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 2010

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

China Construction Bank Corporation
– Dazhou Branch

Shenzhen Development Bank
– Chengdu City Wan Fu Branch

Bank of Dalian
– Chengdu Branch

China Mingsheng Banking Corp.
– Chengdu Branch

China Merchants Bank
– Chengdu City Hong Zhaobi Branch

Shanghai Pudong Development Bank
– Chengdu Branch

STOCK CODE

827

WEBSITE

www.koyochem.com

Highlights

— For the year ended 31st December 2010, the loss attributable to shareholders was approximately RMB25.6 million, which represents an increase in loss of RMB18.4 million as compared to year 2009. If neglect the provision on the employees' share options of approximately RMB8.7 million, the loss attributable to shareholders was approximately RMB16.9 million.

— Basic loss per share was approximately RMB0.36 cents for the year ended 31st December 2010.

— For the year ended 31st December 2010, sale turnover was approximately RMB873 million, which represents an increase of approximately 44.8% as compared to year 2009.

— The sale amount and quantities of BB Fertilizers and compound fertilizers of the Group was approximately RMB258 million and 158,076 tonnes respectively, which represents an increase of approximately 62.3% and 80.3% respectively as compared with year 2009.

— The Directors do not recommend the payment of any final dividend for the year ended 31st December 2010.

Chairman's Statement

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 2010 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.

The year 2010 could be described as a year of peak and trough. During the first half of the year, the prices for major raw materials rose significantly, whilst the prices for fertilizers remained sluggish. Operation of the Company once became stringent. Notwithstanding the above, the management of the Company preserved its resilience, and took proactive measures to organize and consolidate internal and external resources. By capturing the opportunities arising from the market timely in the second half of the year, the management of the Company led all staff to resolve the difficulties at different levels, and successfully commenced operation of urea plant at Dazhou in October 2010. The loss in the full year result of the Company was thus reduced significantly.

During the year under review, the Group continued to experience losses in its results. For the year ended 31st December 2010, the audited loss attributable to shareholders of the Group amounted to approximately RMB25.6 million, representing an increase in loss of RMB18.4 million as compared to a loss of RMB7.2 million last year. If neglect the provision on the employees' share options of approximately RMB8.7 million, the loss attributable to shareholders was approximately RMB16.9 million. Basic loss per share amounted to approximately RMB0.36 cents (2009: RMB0.11 cents). The Group's turnover amounted to approximately RMB873 million, representing an increase of 44.8% as compared to RMB602 million in the same period of last year. The Group's sales volume amounted to approximately 568,000 tonnes, representing an increase of approximately 34.6% as compared to 422,000 tonnes of last year.

Product sales in quantities of the Group and turnover increased over the same period of last year, which were mainly benefitted from the completion and operation of the new urea plant at Dazhou. The plant began production of urea products on trial run basis in August 2010. Since the fourth quarter of 2010, the plant commenced to bring positive return to the Company. During the period under review, the sales volume for the products from Dazhou's urea plant reached approximately 124,000 tonnes and recorded sales income of RMB232,468,000, representing 26.6% of the Group's turnover for the year. Profit contribution amounted to RMB38,403,000. However, the prices for natural gas and other raw materials rose in 2010. Together with the negative effect as a result of the adverse weather and sluggish pricing in fertilizer for the first half of the year, and the production equipment at Xindu Plant were not utilized in full due to insufficient supply of natural gas, the sales quantities of urea from Xindu Plant reduced by approximately 36.9% as compared to last year. As the new urea plant at Dazhou only had one quarter of profit contribution and was not adequate to compensate the loss of the Group for the three previous quarters, it may not be able to deliver satisfactory return to our shareholders.

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 2010. The Group has not declared any dividend for the year ended 31st December 2010 (2009: Nil).

PROSPECT

Industry Review

Recovery in the chemical fertilizer market and demand will continue to grow

The performance of the chemical fertilizer market in China for 2010 was featured as difficult operation by entities in terms of high inventory, high cost and low price. During the first half of the year, there was natural disasters occurred frequently. Output of food in summer fell. Prices in raw materials rose but prices in fertilizers remained sluggish. During the second half of the year, as a result of the recovery of global economy and the rise in the price of food, the export of urea by China was increased, being driven by the price in the international market. Besides, some of the production facilities that were coal based suspended operation for inspection and repair in order to achieve energy saving and reduction in emission. There was change in the supply mix of fertilizers in China. Price of fertilizers rose significantly after the fall in early 2010.

After going through the downside in 2008, the consolidation in 2009 and the recovery growth in 2010, it is expected that the chemical fertilizer market in 2011 will resume its growth following the recovery of global economy and the sustainable and sound development of the economy in China. There will be steady growth in the demand for fertilizers.

As to the demand for chemical fertilizers in the international market, it will continue to growth where the population in the world will increase from 6.9 billion at present to 9.1 billion in 2050. According to the latest report by the International Fertilizer Industry Association (IFA), there will be growth in global consumption of fertilizers of 4.7% in the planting season of 2010 to 2011, as a result from the stimulus by the surge in price of agricultural products and economic recovery. By the planting season of 2011 to 2012, demand for fertilizers in the world will resume to the level prior to the financial crisis. After the significant downfall in 2009, sales volume and consumption of fertilizers in the world increased by 13% and 7% in 2010.

As to the market in China, there is now an excess production capacity nitrogen fertilizer and phosphate fertilizer. According to the guidance principles for the planning of the chemical fertilizer industry in the Twelve Five Year Plan of China, in the coming future, the pace for the structural reorganization will accelerate. Through mergers and acquisitions, production capabilities with obsolete technology will be substituted and replaced. Efforts will be devoted to achieve equilibrium in general for the overall demand and supply. The underlying principle for the structural reorganization is to achieve a state of slight excess in supply. Under the premises of shortage in energy and that climate change affects food production, in order to satisfy the demand for food arising from the growth of population and the ever decreasing area of land for farming, the further application of chemical fertilizers is an important mean to protect farm land and increase food production. To conclude, demand for chemical fertilizers in future will continue to grow. But the rate of growth will gradually fall. It is expected that the demand of chemical fertilizer in China will grow by 2-3% per annum on average. Of which, nitrogen fertilizer, phosphate fertilizer and potash fertilizer will grow by 1%, 1-2% and 5-8% respectively.

Upward moving trend for the price of chemical fertilizers in general

The price of agricultural products and the benefit from the growing of agricultural products are important factors affecting the demand for chemical fertilizer. It is expected that where the global economy is still in its phase of recovery in general between 2011 to 2015. The price of chemical fertilizer will further resume its growth and surge upon the significant increase in the international oil price and the rise of food price in the international market and in China. Moreover, the PRC government will only increase its direct subsidy for farmers. Efficiency in farming by the farmers will have to improve. Therefore it is expected the price in chemical fertilizer between 2011 to 2015 will tend to increase in general.

In 2011, although the policies for the export of chemical fertilizer in China will tend to be tight, it is expected the price of urea in China will further increase on the bases of that in 2009 and 2010 as a result of low utilization rate of chemical fertilizer plant in China, high production cost, surge in the price of agricultural products and the price of urea in the international market maintaining at the high end.

The directors of the Group ("Directors") believe that, with the further recovery of the global economy, as well as the considerable emphasis placed by the PRC government in the "3 agricultural development basis" and food safety in the long run, the development of agriculture in China will bring new opportunities of development in the chemical fertilizer market.

OBJECTIVES AND STRATEGIES

To commence the construction of second phase of the project during the year by leveraging on the potential growth in the urea plant at Dazhou

During the period under review, upon the relentless efforts for almost three years, the Group's new plant project in the Natural Gas Energy Chemical Industrial Zone of Dazhou city, Sichuan, with a respective annual production capacity of 400,000 tonnes of synthetic ammonia and 450,000 tonnes of urea (the "Dazhou Project") has successfully launched production of synthetic ammonia and urea since August 2010. The Dazhou Project brought positive return to the Company in the fourth quarter, and the contribution of sales represented 26.6% of the Group's turnover for the year. At present, the Dazhou Project is now successfully operating steadily upon ongoing optimization in equipment for the production of synthetic ammonia and urea in the early phase of production on trial run basis. Output of urea exceeded 1,350 tonnes per day, which was greater than the designed capacity. Quality of product reached premium level.

The equipment of Dazhou Project runs on natural gas to produce liquefied ammonia and processed into urea products. The project employs clean energy and its equipment adopts Kellogg's Process and Stamicarbon's CO_2 Stripping Process. Both are low in consumption and emission with the advantage of boosting productivity and efficiency, which align with the benchmark set by the State with respect to energy saving, reduction in emission and environmental protection for the development of the chemical industry. As the project is located at Natural Gas Energy Chemical Industrial Zone of Dazhou, which is adjacent to "Pu Guang Gas Field", and has been confirmed by China Petrochemical Corporation having the annual 450 million m^3 of natural gas standard required, it does not only obtain steady supply of natural gas but also the lowest natural gas pipeline transmission cost in the industry. As such, the Company enjoys competitive advantages in the cost of raw materials.

Looking forward in 2011, the Company will place emphasis in the urea plant at Dazhou. Proactive measures will be taken to improve production coordination, marketing and sales and branding. By leveraging on its scale of economy and the competitive advantages in costs, the Company will achieve further growth and development. At the same time, upon the steady operation of the urea plant at Dazhou, the Company intends to initiate the "Project for Annual Output of 300,000 Tonnes of Urea and 40,000 Tonnes of Melamine" ("2nd Phase of the Project") during the year so as to utilize the capacity of Dazhou Project's production equipment, balance its remaining liquefied ammonia and effectively synchronize the production of synthetic ammonia and urea in order to reduce product cost. In the meantime, as Melamine is the down-stream product of urea, it will not only enhance the value added to the product and extend the product chain, but also be capable of further optimizing the product structure to achieve the product diversification of the Company. At present, the Company has completed the project approval process regarding the 2nd Phase of the Project for Annual Output of 300,000 Tonnes of Urea and 40,000 tonnes of melamine, with the approval obtained from the Development and Reform Commission of Sichuan Provincial Government. Meanwhile, the research and survey for the annual output of 40,000 tonnes of melamine has been launched as well. The Company intends to acquire a set of Melamine production equipment featuring advanced technology, low energy consumption and premium product quality from overseas. With the productivity expansion and technological enhancement of the new plant in Dazhou in the 2nd Phase of the Project, it is expected that the annual productivity of the finalized equipment in the new plant will reach 500,000 tonnes of synthetic ammonia, 800,000 tonnes of urea, and 40,000 tonnes of melamine respectively.

