 2008, 500,000,000 shares of HKD0.02 per share were issued by the Company to independent investors at the issue price of HKD0.145 pursuant to the placing and subscription agreement dated 18 February 2008. These shares rank pari passu with existing shares. The total proceeds from the placement, net off the transaction costs, amounted to approximately RMB63,768,000. Accordingly, RMB9,172,000 and RMB54,596,000 were recorded as share capital and share premium reserve (Note 15), respectively.

On 3 June 2008, 1,000,000,000 shares of HKD0.02 per share were issued by the Company to independent investors at the issue price of HKD0.170 pursuant to the placing and subscription agreement dated 22 May 2008. These shares rank pari passu with existing shares. The total proceeds from the placement, net off the transaction costs, amounted to approximately RMB146,168,000. Accordingly, RMB17,724,000 and RMB128,444,000 were recorded as share capital and share premium reserve (Note 15), respectively.

On 29 April 2009, 650,000,000 shares of HKD0.02 per share were issued by the Company to IFC at the issue price of HKD0.120 pursuant to the placing and subscription agreement dated 16 April 2009. These shares rank pari passu with existing shares. The total proceeds from the placement, net off the transaction costs, amounted to approximately RMB66,580,000. Accordingly, RMB11,440,000 and RMB55,140,000 were recorded as share capital and share premium reserve (Note 15), respectively.

14 SHARE CAPITAL *(Continued)*

(b) Share options

(1) GEM Share Option Scheme

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

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

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

14 SHARE CAPITAL *(Continued)*

(b) Share options *(Continued)*

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

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

Date of grant	23 September 2003	11 April 2006	16 May 2006	10 September 2007	
Exercise price (HKD per option, on post-subdivision basis)	0.12	0.15	0.15	0.12	
Granted to	2 executive directors, 2 independent directors and 6 employees	18 employees	2 executive directors and 1 independent director	7 employees	
Exercisable period	**10 years** *(Note i)*	**10 years**	**10 years** *(Note ii)*	**10 years**	**Total**
At 1 January 2008	122,000,000	48,500,000	6,200,000	30,000,000	206,700,000
Granted	—	—	—	—	—
Lapsed due to resignation of employees	—	(1,500,000)	—	—	(1,500,000)
At 31 December 2008	122,000,000	47,000,000	6,200,000	30,000,000	205,200,000
Lapsed due to resignation of employees	—	(5,000,000)	—	—	(5,000,000)
At 31 December 2009	122,000,000	42,000,000	6,200,000	30,000,000	200,200,000

14 SHARE CAPITAL *(Continued)*

(b) Share options *(Continued)*

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

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

Exercise period	**Directors**	**Number of options 2009**
23 September 2004 to 22 September 2013	Ms. Chi Chuan	21,000,000
23 September 2004 to 22 September 2013	Mr. Li Shengdi	21,000,000
23 September 2004 to 22 September 2013	Ms. Man Au, Vivian	19,000,000
23 September 2004 to 22 September 2013	Mr. Hu Xiaoping	2,000,000
23 September 2004 to 22 September 2013	Mr. Woo Che-wor, Alex	2,000,000
		65,000,000
23 September 2004 to 22 September 2013	Other employees	57,000,000
		122,000,000

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

Exercise period	**Directors**	**Number of options 2009**
16 May 2006 to 10 April 2016	Mr. Li Weiruo	2,100,000
16 May 2006 to 10 April 2016	Mr. Yuan Bai	2,000,000
16 May 2006 to 10 April 2016	Mr. Qian Laizhong	2,100,000
		6,200,000

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

14 SHARE CAPITAL *(Continued)*

(b) Share options *(Continued)*

(2) New Share Option Scheme

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

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

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

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

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

As at 31 December 2009, no option had been granted under the New Scheme.