The Directors expect that the completion and production of the project will become a substantial source of profit for the Group, expand the Company's scale, strengthen its competitiveness and at the same time ensure the stable and rapid growth in the future.

Preparation for the relocation of production equipment at Xindu

With the continuous growth in the scale of the cities, industries in Chengdu underwent a structural reorganization. The production facilities of the Company that is located at Xindu District, Chengdu, Sichuan, China is becoming an obstacle to the development of the cities. Therefore, the People's Government of Chengdu initiated the request for the relocation of the plant according to the municipal planning arrangement. In accordance with the overall development strategies as planned by the Group, the relocation will be treated as an opportunity for development relying on the abundant resources of salt, natural gas and coal in Guang'an of Sichuan, and form a new chemical production base for the Company. At present, the Company has created a team with top management dedicated for the relocation. The team has begun the preparation for the preliminary work in the relocation of Xindu Plant.

Successfully obtained the exploitation licence 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 passed by the examination conducted by Bureau of Land and Resource of the State in 2010. Having been granted the approval, the Group is then able to secure the phosphorous mine as our reserve of strategic resource, and in the meantime allows the Company's industry chain to expand both upstream and downstream and lay a foundation for further improvement of economic benefits and the sustainable development of the Group.

APPRECIATION

In 2010, faced with the adverse situations about the sluggish market, surge in price of raw materials and substantial fall in corporate results, the management of the Company remained resilience about their belief. Strategies for tackling the situation was be adjusted flexibly. All staff was fully motivated to work patiently and devotedly. Hence the Dazhou project still successfully commenced operation despite the extremely stringent situation in the business environment. The extent of operation loss for the full year of the Company thus reduced significantly.

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

25 March 2011

FINANCIAL PERFORMANCE

Results

For the year ended 31st December 2010, 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 continued to experience losses in its results. For the year ended 31st December 2010, the audited loss attributable to shareholders of the Group amounted to approximately RMB25.6 million, representing an incerase of RMB18.4 million as compared to a loss of RMB7.2 million last year. If neglect the provision on the employees' stock options of approximately RMB8.7 million, the loss attributable to shareholders was approximately RMB16.9 million. Basic loss per share amounted to approximately RMB0.36 cents (2009: RMB0.11 cents). The Group's turnover amounted to approximately RMB873 million, representing an increase of 44.8% as compared to RMB602 million in the same period of last year. The Group's sales volume amounted to approximately 568,000 tonnes, representing an increase of approximately 34.6% as compared to 422,000 tonnes of last year.

Cost and Profit Margin

Cost of sales of the Group amounted to approximately RMB779 million, representing an increase of 46.1% as compared to the figure in 2009. The reasons of increase in cost of sales were increase in sales quantities and the price of raw materials.

Gross profit margin of the Group decreased approximately from 11.5% in 2009 to 10.8% in 2010. The decrease in the gross profit margin was due to the increase the price of raw materials.

During the year under review, distribution costs increased approximately by 68.7% as compared with last year. The ratio of the distribution costs over sales was 3.8% in 2010 which was higher than that of in 2009. At the beginning of commence production of Dazhou urea plant, the Company requires more resources to establish distribution network.

In comparison with last year, there was an increase in administrative expenses of the Group by approximately 35.1% from RMB43.9 million in 2009 to RMB59.3 million in 2010. The increase in administrative expenses is mainly due to the provision on employees' share options of approximately RMB8.7 million.

Starting from the year under review, the Group prepaid income tax in 2010 of Enterprise Income Tax amounting to approximately RMB6.7 million. Details of tax schemes are set out in Note 29 to consolidated financial statements.

Dividends

Considering the Group's result during the year under review, the Directors do not recommend the payment of any final dividend for the year ended 31st December 2010. The Group has not declared any dividend for the year ended 31st December 2010 (2009: Nil).

PRODUCTS

Sales of the Group's products for the year 2009 and 2010 are as follows:

	Turnover in year 2010		Turnover in year 2009		Percentage Change in turnover
	RMB'000	Composite %	RMB'000	Composite %	%
BB & compound fertilizers	258,000	29.6	159,000	26.4	62.3
Sodium carbonate	100,000	11.5	80,000	13.2	25.0
Ammonium chloride	45,000	5.1	50,000	8.2	-10.0
Urea	275,000	31.5	243,000	40.3	13.2
Ammonia	146,000	16.7	9,000	1.6	1,522.2
Ammonium bicarbonate	17,000	1.9	14,000	2.4	21.4
Others	32,000	3.7	47,000	7.9	-31.9

During the year under review, with the contribution from the Dazhou urea plant in the last quarter, the sales volume of ammonia was greatly increased as compared to year 2009. The decrease in production volume of Xindu plant was filled up by the new production volume of Dazhou area plant and the sales volume of urea was slightly increased. The category others are trading of urea, di-ammonium phosphate, high water soluble fertilizers and sodium carbonate.

Recognitions and Awards

During the period under review, the Group received new awards. In November 2010, 中國化工學會化肥專業委員會 (Fertilizer Professional Committee, Chemical Industry and Engineering Society of China), 中國化工情報資訊協會 (China Chemical Industry Information Association) awarded the certificate "2010中國化肥企業綜合實力100強 (Top 100 Consolidated Entity in Chemical Fertilizer Industry in China 2010)". In August 2010, Mr. Li Weiruo, the Chairman of the Company was awarded the title of "中國優秀創新企業家 (Outstanding Innovative Enterpreneur in China)" by 中國民營企業家協會 (China Non-Governmental Enterpreneurs Association) and 中國科學院資訊諮詢中心 (Center for Information & Consultation for the China Academy of Sciences).

In June and November 2010, the Company's 9001 Quality Assurance System and ISO14000 Environment Management System successfully passed the annual audit by the quality assurance and environment protection certification centres in China. The audit confirmed the effectiveness of the Company in the operation of quality assurance and environment management systems in the long term. Even the Company faced intensive competition in the market, the adoption of environment protection, safety, cost and quality as the fundamentals to the operation of the Company was amply illustrated.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31st December 2010, the Group had net current liabilities of approximately RMB398,231,000. Current assets as at 31st December 2010 comprised cash and bank deposits of approximately RMB71,966,000, pledged bank deposits of approximately RMB389,712,000, inventories of approximately RMB65,827,000, trade receivables of approximately RMB20,110,000 and prepayments and other current assets of approximately RMB130,651,000. Current liabilities as at 31st December 2010 comprised short-term borrowings of approximately RMB810,360,000, short-term portion for long-term borrowings of approximately RMB89,156,000, trade and notes payables of approximately RMB66,512,000, advances from customers of approximately RMB40,377,000 and accrued charges and other payables of approximately RMB70,092,000. 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 2010, the Group had outstanding capital commitments of approximately RMB61.8 million. Details of the Group's capital commitments are set out in Note 34 to the consolidated financial statements.

FINANCIAL RESOURCES

As at 31st December 2010, the Group had cash and bank deposits of approximately RMB71,966,000 and pledged bank deposits of approximately RMB389,712,000. 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 2010, the total borrowings and notes payable balances of the Group amounted to RMB1,272,604,000.

GEARING RATIO

The Group's gearing ratios were approximately 172% and 116% as at 31st December 2010 and 31st December 2009 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 2010.

MATERIAL ACQUISITION/DISPOSAL

There was no material acquisition or disposal in the year 2010 which would have been required to be disclosed under the Rules Governing the Listing of Securities ("Listing Rules") on Stock Exchange.

SEGMENTAL INFORMATION

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

DETAILS OF FUTURE PLANS FOR MATERIAL INVESTMENT OR CAPITAL ASSETS

Other than the phase II of the new urea plant with an annual ultimate production capacity of 500,000 tonnes of ammonia, 800,000 tonnes of urea and 40,000 tonnes of melamine in Dazhou, Sichuan Province, the PRC as per interim report dated 20 August 2010, 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(a) to the consolidated financial statements.

CHARGES ON THE GROUP'S ASSETS

As at 31st December 2010, certain land use rights and buildings with a total net book value of approximately RMB76,988,000 (2009: RMB71,287,000), plant and machinery, construction in progress with a total net book value of approximately RMB443,469,000 (2009: RMB478,170,000) and bank deposits approximately RMB389,712,000 (2009: RMB83,325,000) 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 2010.

NUMBER OF EMPLOYEES AND THEIR REMUNERATION

As at 31 December 2010, the Group had 2,131 (2009: 1,944) employees, comprising 6 (2009: 6) in management, 123 (2009: 85) in finance and administration, 1,914 (2009: 1,762) in production, 84 (2009: 87) in sales and marketing and 4 (2009: 4) in research and development, 2,125 (2009: 1,938) of these employees were located in the PRC and 6 (2009: 6) were located in Hong Kong.

EXECUTIVE DIRECTORS

Mr. Li Weiruo, aged 57, is the Chairman of the Board and the founder of the Group. He graduated from Sichuan Institute of Finance and Economics with a certificate in economics in 1985. Mr. Li has over 20 years' experience in corporate management in the PRC. He was awarded a certificate for "Chief Economists of Large-to-Medium Sized Enterprises in the PRC" after completing "The Study Course for Chief Economists of Large-to-Medium Sized Enterprises" commissioned by the State Economics Commission at the Southwest University of Finance and Economics in 1986. He is one of the authors of "Modern Corporate Management" which was published by the Sichuan Education Publisher. Mr. Li was the former Vice-director of China Nonferrous Metal Corporation in Chengdu. Mr. Li moved to Hong Kong in 1994 and became a permanent resident of Hong Kong in 2001. He was appointed as a member of the Chinese People's Political Consultative Conference of Sichuan Province in 2003. Mr. Li was appointed as the vice chairman of the China Association for Quality Inspection in August 2005. In May 2006, Mr. Li was awarded the "Outstanding Entrepreneur of Privately-owned Petroleum and Chemical Enterprises in China 2006" (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"蹝譫鳫^華人經濟年會熔爐T屆國國際椒環經濟高). Mr. Li is responsible for the overall management, strategic planning and business development of the Group.

Mr. Yuan Bai, aged 52, 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 55, 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 47, 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 58, responsible for the construction and administrations of phase II of the Group's new urea plant in Dazhou and the relocation of the urea plant in Xindu. Mr. Li graduated from Chinese Communist Party School and North China University of Technology studying industrial enterprise management with a degree majoring economics and was entitled as an economist. Prior to joining the Group, he was the deputy manager of China Nonferrous Huludao Zinc Corporation, from 1983 to 1993, general manager of Hainan Hui Yuantang Medicine Co., Ltd. from 1996 to 1999 and general manager of Shanghai Haos Water Rectified Co., Ltd., a Sino-US joint venture from 2000 to 2002. Mr. Li joined the Group in October 2002 and was appointed as a Director of the Company on 29th April 2004.

Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Hu Xiaoping, aged 60, 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 58, 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 68, 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 59, the vice president of the Group and responsible person of phase II of the Group's 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 40, 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 also obtained a master degree of law in international corporate and financial law from University of Wolverhampton. 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 2010.

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 2010 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 2010 (2009: Nil).

SHARE CAPITAL

Details of movements in share capital of the Company are set out in Note 15 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 16 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31st December 2010 amounted to approximately RMB549,874,000 (2009: RMB557,330,000).

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 110.

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 2010 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 Ms. Chi Chuan and Ms. Man Au Vivian have been longest in office, Ms. Chi Chuan and Ms. Man Au Vivian 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 15 to the consolidated financial statement.

SHARE OPTIONS *(Continued)*

During the year ended 31st December 2010, the details of option outstanding and movements are disclosed in the following table:

Number of share options

	Held at 1 Jan 2010 ('000)	Grant during period ('000)	Exercised during period ('000)	Cancelled during period ('000)	Held at 31 Dec 2010 ('000)	*Share Options A ('000)	*Share Options B ('000)	*Share Options C ('000)	*Share Options D ('000)	*Share Options E ('000)	*Share Options F ('000)
Directors											
Li Weiruo	2,100	4,400	—	—	**6,500**	—	—	2,100	—	4,400	—
Yuan Bai	2,000	4,000	—	—	**6,000**	—	—	2,000	—	4,000	—
Chi Chuan	21,000	2,000	—	—	**23,000**	21,000	—	—	—	2,000	—
Man Au Vivian	19,000	4,000	—	—	**23,000**	19,000	—	—	—	4,000	—
Li Shengdi	21,000	4,000	—	—	**25,000**	21,000	—	—	—	4,000	—
Hu Xiaoping	2,000	4,000	—	—	**6,000**	2,000	—	—	—	—	4,000
Woo Che-wor Alex	2,000	4,000	—	—	**6,000**	2,000	—	—	—	—	4,000
Qian Laizhong	2,100	4,000	—	—	**6,100**	—	—	2,100	—	—	4,000
Employees	129,000	38,500	(1,000)	—	**166,500**	57,000	42,000	—	29,000	38,500	—
Total	200,200	68,900	(1,000)	—	**268,100**	122,000	42,000	6,200	29,000	56,900	12,000

* Share Options A: Grant at 23 September 2003, exercisable from grant date until 22 September 2013 with exercise price HK$0.124.
Share Options B: Grant at 11 April 2006, exercisable from grant date until 10 April 2016 with exercise price HK$0.150.
Share Options C: Grant at 16 May 2006, exercisable from grant date until 10 April 2016 with exercise price HK$0.150.
Share Options D: Grant at 10 September 2007, exercisable from grant date until 9 September 2017 with exercise price HK$0.116.
Share Options E: Grant at 14 January 2010, exercisable from grant date until 13 January 2020 with exercise price HK$0.230.
Share Options F: Grant at 23 November 2010, exercisable from grant date until 22 November 2020 with exercise price HK$0.220.
1,000,000 of Share Options D were exercised during the year of 2010.

DIRECTORS' INTERESTS IN SHARES

As at 31st December 2010, the interests and short positions of the Directors and chief executives in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) to be recorded in the register required to be kept under section 352 of the SFO; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in Listing Rules were as follows:

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

Directors	Personal long position in shares (beneficial owner)	Personal long position in share options (beneficial owner)	Aggregate long position in shares and underlying shares	Total interests in the issued share capital
Li Weiruo	2,924,440,000	6,500,000	2,930,940,000	41.60%
Yuan Bai	366,464,000	6,000,000	372,464,000	5.29%
Chi Chuan	62,640,000	23,000,000	85,640,000	1.22%
Man Au Vivian	31,320,000	23,000,000	54,320,000	0.77%
Li Shengdi	—	25,000,000	25,000,000	0.35%
Hu Xiaoping	—	6,000,000	6,000,000	0.09%
Woo Che-wor, Alex	—	6,000,000	6,000,000	0.09%
Qian Laizhong	—	6,100,000	6,100,000	0.09%

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

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

Note: a wholly-owned subsidiary of the Company

DIRECTORS' INTERESTS IN SHARES *(Continued)*

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

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 2010, 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 2010, 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 Note 18 to the consolidated financial statements

(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 24th March 2011.

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 2010.

PURCHASE, SALE OR REDEMPTION OF SHARES

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

CUSTOMERS AND SUPPLIERS

For the year ended 31st December 2010, the five largest customers accounted for approximately 18.3% of the Group's total turnover and the five largest suppliers of the Group accounted for approximately 55.1% of the Group's total purchases. The largest customer of the Group accounted for approximately 5.8% of the Group's total turnover and the largest supplier accounted for approximately 35.1% 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 36 to the consolidated financial statements.

CORPORATE GOVERNANCE

A report on the corporate governance practices adopted by the Company is set out on pages 24 to 28 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

25 March 2011

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 2010, 7 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	7/7	100%
Mr. Yuan Bai	7/7	100%
Ms. Chi Chuan	7/7	100%
Ms. Man Au Vivian	7/7	100%
Mr. Li Shengdi	7/7	100%
Independent Non-Executive Directors		
Mr. Hu Xiaoping	4/7	57%
Mr. Woo Che-wor, Alex	4/7	57%
Mr. Qian Laizhong	4/7	57%

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 Director		
Ms. Chi Chuan	1/1	100%

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

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

NOMINATION OF DIRECTORS

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

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

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. Ms. Chi Chuan and Ms. Man Au Vivian 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 2010.

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.

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong
Telephone (852) 2289 8888
Facsimile (852) 2810 9888
www.pwchk.com

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 31 to 109, which comprise the consolidated and company balance sheets as at 31 December 2010, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010, and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 25 March 2010

Consolidated balance sheet

	Note	As at 31 December 2010 RMB'000	2009 RMB'000
ASSETS			
Non-current assets			
Land use rights	5	**88,105**	90,128
Property, plant and equipment	6	**1,318,214**	1,069,949
Mining right	7	**334,306**	—
Exploration and evaluation assets	8	**—**	332,613
Goodwill	9	**8,900**	8,900
Deferred income tax assets	20	**7,583**	2,586
		1,757,108	1,504,176
Current assets			
Inventories	11	**65,827**	100,263
Trade and other receivables	12	**148,913**	134,490
Prepaid income tax, net		**1,848**	6,117
Pledged bank deposits	13	**389,712**	83,325
Cash and cash equivalents	14	**71,966**	144,498
		678,266	468,693
Total assets		**2,435,374**	1,972,869
EQUITY			
Capital and reserves attributable to the equity holders of the Company			
Share capital	15	**136,100**	136,082
Reserves	16	**758,877**	775,721
Total equity		**894,977**	911,803

Consolidated balance sheet

		As at 31 December	
	Note	**2010**	2009
		RMB'000	RMB'000
LIABILITIES			
Non-current liabilities			
Long-term borrowings, secured	17	**332,918**	331,575
Derivative financial liabilities	18	**41,786**	41,029
Deferred subsidy income	19	**8,329**	7,404
Deferred income tax liabilities	20	**80,867**	80,867
		463,900	460,875
Current liabilities			
Trade and other payables	21	**176,981**	220,020
Short-term borrowings, secured	22	**810,360**	252,030
Current portion of long-term borrowings, secured	17	**89,156**	128,141
		1,076,497	600,191
Total liabilities		**1,540,397**	1,061,066
Total equity and liabilities		**2,435,374**	1,972,869
Net current liabilities		**(398,231)**	(131,498)
Total assets less current liabilities		**1,358,877**	1,372,678

Li Weiruo
Director

Yuan Bai
Director

The notes on pages 38 to 109 are an integral part of these consolidated financial statements.

Balance sheet

	Note	As at 31 December **2010** **RMB'000**	 2009 RMB'000
ASSETS			
Non-current assets			
Interests in subsidiaries	10	**730,644**	760,030
Current assets			
Other receivables	12	**—**	39,652
Cash and cash equivalents	14	**28**	200
		28	39,852
Total assets		**730,672**	799,882
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	15	**136,100**	136,082
Reserves	16	**549,874**	557,330
Total equity		**685,974**	693,412
LIABILITIES			
Non-current liabilities			
Derivative financial liabilities	18	**41,786**	41,029
		41,786	41,029

Balance sheet

	Note	As at 31 December	
		2010	2009
		RMB'000	RMB'000
Current liabilities			
Accruals and other payables	21	**2,912**	300
Current portion of long-term borrowings, secured	17	**—**	65,141
		2,912	65,441
Total liabilities		**44,698**	106,470
Total equity and liabilities		**730,672**	799,882
Net current liabilities		**(2,884)**	(25,589)
Total assets less current liabilities		**727,760**	734,441

Li Weiruo
Director

Yuan Bai
Director

The notes on pages 38 to 109 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

	Note	2010 RMB'000	2009 RMB'000
		Year ended 31 December	
Turnover	23	**872,582**	602,468
Cost of sales	24	**(778,764)**	(532,951)
Gross profit		**93,818**	69,517
Distribution costs	24	**(33,181)**	(19,670)
Administrative expenses	24	**(59,294)**	(43,892)
Other income/(expenses) – net	27	**713**	(703)
Operating profit		**2,056**	5,252
Finance costs – net	28	**(26,007)**	(12,061)
Loss before income tax		**(23,951)**	(6,809)
Income tax expense	29	**(1,654)**	(375)
Loss for the year	30	**(25,605)**	(7,184)
Other comprehensive income		**—**	—
Total comprehensive loss for the year		**(25,605)**	(7,184)
Loss and total comprehensive loss attributable to equity holders of the Company		**(25,605)**	(7,184)
Loss per share for loss attributable to the equity holders of the Company during the year (expressed in RMB per share)			
– Basic	31	**(0.0036)**	(0.0011)
– Diluted	31	**(0.0036)**	(0.0011)
Dividend	32	**—**	—

The notes on pages 38 to 109 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 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	15	11,440	55,140	66,580
Balance at 31 December 2009		136,082	775,721	911,803
Balance at 1 January 2010		**136,082**	**775,721**	**911,803**
Comprehensive income:				
Loss for the year		**—**	**(25,605)**	**(25,605)**
Total comprehensive loss		**—**	**(25,605)**	**(25,605)**
Transactions with owners:				
Employee share option scheme:				
– Proceeds from shares issued	15	**18**	**85**	**103**
– Value of employee services	15	—	8,676	8,676
Balance at 31 December 2010		**136,100**	**758,877**	**894,977**

The notes on pages 38 to 109 are an integral part of these consolidated financial statements.