15 RESERVES

Movements of the Group's reserves are as follows:

	Share premium RMB'000	Merger reserve RMB'000 *(Note a)*	Share-based compensation reserve RMB'000	Reserve fund RMB'000 *(Note b)*	Enterprise expansion fund RMB'000 *(Note b)*	Retained earnings RMB'000	Total RMB'000
At 1 January 2008	289,457	(22,041)	5,510	15,325	1,131	200,311	489,693
Issue of ordinary shares *(Note 14 (a))*	183,040	—	—	—	—	—	183,040
Profit for the year	—	—	—	—	—	60,657	60,657
Appropriation *(Note b)*	—	—	—	2,809	—	(2,809)	—
Dividend *(Note 31)*	—	—	—	—	—	(5,625)	(5,625)
At 31 December 2008	472,497	(22,041)	5,510	18,134	1,131	252,534	727,765
At 1 January 2009	**472,497**	**(22,041)**	**5,510**	**18,134**	**1,131**	**252,534**	**727,765**
Issue of ordinary shares *(Note 14 (a))*	**55,140**	**—**	**—**	**—**	**—**	**—**	**55,140**
Loss for the year	**—**	**—**	**—**	**—**	**—**	**(7,184)**	**(7,184)**
Appropriation *(Note b)*	**—**	**—**	**—**	**554**	**—**	**(554)**	**—**
At 31 December 2009	**527,637**	**(22,041)**	**5,510**	**18,688**	**1,131**	**244,796**	**775,721**

15 RESERVES *(Continued)*

Movements of the Company's reserves are as follows:

	Share premium RMB'000	Contributed surplus RMB'000 *(Note c)*	Share-based compensation reserve RMB'000	Retained earnings/ (accumulated loss) RMB'000	Total RMB'000
At 1 January 2008	289,457	37,162	5,510	2,964	335,093
Issue of ordinary shares *(Note 14 (a))*	183,040	—	—	—	183,040
Loss attributable to the equity holders of the Company	—	—	—	(4,802)	(4,802)
Dividend *(Note 31)*	—	—	—	(5,625)	(5,625)
At 31 December 2008	472,497	37,162	5,510	(7,463)	507,706
At 1 January 2009	472,497	37,162	5,510	(7,463)	507,706
Issue of ordinary shares *(Note 14 (a))*	55,140	—	—	—	55,140
Loss attributable to the equity holders of the Company *(Note 29)*	—	—	—	(5,516)	(5,516)
At 31 December 2009	527,637	37,162	5,510	(12,979)	557,330

(a) Merger reserve

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

15 RESERVES *(Continued)*

(b) Statutory reserves

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

(c) Contributed surplus

Contributed surplus of RMB37,162,000 was resulted from the reorganisation prior to the Listing.

16 LONG-TERM BORROWINGS, SECURED

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Bank borrowings	**378,141**	146,671	**65,141**	108,671
Borrowings from IFC	**81,575**	—	**—**	—
	459,716	146,671	**65,141**	108,671

(a) Bank borrowings

The long-term bank borrowings are secured by bank deposits of RMB29,267,000 (2008: RMB24,849,000), certain land use rights with a total net book value of approximately RMB33,630,000 (2008: Nil), property, plant and equipment, construction in progress with a total net book value of RMB314,498,000 (2008: Nil), 100% equity interest in Ko Yo Hong Kong and Dazhou Ko Yo Chemical (Note 9), which were effectively owned by the Company, and guaranteed by Mr. Li Weiruo, a shareholder and director of the Company.

The average effective interest rate of bank borrowings as at 31 December 2009 is 5.63% (2008: 6.31%).

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

(b) Borrowings from IFC

On 16 April 2009, the Group entered into a long-term borrowing agreement and a warrant subscription agreement with IFC, pursuant to which, IFC will grant a long-term borrowing of USD 20 million to the Group at the coupon interest rate of LIBOR plus 4.5% per annum and the Company will issue warrants to IFC at nil consideration (Note 17). The Group has drawn down the long-term borrowings of USD 17 million (equivalent to RMB116,147,000) in 2009.