Consolidated cash flow statement

	Note	2010 RMB'000	2009 RMB'000
		Year ended 31 December	
Cash generated from operating activities	33 (a)	**85,592**	17,005
Interest paid		**(26,266)**	(12,935)
Income tax paid		**(2,382)**	(2,802)
Net cash inflow from operating activities		**56,944**	1,268
Cash flows from investing activities			
Payments for land use rights		**—**	(49,619)
Payments for exploration and evaluation assets		**(1,693)**	(1,066)
Purchases of property, plant and equipment and payments for construction-in-progress		**(339,014)**	(328,347)
Proceeds from disposal of property, plant and equipment	33 (b)	**5**	702
Interest income received		**2,978**	2,157
Net cash used in investing activities		**(337,724)**	(376,173)
Cash flows from financing activities			
Increase in pledged bank deposits		**(306,387)**	(23,989)
Issue of ordinary shares		**103**	66,580
Proceeds from borrowings		**833,673**	726,980
Repayment of borrowings		**(319,141)**	(295,070)
Net cash inflow from financing activities		**208,248**	474,501
Net (decrease)/increase in cash and cash equivalents		**(72,532)**	99,596
Cash and cash equivalents at beginning of the year		**144,498**	44,902
Cash and cash equivalents at end of the year	14	**71,966**	144,498

The notes on pages 38 to 109 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 25 August 2008, the Company transferred the listing of its shares from GEM of the Stock Exchange to the Main Board of the Stock Exchange ("Transfer of Listing").

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

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

These consolidated financial statements are presented in Renminbi ("RMB"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 25 March 2011.

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation

The Group reported net current liabilities of approximately RMB398,231,000 as at 31 December 2010 (2009: RMB131,498,000) and loss of RMB25,605,000 for the year then ended, in addition, the Group has capital commitments of RMB61,769,000 as at 31 December 2010 (2009: RMB26,850,000) (see Note 34(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 2011, new short-term borrowings of RMB7 million have been granted and drawn down with a term of one year. In addition, as at the date of approval of the financial statements, the Group has an unused one year credit facility of RMB20 million from a domestic bank in Mainland China;

— 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 RMB83 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 2011;

— The Group has completed the construction of the new production line project located in Dazhou, Sichuan Province ("New Dazhou Project") in 2010 which started to generate operating cash inflow from October 2010. With the full year operation in 2011, the New Dazhou Project is expected to generate more operating cash inflow than 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 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 2010:

- HKFRS 3 (revised), 'Business combinations', and consequential amendments to HKAS 27, 'Consolidated and separate financial statements', HKAS 28, 'Investments in associates', and HKAS 31, 'Interests in joint ventures', are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.

  The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with HKFRS 3. For example, all payments to purchase a business are 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 value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs are expensed.

  HKAS 27 (revised) requires the effects of all transactions with non-controlling interests 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. HKAS 27 (revised) has had no impact on the current period, as none of the non-controlling interests have a deficit balance; there have been no transactions whereby an interest in an entity is retained after the loss of control of that entity, and there have been no transactions with non-controlling interests.

  As there was no transaction during the year in which HKFRS 27(revised) is applicable, the above changes had no effect on the Group's or Company's financial statements for the current year.

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)

- HKAS 17 (amendment), 'Leases', deletes specific guidance regarding classification of leases of land, so as to eliminate inconsistency with the general guidance on lease classification. As a result, leases of land should be classified as either finance or operating lease using the general principles of HKAS 17, i.e. whether the lease transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee. The amendment does not have a material impact on the Group's or Company's financial statements.

  HKAS 17 (amendment) has been applied retrospectively for annual periods beginning 1 January 2010 in accordance with the effective date and transitional provisions of the amendment. The Group has reassessed the classification of unexpired land use rights as at 1 January 2010 on the basis of information existing at the inception of those leases, and considered the land use rights in Mainland China remained as operating leases. All land use rights of the Group are in Mainland China, thus the amendment did not have a material impact on the Group's or Company's financial statement.

- HK Int-5 - The HKICPA issued on 29 November 2010 HK Interpretation 5 "Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause". This Interpretation, as a clarification of an existing standard, is effective immediately. According to the Interpretation, the classification of a term loan in accordance with paragraph 69(d) of HKAS 1 shall depend on whether or not the borrower has an unconditional right to defer payment for at least twelve months after the reporting period. Consequently, amounts repayable under a loan agreement which includes a clause that gives the lender the unconditional right to call the loan at any time shall be classified by the borrower as current in its balance sheet. This interpretation did not have a material impact on the Group's and 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) *New standards, amendments and interpretations have been issued but are not effective for the financial year beginning 1 January 2010 and have not been early adopted by the Group*

The Group's and Company's assessment of the impact of these new standards and interpretations is set out below.

- HKFRS 9, 'Financial instruments', issued in November 2009. This standard is the first step in the process to replace HKAS 39, 'Financial instruments: recognition and measurement'. HKFRS 9 introduces new requirements for classifying and measuring financial assets and is likely to affect the Group's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption.

  The Group is yet to assess HKFRS 9's full impact. The Group has not yet decided when to adopt HKFRS 9.

- Revised HKAS 24 (revised), 'Related party disclosures', issued in November 2009. It supersedes HKAS 24, 'Related party disclosures', issued in 2003. HKAS 24 (revised) is mandatory for periods beginning on or after 1 January 2011. Earlier application, in whole or in part, is permitted.

  The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The Group will apply the revised standard from 1 January 2011. When the revised standard is applied, the Group and the Company will need to disclose any transactions between its subsidiaries and its associates. It is not expected to have a material impact on the Group's or Company's financial statements..

- Classification of rights issues' (amendment to HKAS 32), issued in October 2009. The amendment applies to annual periods beginning on or after 1 February 2010. Earlier application is permitted. The amendment addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. Previously, these issues had to be accounted for as derivative liabilities. The amendment applies retrospectively in accordance with HKAS 8 'Accounting policies, changes in accounting estimates and errors'. The Group will apply the amended standard from 1 January 2011. It is not expected to have any 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) New standards, amendments and interpretations have been issued but are not effective for the financial year beginning 1 January 2010 and have not been early adopted by the Group (Continued)

- HK (IFRIC) - Int 19, 'Extinguishing financial liabilities with equity instruments', effective 1 July 2010. The interpretation clarifies the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability (debt for equity swap). It requires a gain or loss to be recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments should be measured to reflect the fair value of the financial liability extinguished. The Group will apply the interpretation from 1 January 2011. It is not expected to have any impact on the Group's or Company's financial statements.

- Prepayments of a minimum funding requirement (amendments to HK (IFRIC) - Int 14). The amendments correct an unintended consequence of HK (IFRIC) - Int 14, 'HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction. Without the amendments, entities are not permitted to recognise as an asset some voluntary prepayments for minimum funding contributions. This was not intended when HK (IFRIC) - Int 14 was issued, and the amendments correct this. The amendments are effective for annual periods beginning 1 January 2011. Earlier application is permitted. The amendments should be applied retrospectively to the earliest comparative period presented. The Group will apply these amendments for the financial reporting period commencing on 1 January 2011. It is not expected to have any impact on the Group's or Company's financial statements.

- HKAS 12(amendment), Income taxes'. The amendment provides an exception to the principles in the existing standard for measuring deferred tax assets or liabilities when investment property is measured at fair value. The amendment is effective for annual periods on or after 1 January 2012. This amendment is not expected to have a material impact on the Group's or Company's financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Consolidation

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

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

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of comprehensive income (Note 2.9).

2.3 Segment reporting

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated 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 cost, net'. All other foreign exchange gains and losses are presented in the consolidated statement of comprehensive income within 'other income/(expense), net'.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Foreign currency translation *(Continued)*

(c) Group companies

The results and financial position of all the Group entities (none of which has hyperinflation currency) 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 other comprehensive income.

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 other comprehensive income. 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.

2.5 Property, plant and equipment

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.5 Property, plant and equipment *(Continued)*

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 the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.10).

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

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

2.6 Mining right

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

2.7 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)*

2.8 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. No amortisation is charged during the exploration and evaluation phase.

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 right or other intangible assets. These assets are assessed for impairment and any impairment loss is recognised before reclassification.

2.9 Goodwill

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. 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.

2.10 Impairment of investment in subsidiaries and non-financial assets

Assets that have an indefinite useful life - for example, goodwill - 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). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.11 Impairment of exploration and evaluation assets

Exploration and evaluation assets are tested for impairment when reclassified to development tangible or intangible assets, or whenever facts and circumstances indicate impairment. 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)*

2.12 Financial assets

2.12.1 Classification

The Group classifies its financial assets in the following categories: loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. During 2009 and 2010, 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 end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the balance sheet (Notes 2.16 and 2.17).

2.12.2 Recognition and measurement

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

2.13 Offsetting financial instruments

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.14 Impairment of financial assets carried at amortised cost

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

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:

  (i) adverse changes in the payment status of borrowers in the portfolio;

  (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Group first assesses whether objective evidence of impairment exists.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated statement of comprehensive. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated statement of comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.15 Inventories

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

2.16 Trade and other receivables

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

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

2.17 Cash and cash equivalents

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

2.18 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.19 Derivative financial liabilities

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 within "other income/(expenses) – net". The full fair value of the warrant liability is classified as a non-current liability when the remaining maturity of the warrant is more than 12 months, and as a current liability when the remaining maturity of the warrant is less than 12 months. The warrant liability will be transferred to share capital and share premium upon exercise of the warrants.

2.20 Trade payables

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

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

2.21 Borrowings

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

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

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)*

2.22 Current and deferred income tax

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

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

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

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

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except for deferred income tax liability 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.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.23 Employee benefits

(a) Employee leave entitlements

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

(b) Pension obligations

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

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

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

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

(c) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The group recognises termination benefits when it is demonstrably committed to a termination when the entity has a detailed formal plan to terminate the employment of current employees without possibility of withdrawal. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.24 Share-based compensation

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

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

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, 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 to original estimates, if any, in the profit and loss account, with a corresponding adjustment to equity. The existing share options granted by the Group as at 31 December 2010 and 2009 were granted for the past services of employees and were vested immesiately upon granted, therefore the total expenses were recognised immediately at the granting date.

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

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

2.25 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.25 Provisions *(Continued)*

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

2.26 Contingent liabilities

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

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

2.27 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.

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

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

Interest income is recognised using the effective interest method.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.28 Government grants

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

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

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

2.29 Leases

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

2.30 Dividend distribution

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

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

(a) Foreign exchange risk

The Group exposes to foreign exchange risks as certain portion of cash and cash equivalent, trade and other payables, long-term borrowings and future commercial transactions are denominated in foreign currencies, primarily with respect to the US dollar ("USD"). The Group currently does not have a foreign currency hedging policy as the directors are of the opinion that the Group's exposure to foreign exchange risk is insignificant because the Group's expenses, assets and liabilities were mainly denominated in Renminbi (the "RMB"). However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure when it is necessary and appropriate.

As at 31 December 2010, 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 RMB4,429,000(2009: post-tax loss for the year would have been increased/decreased by RMB6,235,000), mainly as a result of foreign exchange losses/gains on translation of the USD-denominated long-term borrowings.

(b) Cash flow and fair value interest rate risk

The Group's interest rate risk mainly arises from pledged bank deposits and borrowings. 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 2010, 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 RMB718,000 (2009: post-tax profit for the year would have been increased/decreased by RMB782,000), mainly as a result of higher/lower interest expense on floating rate borrowings.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(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. The Group has no significant concentrations of credit risk, with exposure spread over a large number of counterparties and customers.

(d) Liquidity risk

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

The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the end of each reporting period 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 18) is presented as the derivative financial liabilities requires no cash outflow in the future.

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
Group				
At 31 December 2010				
Trade and other payables	**176,981**	**—**	**—**	**—**
Current portion of long-term borrowings, secured	**89,156**	**—**	**—**	**—**
Short-term borrowings, secured	**810,360**	**—**	**—**	**—**
Long-term borrowings, secured	**—**	**86,916**	**212,138**	**33,864**
Interest payment on borrowings	**35,124**	**20,528**	**25,282**	**2,713**
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	29,081	19,625	25,392	5,524
Company				
At 31 December 2010				
Accruals and other payables	**2,912**	**—**	**—**	**—**
At 31 December 2009				
Accruals and other payables	300	—	—	—
Current portion of long-term borrowings, secured	65,141	—	—	—
Interest payment on borrowings	1,911	—	—	—

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(d) Liquidity risk *(Continued)*

The Group aims to maintain sufficient cash and cash equivalents and ensure the availability of funding though an adequate amount of available financing, including short-term borrowings, long-term borrowings and capital contribution from investors. Due to the dynamic nature of the underlying businesses, 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 RMB 398,231,000 as at 31 December 2010 (2009: RMB131,498,000). Nevertheless, the Group has not experienced any difficulties in renewing its short-term borrowings upon their maturities.

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

— In March 2011, new short-term borrowings of RMB7 million have been granted and drawn down with a term of one year. In addition, as at the date of approval of the financial statements, the Group has an unused one year credit facility of RMB20 million from a domestic bank in Mainland China;

— 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 RMB83 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 2011;

— The Group has completed the construction of the new production line project located in Dazhou, Sichuan Province (“New Dazhou Project”) in 2010 which started to generate operating cash inflow from October 2010. With the full year operation in 2011, the New Dazhou Project is expected to generate more operating cash inflow than 2010.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Capital risk management

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

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

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

The gearing ratio as at 31 December 2010 was as follows:

	2010	2009
	RMB'000	RMB'000
Total liabilities	**1,540,397**	1,061,066
Total equity	**894,977**	911,803
Gearing ratio	**172%**	116%

The increase in the gearing ratio from 116% in 2009 to 172% in 2010 is mainly due to the increase of short-term borrowings.

3.3 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

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

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 2010.

	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 18)	—	—	41,786	41,786

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 18)	—	—	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 following table presents the changes in level 3 instruments for the year ended 31 December 2010.

	Derivative financial liabilities RMB'000	Total RMB'000
Opening balance	41,029	41,029
Gains and losses recognised in profit or loss	757	757
Closing balance	41,786	41,786
Total gains or losses for the period including in loss for liabilities held at the end of the reporting period	757	757

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Fair value estimation *(Continued)*

The following table presents the changes in level 3 instruments for the year ended 31 December 2009.

	Derivative financial liabilities RMB'000	Total RMB'000
Opening balance	—	—
Recognised	37,835	37,835
Gains and losses recognised in profit or loss	3,194	3,194
Closing balance	41,029	41,029
Total gains or losses for the period including in loss for liabilities held at the end of the reporting period	3,194	3,194

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, and short-term borrowings approximates their fair values due to their short maturities.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

(a) Useful lives of property, plant and equipment

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

(b) Provision for impairment of trade receivables

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

(c) Fair value of derivative financial liabilities

The Company has granted warrants to International Finance Corporation ("IFC") in 2009. Management has used the Black-Scholes valuation model to determine the fair value of the warrants granted. The changes of fair value are recognised in statement of comprehensive income. 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.

(d) Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in Note 2.9. The recoverable amounts of cash-generating units have been determined based on fair value less costs to sell calculations. These calculations require the use of estimates (Note 9).

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

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

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

(f) Income taxes

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

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

Pursuant to the Corporate Income Tax Law and its implementation rules, effective from 1 January 2008, certain non-resident enterprises (for instance, those without an establishment or place of business in Mainland China or which have an establishment or place of business in Mainland China but whose relevant income is not effectively connected with the establishment or a place of business in the Mainland China) are subject to withholding tax at the rate of 5% or 10% on various types of passive income such as dividends derived from sources within the Mainland China. During the year ended 31 December 2010, retained profits of RMB33,560,000 of the Company's certain subsidiaries in the Mainland China were distributed to a subsidiary in Hong Kong with withholding income tax paid (Note 29). Management considered that the above profit distribution was due to an unexpected financing requirement and management has no current intention to distribute the distributable retained profits of the Company's subsidiaries in the Mainland China as at 31 December 2010 to the subsidiaries incorporated outside the Mainland China. Accordingly, no provision for withholding tax has been made in this respec, as at 31 December 2010 (2009: nil).

5 LAND USE RIGHTS - GROUP

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

	2010 RMB'000	2009 RMB'000
At 1 January		
Cost	**100,378**	50,759
Accumulated amortisation	**(10,250)**	(8,475)
Net book amount	**90,128**	42,284
Opening net book amount	**90,128**	42,284
Addition	**—**	49,619
Amortisation charge for the year	**(2,023)**	(1,775)
	88,105	90,128
At 31 December		
Cost	**100,378**	100,378
Accumulated amortisation	**(12,273)**	(10,250)
	88,105	90,128

All the Group's land use rights are located in Mainland China. The remaining lease periods of the land use rights are between 6 to 48 years (2009: 7 to 49 years).

As at 31 December 2010, certain land use rights with a total net book value of approximately RMB27,617,000 (2009: RMB29,016,000) and RMB49,371,000 (2009: RMB48,875,000) were pledged as collateral for the Group's short-term borrowings(Note 22) and long-term borrowings (Note 17).

Amortisation charge of RMB1,279,000 (2009: RMB1,031,000) had been charged in administrative expenses and RMB744,000 (2009: RMB744,000) 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 2009						
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
Year ended 31 December 2009						
Opening net book amount	61,169	117,853	6,195	9,403	565,215	759,835
Additions	270	1,899	2,059	785	324,737	329,750
Refund of the VAT	(102)	(589)	(228)	(49)	—	(968)
Transfers	1,368	686	—	—	(2,054)	—
Disposals (Note 24)	—	(543)	(42)	(74)	—	(659)
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
Year ended 31 December 2010						
Opening net book amount	60,687	105,381	7,101	8,882	887,898	1,069,949
Additions	1,907	1,491	615	238	278,158	282,409
Transfers	283,354	800,655	—	708	(1,084,717)	—
Disposals (Note 24)	—	(316)	—	(65)	—	(381)
Depreciation	(3,523)	(27,316)	(941)	(1,983)	—	(33,763)
Closing net book amount	342,425	879,895	6,775	7,780	81,339	1,318,214
At 31 December 2010						
Cost	361,253	978,912	10,892	18,963	81,339	1,451,359
Accumulated depreciation	(18,828)	(99,017)	(4,117)	(11,183)	—	(133,145)
Net book amount	342,425	879,895	6,775	7,780	81,339	1,318,214

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

Depreciation expense of RMB30,052,000(2009: RMB15,440,000) had been charged in cost of sales and RMB3,711,000(2009: RMB2,569,000) in administrative expenses.

All the Group's buildings are located in Mainland China. As at 31 December 2010, certain buildings with a total net book value of approximately RMB13,165,000 (2009: RMB24,578,000) and plant and machinery with a total net book value of approximately RMB20,388,000(2009: RMB21,099,000) were pledged as collateral for the Group's short-term borrowings (Note 22); certain buildings with a total net book value of approximately RMB106,715,000(2009: RMB17,693,000) and plant and machinery, construction in progress with a total net book value of approximately RMB423,081,000(2009: RMB457,071,000) were pledged as collateral for the Group's long-term borrowings (Note 17).

Borrowing costs of RMB31,310,000(2009: RMB21,834,000) have been capitalised in the construction-in-progress at average capitalisation rate of 6.10% (2009: 5.64%).

7 MINING RIGHT – GROUP

	Total
	RMB'000
Year ended 31 December 2010	
Opening net book amount	—
Transfer from exploration and evaluation assets(Note 8)	**334,306**
Closing net book amount	**334,306**
At 31 December 2010	
Cost	**334,306**
Accumulated amortisation	—
Net book amount	**334,306**

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

The Group has not started any mining activities, therefore no amortisation was charged in this year.

8 EXPLORATION AND EVALUATION ASSETS – GROUP

	Exploration rights	Evaluation expenditure	Total
	RMB'000	RMB'000	RMB'000
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
At 1 January 2010	326,090	6,523	332,613
Additions	—	1,693	1,693
Transfer to mining right (Note 7)	(326,090)	(8,216)	(334,306)
Balance at 31 December 2010	—	—	—

The Group obtained the mining license from Ministry of Land and Resources of the People's Republic of China in February 2010 and accordingly reclassified the exploration and evaluation assets to mining right (Note 7).

9 GOODWILL - GROUP

	Total
	RMB'000
Balance at 1 January 2009, 31 December 2009 and 31 December 2010	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.