The long-term borrowing agreement and the warrant subscription agreement are considered as linked transactions. The borrowings from IFC were recognised initially at fair value, which is equal to the difference between the face value of the borrowings and the fair value of warrants. The borrowings from IFC recognised in the balance sheet are calculated as follows:

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Face value of borrowings from IFC	**116,147**	—	**—**	—
Fair value of warrants *(Note 17)*	**(37,835)**	—	**—**	—
	78,132	—	**—**	—
Interest expense	**6,457**	—	**—**	—
Interest paid	**(3,194)**	—	**—**	—
Borrowings from IFC at 31 December 2009	**81,575**	—	**—**	—

The effective interest rate of borrowings from IFC as at 31 December 2009 is 13.09%. The calculation of effective interest rate has taken into account the deduction of fair value of warrants from the face value of the borrowings.

The borrowings of IFC are secured by certain land use rights with a total net book value of approximately RMB15,245,000 (2008: Nil), property, plant and equipment, construction in progress with a total net book value of RMB142,573,000 (2008: Nil).

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

As at 31 December 2009, the Group's long-term borrowings were repayable as follows:

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 1 year	**128,141**	42,601	**65,141**	32,601
Between 1 and 2 years	**70,000**	104,070	**—**	76,070
Between 2 and 3 years	**83,162**	—	**—**	—
Over 3 years	**178,413**	—	**—**	—
	459,716	146,671	**65,141**	108,671
Within 1 year included in current liabilities	**(128,141)**	(42,601)	**(65,141)**	(32,601)
	331,575	104,070	**—**	76,070

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

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
At floating rates in USD	**146,716**	108,671	**65,141**	108,671
At floating rates in RMB	**313,000**	38,000	**—**	—
	459,716	146,671	**65,141**	108,671

The carrying amounts of the long-term borrowings approximate their fair value as the market borrowing interest rate approximates the effective interest rate of the long-term borrowings.

17 DERIVATIVE FINANCIAL LIABILITIES

The warrants are treated as a financial liability and measured at fair value through the statement of comprehensive income as follows:

	Group	Company
	RMB'000	RMB'000
Fair value of warrants at date of issue	37,835	37,835
Fair value change charged to statement of comprehensive income *(Note 26)*	3,194	3,194
At 31 December 2009	41,029	41,029

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

As at 31 December 2009, no shares had been issued under the Warrants.

Management has used the Black-Scholes valuation model to determine the fair value of the Warrants, which was recognised as financial liabilities. 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 fair value of the Warrant as of 29 April 2009 and 31 December 2009, determined using the Black-Scholes valuation model, was HKD0.086 (approximately RMB0.076) and HKD0.093 (approximately RMB0.082) per share, respectively. The significant inputs into the model are as follows:

	29 April 2009	**31 December 2009**
Share prices (HKD)	0.138	0.156
Volatility	80%	78%
Dividend yield	Nil	Nil
Annual risk-free interest rate	1.66%	1.55%

18 DEFERRED SUBSIDY INCOME - GROUP

	Government grant for production facilities RMB'000
At 1 January 2008	6,008
Amortisation *(Note 26)*	(474)
At 31 December 2008	5,534
At 1 January 2009	**5,534**
Addition	**2,610**
Amortisation *(Note 26)*	**(740)**
At 31 December 2009	**7,404**

In 2009, the Group received government grants of approximately RMB2,610,000 from the finance bureau of Dazhu county, Sichuan Province for the energy saving and environment protection projects. These grants were recorded as deferred subsidy income and were credited to the statement of comprehensive income on the straight-line basis over the expected useful lives of the related equipments.

19 DEFERRED INCOME TAX - GROUP

There were no offsetting of deferred income tax assets and liabilities in 2009 and 2008.