9 GOODWILL - GROUP *(Continued)*

Impairment tests for goodwill *(Continued)*

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

	2010
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 and management's estimation of exploitation and production costs. The discount rate used is post-tax and reflects specific risks relating to the relevant CGU. Expected mining period of the phosphate mine is determined based on extractable reserve of the phosphate mine and the Group's production capacity. Management of the Group determines that there is no impairment of the CGU containing goodwill.

10 INTERESTS IN SUBSIDIARIES - COMPANY

	2010	2009
	RMB'000	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)	**393,021**	422,407
	730,644	760,030

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

(ii) The amounts due from subsidiaries are unsecured, non-interest bearing, denominated in HKD and have no requirement on the payment in the foreseeable future.

10 INTERESTS IN SUBSIDIARIES - COMPANY *(Continued)*

The following is a list of the subsidiaries as at 31 December 2010:

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")	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%
Chengdu Ko Yo Compound Fertilisers Co., Ltd. ("Chengdu Ko Yo Compound")	Mainland China, wholly foreign owned enterprise	Manufacture, research, development and sale of bulk blended fertilisers in Mainland China	RMB15,000,000	100%
Dazhou Ko Yo Chemical Industry Co., Ltd ("Dazhou Ko Yo Chemical") (Note b)	Mainland China, wholly foreign owned enterprise	Manufacture and sale of chemical products including ammonia, ammonia carbonate and urea in Mainland China	RMB350,000,000	100%
Qingdao Ko Yo Chemical Industry Co., Ltd. ("Qingdao Ko Yo Chemical")	Mainland China, wholly foreign owned enterprise	Manufacture, research, development and sale of bulk blended fertilisers in Mainland China	USD2,100,000	100%

10 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
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")	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 17).

11 INVENTORIES - GROUP

	2010 RMB'000	2009 RMB'000
Raw materials	**48,469**	49,429
Work in progress	**282**	315
Finished goods	**17,076**	50,519
	65,827	100,263

The cost of inventories recognised as expense and included in "cost of sales" amounted to RMB412,530,000 (2009: RMB318,518,000).

At 31 December 2010, there were no inventories stated at net realisable value (2009:Nil).

12 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2010 **RMB'000**	2009 RMB'000	**2010** **RMB'000**	2009 RMB'000
Trade receivables	**25,266**	29,120	**—**	—
Less: provision for impairment of trade receivables	**(5,156)**	(5,026)	**—**	—
Trade receivables - net	**20,110**	24,094	**—**	—
Prepayments	**94,849**	88,250	**—**	476
Prepaid input VAT	**—**	10,463	**—**	—
Notes receivable	**20,253**	3,165	**—**	—
Due from employees	**5,826**	5,982	**—**	—
Dividends receivable from a subsidiary	**—**	—	**—**	39,176
Others	**7,875**	2,536	**—**	—
	148,913	134,490	**—**	39,652

As at 31 December 2010 and 2009, the fair value of trade and other receivables of the Group approximated their carrying amounts.

12 TRADE AND OTHER RECEIVABLES *(Continued)*

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

	Group	
	2010	2009
	RMB'000	RMB'000
Less than 3 months	**20,016**	23,491
More than 3 months but not exceeding 1 year	**137**	603
More than 1 year but not exceeding 2 years	**88**	2
More than 2 years but not exceeding 3 years	**1**	255
More than 3 years	**5,024**	4,769
	25,266	29,120
Less: provision for doubtful receivables	**(5,156)**	(5,026)
	20,110	24,094

As of 31 December 2010, trade receivables of RMB20,016,000 (2009:RMB23,491,000) that are under credit term were fully performing.

As of 31 December 2010, trade receivables of RMB94,000 (2009: RMB603,000) 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	
	2010	2009
	RMB'000	RMB'000
More than 3 months but not exceeding 1 year	**7**	603
More than 1 year but not exceeding 2 years	**87**	—
	94	603

12 TRADE AND OTHER RECEIVABLES *(Continued)*

As at 31 December 2010, trade receivables of RMB5,156,000 (2009: RMB5,026,000) were impaired and full provision of RMB5,156,000 (2009: RMB5,026,000) was provided for. The individually impaired receivables mainly relate to wholesalers, which are in unexpected difficult economic situations. The ageing of these receivables is as follows:

	Group	
	2010	2009
	RMB'000	RMB'000
More than 3 months but not exceeding 1 year	**130**	—
More than 1 year but not exceeding 2 years	**1**	2
More than 2 years but not exceeding 3 years	**1**	255
More than 3 years	**5,024**	4,769
	5,156	5,026

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

	Group		**Company**	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
RMB	**145,834**	134,014	**—**	—
HKD	**3,079**	476	**—**	39,652
	148,913	134,490	**—**	39,652

12 TRADE AND OTHER RECEIVABLES *(Continued)*

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

	Group	
	2010	2009
	RMB'000	RMB'000
At 1 January	**5,026**	5,176
Provision for receivables	**131**	—
Unused amounts reversed	**(1)**	(150)
At 31 December	**5,156**	5,026

The creation and release of provision for impaired receivables have been included in administrative expenses in the consolidated statement of comprehensive income (Note 24).

Notes receivable represents bank acceptance notes with maturity period within six months and no interest bearing.

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.

13 PLEDGED BANK DEPOSITS - GROUP

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

	Group	
	2010	2009
	RMB'000	RMB'000
RMB	**389,712**	83,325

The deposits comprise the pledged deposits for short-term borrowings, long-term borrowings and notes payable issued by the Group. The effective interest rates on pledged bank deposits are ranging from 0.36% to 5.40% (2009: 1.98% to 5.40%).

14 CASH AND CASH EQUIVALENTS

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash at bank	**70,552**	144,274	**28**	200
Cash in hand	**1,414**	224	**—**	—
	71,966	144,498	**28**	200
Maximum exposure to credit risk	**70,552**	144,274	**28**	200

The effective interest rate on cash and cash at bank is 0.36% (2009: 0.36%).

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

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
RMB	**71,963**	143,460	**—**	—
USD	**2**	562	**—**	2
HKD	**1**	476	**28**	198
	71,966	144,498	**28**	200

15 SHARE CAPITAL

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

	Number of shares of HKD0.02each		Share capital	
	2010	2009	**2010**	2009
	'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	
		2010	2009	**2010**	2009
		'000	'000	**RMB'000**	RMB'000
Issued and fully paid:					
Ordinary shares at beginning of year		**7,044,400**	6,394,400	**136,082**	124,642
Issue of ordinary shares	(a)	**—**	650,000	**—**	11,440
Employee share option scheme:					
– shares issued for the exercised options	(b)	**1,000**	—	**18**	—
Ordinary shares at end of year		**7,045,400**	7,044,400	**136,100**	136,082

The total authorised number of ordinary share is 10,000 million shares (2009:10,000 million shares) with a par value of HKD0.02 per share (2009: HKD0.02 per share). All issued shares are fully paid.

(a) Issue of ordinary shares

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 16), respectively.

15 SHARE CAPITAL *(Continued)*

(b) Employee share option scheme – shares issued for the exercised options

Certain share options granted on 10 September 2007 were exercised on 26 March 2010, resulted in 1,000,000 shares being issued at HKD0.116 per share (equivalent to RMB0.103), yielding the proceeds of approximately HKD116,000 (equivalent to RMB103,000). The weighted share price at the date of exercise for share options exercised was HKD0.223.

(c) Share options

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

(1) GEM Share Option Scheme

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

15 SHARE CAPITAL *(Continued)*

(c) Share options *(Continued)*

(1) GEM Share Option Scheme (Continued)

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

Date of grant	23 September 2003	11 April 2006	16 May 2006	10 September 2007	
Exercise price (HKD per option, on post-subdivision basis)	0.12	0.15	0.15	0.12	
Granted to	2 executive directors, 2 independent directors and 6 employees	18 employees	2 executive directors and 1 independent director	7 employees	
Exercisable period	10 years from the date of grant (Note i)	10 years from the date of grant	10 years from the date of grant (Note ii)	10 years from the date of grant	Total
At 1 January 2009	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
Exercised	—	—	—	(1,000,000)	(1,000,000)
At 31 December 2010	122,000,000	42,000,000	6,200,000	29,000,000	199,200,000

15 SHARE CAPITAL *(Continued)*

(c) 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):

Exercisable period	Directors	Number of options 2010
23 September 2003 to 22 September 2013	Ms. Chi Chuan	**21,000,000**
23 September 2003 to 22 September 2013	Mr. Li Shengdi	**21,000,000**
23 September 2003 to 22 September 2013	Ms. Man Au, Vivian	**19,000,000**
23 September 2003 to 22 September 2013	Mr. Hu Xiaoping	**2,000,000**
23 September 2003 to 22 September 2013	Mr. Woo Che-wor, Alex	**2,000,000**
		65,000,000
23 September 2003 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:

Exercisable period	Directors	Number of options 2010
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.

15 SHARE CAPITAL *(Continued)*

(c) 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.

15 SHARE CAPITAL *(Continued)*

(c) Share options *(Continued)*

(2) New Share Option Scheme (Continued)

(i) On 14 January 2010, the Company granted share options to eligible persons including directors and employees to subscribe for an aggregate of 56,900,000 shares of the Company with an exercise price of HKD0.23. Among the 56,900,000 Share Options, 18,400,000 Share Options that were granted on 14 January 2010 and remained outstanding at the end of the year were held by the following executive directors:

Exercisable period	Directors	Number of options 2010
14 January 2010 to 13 January 2020	Mr. Li Wei Ruo	**4,400,000**
14 January 2010 to 13 January 2020	Mr. Yuan Bai	**4,000,000**
14 January 2010 to 13 January 2020	Ms. Chi Chuan	**2,000,000**
14 January 2010 to 13 January 2020	Ms. Man Au Vivian	**4,000,000**
14 January 2010 to 13 January 2020	Mr .Li Shengdi	**4,000,000**
		18,400,000

The fair value of options granted during the year, determined using the Black-Scholes valuation model, was HKD8,277,000 (approximately RMB7,285,000). The significant inputs into the model were weighted average share price of HKD0.23 at the grant date, the exercise price shown above, volatility of 50.22%, dividend yield of 0.00%, an expected option life of ten years and an annual risk-free interest rate of 2.86%. The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of daily share prices over the last ten years of the comparable companies.

15 SHARE CAPITAL *(Continued)*

(c) Share options *(Continued)*

(2) New Share Option Scheme (Continued)

(ii) On 23 November 2010, the Company granted share options to three non-executive directors to subscribe for an aggregate of 12,000,000 shares of the Company with an exercise price of HKD0.22. These share options that were granted on 23 November 2010 and remained outstanding at the end of the year were held by the following non-executive directors:

Exercisable period	Directors	Number of options 2010
23 November 2010 to 22 November 2020	Mr. Hu Xiaoping	4,000,000
23 November 2010 to 22 November 2020	Mr. Woo Che-wor, Alex	4,000,000
23 November 2010 to 22 November 2020	Mr. Qian Laizhong	4,000,000
		12,000,000

The fair value of options granted during the year, determined using the Black-Scholes valuation model, was HKD1,617,000 (approximately RMB1,391,000). The significant inputs into the model were weighted average share price of HKD0.22 at the grant date, the exercise price shown above, volatility of 49.00%, dividend yield of 0.00%, an expected option life of ten years and an annual risk-free interest rate of 2.37%. The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of daily share prices over the last ten years of the comparable companies.

Given that the total number of share options granted in 2010 is 68,900,000, the total fair value was HKD9,894,000 (approximately RMB8,676,000), which was recognised as administrative expense and a corresponding increase in share-based compensation reserve (Note 16).

16 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 2009	472,497	(22,041)	5,510	18,134	1,131	252,534	727,765
Comprehensive income:							
Loss for the year	—	—	—	—	—	(7,184)	(7,184)
Transactions with owners:							
Issue of ordinary shares (Note15 (a))	55,140	—	—	—	—	—	55,140
Appropriation (Note b)	—	—	—	554	—	(554)	—
	55,140	—	—	554	—	(554)	55,140
At 31 December 2009	527,637	(22,041)	5,510	18,688	1,131	244,796	775,721
At 1 January 2010	527,637	(22,041)	5,510	18,688	1,131	244,796	775,721
Comprehensive income:							
Loss for the year	—	—	—	—	—	(25,605)	(25,605)
Transactions with owners: Employee share option scheme:							
– Share issued for the exercised options (Note 15 (a))	85	—	—	—	—	—	85
– Value of employee services (Note 15 (c))	—	—	8,676	—	—	—	8,676
Appropriation (Note b)	—	—	—	3,142	—	(3,142)	—
	85	—	8,676	3,142	—	(3,142)	8,761
At 31 December 2010	527,722	(22,041)	14,186	21,830	1,131	216,049	758,877

16 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	Accumulated loss RMB'000	Total RMB'000
At 1 January 2009	472,497	37,162	5,510	(7,463)	507,706
Comprehensive income:					
Loss attributable to the equity holders of the Company	—	—	—	(5,516)	(5,516)
Transactions with owners:					
Issue of ordinary shares (Note15 (a))	55,140	—	—	—	55,140
At 31 December 2009	527,637	37,162	5,510	(12,979)	557,330
At 1 January 2010	527,637	37,162	5,510	(12,979)	557,330
Comprehensive income:					
Loss attributable to the equity holders of the Company (Note 30)	—	—	—	(16,217)	(16,217)
Transactions with owners:					
Employee share option scheme:					
– Share issued for the exercised options(Note 15 (a))	85	—	—	—	85
– Value of employee services (Note 15 (c))	—	—	8,676	—	8,676
	85	—	8,676	—	8,761
At 31 December 2010	527,722	37,162	14,186	(29,196)	549,874

16 RESERVES *(Continued)*

(a) Merger reserve

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

(b) Statutory reserves

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

(c) Contributed surplus

Contributed surplus of RMB37,162,000 was resulted from the reorganization prior to the listing, representing the difference between the nominal value of the shares issued and the underlying assets of the acquired subsidiary.

17 LONG-TERM BORROWINGS, SECURED

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Bank borrowings (a)	**317,856**	378,141	**—**	65,141
Borrowings from International Finance Corporation (b)	**104,218**	81,575	**—**	—
	422,074	459,716	**—**	65,141

(a) Bank borrowings

The long-term bank borrowings are secured by bank deposits of RMB15,937,000 (2009: RMB29,267,000), certain land use rights with a total net book value of approximately RMB33,891,000(2009:RMB33,630,000), property, plant and equipment with a total net book value of RMB383,783,000 (2009: RMB314,498,000), 100% equity interest in Ko Yo Hong Kong and Dazhou Ko Yo Chemical (Note 10), which were effectively owned by the Company, and guaranteed by Mr. Li Weiruo, a shareholder and director of the Company.

The average effective interest rate of bank borrowings as at 31 December 2010 is 5.80% (2009: 5.63%).

(b) Borrowings from International Finance Corporation ("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 USD20 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 18). The Group has drawn down the long-term borrowings of USD17 million (equivalent to RMB116,147,000) in 2009 and USD3 million (equivalent to RMB19,869,000) in 2010.

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

(b) Borrowings from International Finance Corporation ("IFC") *(Continued)*

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	
	2010	2009
	RMB'000	RMB'000
Face value of borrowings from IFC	**132,454**	116,147
Fair value of warrants at date of issue (Note 18)	**(37,835)**	(37,835)
	94,619	78,312
Interest expense	**19,444**	6,457
Interest paid	**(9,845)**	(3,194)
Borrowings from IFC at 31 December	**104,218**	81,575

The effective interest rate of borrowings from IFC as at 31 December 2010 is 13.48% (2009: 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 RMB15,480,000 (2009: RMB15,245,000), property, plant and equipment with a total net book value of RMB146,013,000 (2009: RMB142,573,000).

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

(b) Borrowings from International Finance Corporation ("IFC") *(Continued)*

As at 31 December 2010, the Group's long-term borrowings were repayable as follows:

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 1 year	**89,156**	128,141	**—**	65,141
Between 1 and 2 years	**86,916**	70,000	**—**	—
Between 2 and 3 years	**97,281**	83,162	**—**	—
Between 3 and 5 years	**114,857**	121,056	**—**	—
Over 5 years	**33,864**	57,357	**—**	—
	422,074	459,716	**—**	65,141
Within 1 year included in current liabilities	**(89,156)**	(128,141)	**—**	(65,141)
	332,918	331,575	**—**	—

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Wholly repayable within 5 years	**388,210**	402,359	**—**	65,141
Wholly repayable after 5 years	**33,864**	57,357	**—**	—
	422,074	459,716	**—**	65,141

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

(b) Borrowings from International Finance Corporation ("IFC") *(Continued)*

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

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
At floating rates in USD	**104,218**	146,716	**—**	65,141
At floating rates in RMB	**317,856**	313,000	**—**	—
	422,074	459,716	**—**	65,141

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. The weighted average effective interest rate of the long-term borrowing as at 31 December 2010 is 7.60% (2009: 6.95%).

18 DERIVATIVE FINANCIAL LIABILITIES

The warrants are treated as financial liabilities and measured at fair value through the consolidated 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 consolidated statement of comprehensive income	3,194	3,194
At 31 December 2009	41,029	41,029
Opening balance at 1 January 2010	41,029	41,029
Fair value change charged to consolidated statement of comprehensive income (Note 27)	757	757
At 31 December 2010	41,786	41,786

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.

18 DERIVATIVE FINANCIAL LIABILITIES *(Continued)*

As at 31 December 2010, 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 Warrants as of 31 December 2010, determined using the Black-Scholes valuation model, was HKD0.098 (approximately RMB0.084) per share (2009: HKD0.093, approximately RMB0.082). The significant inputs into the model are as follows:

	31 December 2010	31 December 2009
Share prices(HKD)	**0.156**	0.138
Volatility	**61%**	80%
Dividend yield	**Nil**	Nil
Annual risk-free interest rate	**1.10%**	1.66%

19 DEFERRED SUBSIDY INCOME – GROUP

	Government grant for production facilities RMB'000
At 1 January 2009	5,534
Addition	2,610
Amortisation (Note 27)	(740)
At 31 December 2009	7,404
At 1 January 2010	7,404
Addition	1,850
Amortisation (Note 27)	(925)
At 31 December 2010	8,329

In 2009 and 2010, the Group received government grants of approximately RMB2,610,000 and RMB1,850,000 respectively, 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 consolidated statement of comprehensive income on the straight-line basis over the expected useful lives of the related equipments.

20 DEFERRED INCOME TAX - GROUP

There were no offsetting of deferred income tax assets and liabilities in 2010 and 2009.

	2010	2009
	RMB'000	RMB'000
Deferred tax assets:		
– To be recovered after more than 12 months	**7,563**	2,505
– To be recovered within 12 months	**20**	81
	7,583	2,586
Deferred tax liabilities:		
– To be settled after more than 12 months	**(80,867)**	(80,867)

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

Deferred income tax assets:

	Losses available for offsetting against future taxable profits	**Impairment of assets**	**Deferred subsidy income**	**Unrealised profit on inter-company sales**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
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
At 1 January 2010	—	754	1,199	633	2,586
(Charged)/credit to statement of comprehensive income	5,228	(97)	(66)	(68)	4,997
At 31 December 2010	5,228	657	1,133	565	7,583

20 DEFERRED INCOME TAX - GROUP *(Continued)*

Deferred income tax liabilities:

	Evaluation and exploration assets RMB'000
At 1 January 2009, 31 December 2009 and 31 December 2010	(80,867)

As at 31 December 2010, the Group had total unused tax losses of approximately RMB71,324,000 (2009: RMB32,557,000). No deferred tax asset (2009: nil) has been recognized in respect of tax losses of certain subsidiaries of RMB36,471,000 (2009: RMB32,557,000) due to the unpredictability of future profit streams of these subsidiaries. Deferred tax asset of RMB5,228,000 (2009: nil) has been recognised in respect of the tax losses of one subsidiary of RMB34,853,000 (2009: nil) as management considered it is probable that the subsidiary can generate sufficient taxable profit to utilise the above tax loss of RMB34,853,000.

In accordance with the enterprise income tax laws in Mainland China, a 10% withholding tax will be levied on the dividend declared by the companies established in Mainland China to their foreign investors starting from 1 January 2008. A lower withholding tax rate of 5% is applied to Mainland China subsidiaries of the Company, whose direct foreign investors are incorporated in Hong Kong, because of the treaty arrangement between Mainland China and Hong Kong. As at 31 December 2010, no deferred taxation liability (2009: nil) has been provided for the earnings of approximately RMB23,405,000 (2009: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 (Note 4(f)).