	2009 RMB'000	2008 RMB'000
Deferred tax assets:		
– To be recovered after more than 12 months	**2,505**	2,071
– To be recovered within 12 months	**81**	—
	2,586	2,071
Deferred tax liabilities:		
– To be settled after more than 12 months	**(80,867)**	(80,867)

19 DEFERRED INCOME TAX - GROUP *(Continued)*

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

Deferred income tax assets:

	Impairment of assets	Deferrd subsidy income	Unrealised profit on inter-company sales	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2008	1,049	1,360	—	2,409
Charged to statement of comprehensive income	(225)	(113)	—	(338)
At 31 December 2008	824	1,247	—	2,071
At 1 January 2009	**824**	**1,247**	**—**	**2,071**
(Charged)/credit to statement of comprehensive income	**(70)**	**(48)**	**633**	**515**
At 31 December 2009	**754**	**1,199**	**633**	**2,586**

19 DEFERRED INCOME TAX - GROUP *(Continued)*

Deferred income tax liabilities:

	Evaluation and exploration assets
	RMB'000
At 1 January 2008, 31 December 2008 and 31 December 2009	(80,867)

As at 31 December 2009, the Group had unused tax losses of approximately RMB32,557,000 (31 December 2008: RMB23,688,000) of certain subsidiaries available to offset against future profits. No deferred tax asset has been recognised in respect of the tax losses of these subsidiaries due to the unpredictability of future profit streams.

In accordance with the enterprise income tax laws in Mainland China, a 10% withholding tax will be levied on the dividend declared by the companies established in Mainland China to their foreign investors starting from 1 January 2008. A lower withholding tax rate of 5% is applied to Mainland China subsidiaries of the Company, whose direct foreign investors are incorporated in Hong Kong, because of the treaty arrangement between Mainland China and Hong Kong. No deferred taxation liability has been provided for the earnings of approximately RMB85,691,000 expected to be retained by the subsidiaries in Mainland China and not to be remitted out of Mainland China in the foreseeable future.

20 TRADE AND OTHER PAYABLES

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade payables *(Note a)*	**97,405**	54,540	**—**	—
Notes payable *(Note b)*	**22,000**	48,130	**—**	—
Advances from customers	**72,865**	46,072	**—**	—
Accrued expenses	**4,207**	10,673	**300**	2,136
Deposits from suppliers	**14,564**	3,559	**—**	—
Other taxes payable	**1,308**	624	**—**	—
Others	**7,671**	9,461	**—**	—
	220,020	173,059	**300**	2,136

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

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
RMB	**219,720**	170,923	**—**	—
HKD	**300**	2,136	**300**	2,136
	220,020	173,059	**300**	2,136

20 TRADE AND OTHER PAYABLES *(Continued)*

(a) Trade payables

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

	2009	2008
	RMB'000	RMB'000
Aged:		
Less than 1 year	**95,033**	52,509
More than 1 year but not exceeding 2 years	**2,262**	1,988
More than 2 years but not exceeding 3 years	**110**	43
	97,405	54,540

(b) Notes payable

Notes payable represented bank acceptance notes issued by the Group and were interest-free and with maturity dates of less than one year. As at 31 December 2009, notes payable of approximately RMB 22,000,000 (2008: RMB48,130,000) were pledged by bank deposits of RMB 12,900,000 (2008: RMB24,487,000).

21 SHORT-TERM BORROWINGS, SECURED - GROUP

The short-term borrowings are denominated in RMB and were issued at fixed interest rates which range from 5.05 % to 6.37% (2008: 5.57% to 8.96%) per annum and are secured by bank deposits of RMB41,158,000 (2008: RMB10,000,000) and certain land use rights with a total net book value of approximately RMB29,016,000 (2008: RMB30,705,000) (Note 5) and property, plant and equipment with a total net book value of approximately RMB45,677,000 (2008: RMB59,114,000) of the Group (Note 6).