21 TRADE AND OTHER PAYABLES

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade payables (Note a)	**26,342**	10,613	**—**	—
Notes payable (Note b)	**40,170**	22,000	**—**	—
Construction payable	**29,443**	86,792	**—**	—
Advances from customers	**40,377**	72,865	**—**	—
Accrued expenses	**7,425**	4,207	**2,912**	300
Deposits from suppliers	**18,587**	14,564	**—**	—
Other taxes payable	**6,300**	1,308	**—**	—
Others	**8,337**	7,671	**—**	—
	176,981	220,020	**2,912**	300

21 TRADE AND OTHER PAYABLES *(Continued)*

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

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
RMB	**174,069**	219,720	**—**	—
HKD	**2,912**	300	**2,912**	300
	176,981	220,020	**2,912**	300

(a) Trade payables

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

	2010	2009
	RMB'000	RMB'000
Aged:		
Less than 1 year	**25,353**	8,880
More than 1 year but not exceeding 2 years	**153**	1,637
More than 2 years but not exceeding 3 years	**836**	96
	26,342	10,613

(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 2010, notes payable of approximately RMB40,170,000 (2009: RMB22,000,000) were pledged by bank deposits of RMB40,170,000 (2009: RMB12,900,000).

22 SHORT-TERM BORROWINGS, SECURED - GROUP

The short-term borrowings are denominated in RMB and were issued at fixed interest rates which range from 4.65% to 6.37% (2009: 5.05 % to 6.37%) per annum and are secured by bank deposits of RMB333,605,000 (2009: RMB 41,158,000) and certain land use rights with a total net book value of approximately RMB27,617,000 (2009: RMB29,016,000) (Note 5) and property, plant and equipment with a total net book value of approximately RMB33,553,000 (2009: RMB45,677,000) 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:

	2010	2009
	RMB'000	RMB'000
6 months or less	**722,960**	219,630
Between 6 months to 1 year	**87,400**	32,400
	810,360	252,030

23 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 one segment, i.e. manufacturing and sale of chemical products and chemical fertilisers in Mainland China, no segment information is therefore presented.

The Group has a number of customers, no revenue from a customer exceed 10% of the Group's turnover.

24 EXPENSES BY NATURE

	2010 RMB'000	2009 RMB'000
Raw materials and consumables used	**379,054**	347,882
Changes in inventories of finished goods and work in progress	**33,476**	(29,364)
Power and natural gas consumed	**292,617**	163,037
Staff costs (Note 25)	**75,316**	51,277
Depreciation and amortisation charges	**35,042**	19,040
Transportation expenses	**22,760**	12,646
Maintenance expenses	**8,400**	3,279
Legal and professional fees	**1,129**	1,499
Stamp duty and other tax	**3,441**	2,175
Advertisement expenses	**277**	1,599
Auditors' remuneration	**1,839**	1,716
Operating lease payments	**778**	1,818
Loss on disposal of property, plant and equipment (Note 33)	**376**	266
Provision for /(written back of) impairment of receivables (Note 12)	**130**	(150)
Other expenses	**16,604**	19,793
Total cost of sales, distribution costs and administrative expenses	**871,239**	596,513

25 STAFF COSTS

	2010 RMB'000	2009 RMB'000
Wages and salaries	**56,287**	42,166
Pension costs – defined contribution plans	**2,706**	4,975
Social security costs	**7,647**	4,102
Share options granted to directors and employees (Note 15 (c))	**8,676**	—
Termination benefits	**—**	34
	75,316	51,277

26 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The remuneration of every director for the year ended 31 December 2010 is set out below:

Name of director	Fees RMB'000	Salaries, allowances, and benefits in kind RMB'000	Contributions to pension schemes RMB'000	Total RMB'000
Executive Directors				
Mr. Li Weiruo	1,408	780	18	2,206
Mr. Yuan Bai	264	942	20	1,226
Ms. Chi Chuan	264	642	16	922
Mr. Li Shengdi	264	642	23	929
Ms. Man Au, Vivian	264	401	11	676
Independent non-executive directors				
Mr. Hu Xiaoping	105	—	—	105
Mr. Woo Che-wor, Alex	105	—	—	105
Mr. Qian Laizhong	105	—	—	105
	2,779	3,407	88	6,274

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

(a) Directors' emoluments *(Continued)*

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

Name of director	Fees	Salaries, allowances, and benefits in kind	Contributions to pension schemes	Total
	RMB'000	RMB'000	RMB'000	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

26 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 (2009: four) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one (2009: one) individual during the year are as follows:

	2010	2009
	RMB'000	RMB'000
Basic salaries, housing allowances, other allowances and benefits in kind	**686**	606
Contributions to pension schemes	**11**	11
	697	617

The emoluments fell within the following bands:

	Number of individuals	
	2010	2009
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.

27 OTHER INCOME/(EXPENSES) - NET

	2010 RMB'000	2009 RMB'000
Sales of scrap materials,net	**290**	1,020
Amortisation of deferred subsidy income (Note 19)	**925**	740
Subsidy income	**192**	779
Fair value change on warrant liability (Note 18)	**(757)**	(3,194)
Others, net	**63**	(48)
	713	(703)

28 FINANCE COSTS - NET

	2010 RMB'000	2009 RMB'000
Interest expense of bank borrowings	**50,745**	28,312
Interest expense of borrowings from IFC	**12,987**	6,457
Less: capitalisation in construction-in-progress (Note 6)	**(31,310)**	(21,834)
	32,422	12,935
Interest income	**(2,978)**	(2,157)
Exchange (gain)/loss, net	**(4,211)**	61
Others	**774**	1,222
	26,007	12,061

29 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 2009 and 2010.

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% in 2010 (2009:15%).

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. 2010 is the fifth 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 2010 is 7.5% (2009: 7.5%).

The applicable income tax rate of Ko Yo Agrochem in 2009 and 2010 is 25%.

Qingdao Ko Yo Chemical did not have assessable profit for the year ended 31 December 2010 (2009: Nil).

29 INCOME TAX EXPENSE *(Continued)*

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

	2010	2009
	RMB'000	RMB'000
Current tax for Mainland China	**6,651**	890
Deferred income tax (Note 20)	**(4,997)**	(515)
	1,654	375

The taxation on the Group's loss 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:

	2010	2009
	RMB'000	RMB'000
Loss before income tax	**(23,951)**	(6,809)
Calculated at statutory taxation rate of 15% (2009:15%)	**(3,592)**	(1,021)
Tax rate difference	**748**	—
Expenses not deductible for tax purposes	**119**	701
Withholding tax for dividend distribution	**1,678**	—
Tax losses for which no deferred income tax was recognised	**3,229**	1,330
Effects on tax holiday available to different companies of the Group	**(528)**	(635)
Taxation	**1,654**	375

30 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 RMB16,217,000 (2009: RMB5,516,000 loss).

31 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 15).

	2010	2009
Loss attributable to equity holders of the Company (RMB'000)	**(25,605)**	(7,184)
Weighted average number of ordinary shares in issue (thousands)	**7,044,507**	6,834,263
Basic loss per share (RMB per share)	**(0.0036)**	(0.0011)

(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.

	2010	2009
Loss attributable to equity holders of the Company (RMB'000)	**(25,605)**	(7,184)
Weighted average number of ordinary shares in issue (thousands)	**7,044,507**	6,834,263
Adjustment – share options (thousands)	**—**	—
Weighted average number of ordinary shares for diluted loss per share (thousands)	**7,044,507**	6,834,263
Diluted loss per share (RMB per share)	**(0.0036)**	(0.0011)

The calculation of diluted loss per share for the year ended 31 December 2010 has not assumed the exercise of the share options and warrants as these potential ordinary shares are anti-dilutive during the year.

32 DIVIDEND

The directors do not recommend the payment of an interim dividend and a final dividend for the six months ended 30 June 2010 (2009: nil) and the year ended 31 December 2010 (2009: nil).

33 CASH GENERATED FROM OPERATIONS

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

	2010	2009
	RMB'000	RMB'000
Loss before income tax	**(23,951)**	(6,809)
Depreciation of property, plant and equipment	**33,763**	18,009
Amortisation of land use rights	**1,279**	1,031
Loss on disposal of property, plant and equipment (Note 24)	**376**	266
Interest income	**(2,978)**	(2,157)
Interest expense	**32,422**	12,935
Fair value change of warrants granted to IFC	**757**	3,194
Fair value of share options granted	**8,676**	—
Operating profit before working capital changes	**50,344**	26,469
Decrease/(Increase) in inventories	**34,436**	(2,005)
Increase in trade and other receivables	**(14,423)**	(56,290)
Increase in trade and other payables	**14,310**	46,961
Increase in deferred subsidy income	**925**	1,870
Cash generated from operating activities	**85,592**	17,005

33 CASH GENERATED FROM OPERATIONS *(Continued)*

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

	2010	2009
	RMB'000	RMB'000
Net book amount (Note 6)	**381**	968
Loss on disposal of property, plant and equipment (Note 24)	**(376)**	(266)
Proceeds from disposal of property, plant and equipment	**5**	702

34 COMMITMENTS - GROUP

(a) Capital commitments for property, plant and equipment

	2010	2009
	RMB'000	RMB'000
Constructions-in-progress:		
Contracted but not provided for	**61,769**	26,850

(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:

	2010	2009
	RMB'000	RMB'000
Not later than one year	**964**	748

The Company had no capital commitment and no commitments under operating leases as at 31 December 2010 (2009: Nil).

35 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 2010 (2009: 41.5%). The remaining approximately 58.5% of the issued shares are widely held.

Key management compensation (excluding directors' emoluments)

	2010	2009
	RMB'000	RMB'000
Salaries and other short-term employee benefits	**1,097**	893

The directors' emoluments are disclosed in Note 26.

36 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 RMB83 million have been rolled over for a further year; new short-term borrowings of RMB7 million have been granted and drawn down with a term of one year.

Financial Summary

FIVE YEAR FINANCIAL SUMMARY

The following table summarizes the audited results, assets and liabilities of the Group for the five years ended 31st December 2010.

	2010	2009	2008	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	**872,582**	602,468	654,920	774,919	610,587
Profit/(Loss) before taxation	**(23,951)**	(6,809)	67,717	44,923	33,324
Taxation	**(1,654)**	(375)	(7,060)	(3,534)	(4,728)
Profit/(Loss) after taxation	**(25,605)**	(7,184)	60,657	41,389	28,596
Total assets	**2,435,374**	1,972,869	1,429,538	1,032,844	524,290
Total liabilities	**(1,540,397)**	(1,061,066)	(577,131)	(445,405)	(231,428)
Shareholders' funds	**894,977**	911,803	852,407	587,439	292,862