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

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

	2009	2008
	RMB'000	RMB'000
6 months or less	**219,630**	97,600
Between 6 months to 1 year	**32,400**	73,400
	252,030	171,000

22 TURNOVER

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

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

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

23 EXPENSES BY NATURE

	2009	2008
	RMB'000	RMB'000
Raw materials and consumables used	**347,882**	310,183
Changes in inventories of finished goods and work in progress	**(29,364)**	(13,911)
Power and natural gas consumed	**163,037**	150,792
Staff costs *(Note 24)*	**51,277**	61,533
Depreciation and amortisation charges	**19,040**	17,074
Transportation expenses	**12,646**	10,856
Maintenance expenses	**3,279**	4,586
Legal and professional fees	**1,499**	3,551
Stamp duty and other tax	**2,175**	2,687
Advertisement expenses	**1,599**	2,122
Auditors' remuneration	**1,716**	1,727
Operating lease payments	**1,818**	1,511
Loss on disposal of property, plant and equipment *(Note 32)*	**266**	831
Write-down of inventory to net realisable value *(Note 10)*	**—**	274
Written back of provision for receivables *(Note 11)*	**(150)**	(471)
Other expenses	**19,793**	19,850
Total cost of sales, distribution costs and administrative expenses	**596,513**	573,195

24 STAFF COSTS

	2009 RMB'000	2008 RMB'000
Wages and salaries	**42,166**	52,197
Pension costs – defined contribution plans	**4,975**	4,537
Social security costs	**4,102**	4,288
Termination benefits	**34**	511
	51,277	61,533

25 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The remuneration of every director for the year ended 31 December 2009 is set out below:

Name of director	Fees RMB'000	Salaries, allowances, and benefits in kind RMB'000	Bonuses RMB'000	Contributions to pension schemes RMB'000	Total RMB'000
Executive Directors					
Mr. Li Weiruo	**528**	**235**	**—**	**18**	**781**
Mr. Yuan Bai	**141**	**306**	**—**	**13**	**460**
Ms. Chi Chuan	**141**	**235**	**—**	**13**	**389**
Mr. Li Shengdi	**141**	**235**	**—**	**15**	**391**
Ms. Man Au, Vivian	**141**	**370**	**—**	**11**	**522**
Independent non-executive directors					
Mr. Hu Xiaoping	**70**	**—**	**—**	**—**	**70**
Mr. Woo Che-wor, Alex	**70**	**—**	**—**	**—**	**70**
Mr. Qian Laizhong	**70**	**—**	**—**	**—**	**70**
	1,302	**1,381**	**—**	**70**	**2,753**

25 DIRECTORS' AND SENIOR MANAGEMENT's EMOLUMENTS *(Continued)*

(a) Directors' emoluments *(Continued)*

The remuneration of every director for the year ended 31 December 2008 is set out below:

Name of director	Fees	Salaries, allowances, and benefits in kind	Bonuses	Contributions to pension schemes	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive Directors					
Mr. Li Weiruo	528	276	176	18	998
Mr. Yuan Bai	141	360	132	13	646
Ms. Chi Chuan	141	276	132	13	562
Mr. Li Shengdi	141	276	132	15	564
Ms. Man Au, Vivian	141	370	132	11	654
Independent non-executive directors					
Mr. Hu Xiaoping	70	—	18	—	88
Mr. Woo Che-wor, Alex	70	—	18	—	88
Mr. Qian Laizhong	70	—	18	—	88
	1,302	1,558	758	70	3,688

25 DIRECTORS' AND SENIOR MANAGEMENT's EMOLUMENTS *(Continued)*

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include four (2008: four) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one (2008: one) individual during the year are as follows:

	2009	2008
	RMB'000	RMB'000
Basic salaries, housing allowances, other allowances and benefits in kind	**606**	606
Contributions to pension schemes	**11**	26
Bonus	**—**	11
	617	643

The emoluments fell within the following bands:

	Number of individuals	
	2009	2008
Emolument bands		
Nil to RMB880,500 (approximately HKD1,000,000)	**1**	1

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

26 OTHER (EXPENSES)/INCOME - NET

	2009 RMB'000	2008 RMB'000
Sales of scrap materials	**1,020**	1,637
Amortisation of subsidy income *(Note 18)*	**740**	474
Subsidy income	**779**	440
Loss from disposal of a subsidiary	**—**	(422)
Fair value change on warrant liability *(Note 17)*	**(3,194)**	—
Others	**(48)**	70
	(703)	2,199

27 FINANCE COSTS - NET

	2009 RMB'000	2008 RMB'000
Interest expense of bank borrowings	**28,312**	25,839
Interest expense of borrowings from IFC	**6,457**	—
Less: capitalisation in construction-in-progress *(Note 6)*	**(21,834)**	(7,614)
	12,935	18,225
Interest income	**(2,157)**	(2,620)
Others	**1,283**	602
	12,061	16,207

28 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 2008 and 2009.

Chengdu Ko Yo Chemical, Chengdu Ko Yo Compound and Dazhou Ko Yo Chemical qualify as foreign investment production enterprises and were established in the western regions in Mainland China. As approved by local tax bureaus, they are subject to the preferential tax policies for the development of western regions with Enterprise Income Tax ("EIT") at the rate of 15% (2008: 15%). The Local Enterprise Income Tax has been exempted in 2009.

Dazhou Ko Yo Chemical is entitled to full exemption from EIT in the first two profitable years and a 50% reduction for the next three years thereafter. 2009 is the fourth profit-making year of Dazhou KoYo Chemical and thus the preferential EIT rate applicable to Dazhou Ko Yo Chemical for the year ended 31 December 2009 is 7.5% (2008: 7.5%).

Qingdao Ko Yo Chemical and Ko Yo Agrochem did not have assessable profit for the year ended 31 December 2009 (2008: Nil).

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

	2009	2008
	RMB'000	RMB'000
Current tax for Mainland China	**890**	6,722
Deferred income tax *(Note 19)*	**(515)**	338
	375	7,060

28 INCOME TAX EXPENSE *(Continued)*

The taxation on the Group's (loss)/profit before income tax differs from the theoretical amount that would arise using the statutory taxation rate applicable to profits of the consolidated companies as follows:

	2009	2008
	RMB'000	RMB'000
(Loss)/profit before income tax	**(6,809)**	67,717
Calculated at statutory taxation rate of 15% (2008: 15%)	**(1,021)**	10,158
Expenses not deductible for tax purposes	**701**	120
Effects of income tax exemption *(Note (a))*	**—**	(3,144)
Tax losses for which no deferred income tax was recognised	**1,330**	1,842
Effects on tax holiday available to different companies of the Group	**(635)**	(1,916)
Taxation	**375**	7,060

(a) Effects of income tax exemption

In 2008, as approved by the local tax bureau in Sichuan, Mainland China, Dazhou Ko Yo Chemical are entitled to an income tax exemption with an amount of 40% on the purchase cost of certain qualified equipment manufactured in Mainland China.

29 LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The loss attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of RMB5,516,000 (2008: RMB4,802,000).

30 EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year (Note 14).

	2009	2008
(Loss)/profit attributable to equity holders of the Company (RMB'000)	**(7,184)**	60,657
Weighted average number of ordinary shares in issue (thousands)	**6,834,263**	5,895,770
Basic (loss)/earnings per share (RMB per share)	**(0.0011)**	0.0100

(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.

	2009	2008
(Loss)/profit attributable to equity holders of the Company (RMB'000)	**(7,184)**	60,657
Weighted average number of ordinary shares in issue (thousands)	**6,834,263**	5,895,770
Adjustment – share options (thousands)	**—**	9,410
Weighted average number of ordinary shares for diluted (loss)/earnings per share (thousands)	**6,834,263**	5,905,180
Diluted (loss)/earnings per share (RMB per share)	**(0.0011)**	0.0100

The calculation of diluted loss per share for the year ended 31 December 2009 has not assumed the exercise of the share options and warrants as these potential ordinary shares are anti-dilutive during the year.

31 DIVIDEND

	2009 RMB'000	2008 RMB'000
Interim, nil (2008: HKD0.0003, on post-subdivision basis) per ordinary share	**—**	1,703

The directors do not recommend the payment of an interim dividend and a final dividend for the six months ended 30 June 2009 and the year ended 31 December 2009.

32 CASH GENERATED FROM OPERATIONS

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

	2009 RMB'000	2008 RMB'000
(Loss)/profit before income tax	**(6,809)**	67,717
Depreciation of property, plant and equipment	**18,009**	16,043
Amortisation of land use rights	**1,031**	1,031
Loss on disposal of property, plant and equipment *(Note 23)*	**266**	831
Interest income	**(2,157)**	(2,620)
Interest expense	**12,935**	18,225
Loss on disposal of a subsidiary	**—**	422
Fair value change of warrants granted to IFC	**3,194**	—
Operating profit before working capital changes	**26,469**	101,649
Increase in inventories	**(2,005)**	(34,128)
Increase in trade and other receivables	**(56,290)**	(11,326)
Increase in trade and other payables	**46,961**	91,662
Increase/(decrease) in deferred subsidy income	**1,870**	(474)
Cash generated from operating activities	**17,005**	147,383

32 CASH GENERATED FROM OPERATIONS *(Continued)*

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

	2009 RMB'000	2008 RMB'000
Net book amount *(Note 6)*	968	1,547
Loss on disposal of property, plant and equipment *(Note 23)*	(266)	(831)
Proceeds from disposal of property, plant and equipment	702	716

33 COMMITMENTS - GROUP

(a) Capital commitments for property, plant and equipment

	2009 RMB'000	2008 RMB'000
Constructions-in-progress:		
Contracted but not provided for	26,850	212,549

(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:

	2009 RMB'000	2008 RMB'000
Not later than one year	748	1,341

The Company had no capital commitment and no commitments under operating leases as at 31 December 2009 (2008: Nil).

34 RELATED-PARTY TRANSACTIONS

The Group is controlled by Mr. Li Weiruo, who owns approximately 41.5% of the Company's issued shares as at 31 December 2009 (2008: 45.7%). The remaining approximately 58.5% of the issued shares are widely held.

(a) Key management compensation (excluding directors' emoluments)

	2009	2008
	RMB'000	RMB'000
Salaries and other short-term employee benefits	**893**	1,653

The directors' emoluments are disclosed in Note 25.

35 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 RMB88.3 million have been rolled over for a further year; new short-term borrowings of RMB110 million have been granted and drawn down with a term of one year; and, a committed one year credit facility of RMB80 million has been obtained from a domestic bank in Mainland China.

FIVE YEAR FINANCIAL SUMMARY

The following table summarizes the audited results, assets and liabilities of the Group for the five years ended 31st December 2009.

	2009	2008	2007	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	**602,468**	654,920	774,919	610,587	627,616
Profit/(Loss) before taxation	**(6,809)**	67,717	44,923	33,324	53,200
Taxation	**(375)**	(7,060)	(3,534)	(4,728)	(6,421)
Profit/(Loss) after taxation	**(7,184)**	60,657	41,389	28,596	46,779
Minority interest	**—**	—	—	—	23
Profit/(Loss) attributable to equity holders of the Company	**(7,184)**	60,657	41,389	28,596	46,802
Total assets	**1,972,869**	1,429,538	1,032,844	524,290	488,879
Total liabilities	**(1,061,066)**	(577,131)	(445,405)	(231,428)	(285,952)
Shareholders' funds	**911,803**	852,407	587,439	292,862	202,927