# CHINA CORN OIL
# 中國玉米油股份有限公司 Company Limited

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 1006)

Annual Report
2010

# China Corn Oil
## Annual Report 2010


# Content

# Corporate Information

## Executive Directors
Wang Mingxing
Wang Mingfeng
Wang Mingliang
Wang Fuchang
Sun Guohui
Huang Da

## Non-executive Director
Ke Shifeng

## Independent Non-executive Directors
Wang Aiguo
Wang Ruiyuan
Liu Shusong

## Company Secretary
Chan Yuen Ying, Stella

## Audit Committee
Wang Aiguo *(Chairman)*
Wang Ruiyuan
Liu Shusong

## Remuneration Committee
Wang Mingxing *(Chairman)*
Wang Aiguo
Wang Ruiyuan
Liu Shusong

## Nomination Committee
Wang Mingxing *(Chairman)*
Wang Aiguo
Wang Ruiyuan
Liu Shusong

## Auditors
BDO Limited

## Solicitors
*As to Hong Kong Law:*
Baker & McKenzie

*As to PRC Law:*
Grandall Legal Group (Shanghai)

*As to Cayman Islands Law:*
Conyers, Dill & Pearman

## Principal Registrars
Butterfield Fulcrum Group (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 609
Grand Cayman KY1-1107
Cayman Islands

## Branch Registrars
Tricor Investor Services Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

## Compliance Adviser
Haitong International Capital Limited

## Principal Bankers
Agricultural Bank of China, Zouping Sub-branch
Bank of China, Zouping Sub-Branch
ICBC, Zouping Sub-Branch

## 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
Room 1502, 15th Floor
The Chinese Bank Building
61-65 Des Voeux Road Central
Hong Kong

## Stock Code
Hong Kong Stock Exchange: 1006

## Website
http://www.chinacornoil.com/

# Chairman's Statement

On behalf of the Board, I would like to present to the shareholders the annual results and audited consolidated financial statements of China Corn Oil Company Limited (the "Company") and its subsidiaries (the "Group") for the year ended 31 December 2010.

## FINANCIAL PERFORMANCE

For the year ended 31 December 2010, the Group's revenue was approximately RMB1,537 million and the profit distributable to owners of the Company was approximately RMB143.4 million.

## FINAL DIVIDEND

The Directors resolved to recommend to the shareholders of the Company at the forthcoming annual general meeting of the Company to be held on Wednesday, 4 May 2011 a final dividend of HK cents 7 per share for the year ended 31 December 2010 to be paid on Tuesday, 17 May 2011 to the shareholders whose names appear on the register of members of the Company on Wednesday, 4 May 2011.

## BUSINESS REVIEW

The Group is principally engaged in the manufacturing of edible corn oil products for (1) domestic sales under the brand 長壽花 (Longevity Flower) in the PRC consumer market; and (2) domestic or export bulk sales mainly to other companies engaging in the sale of edible corn oil under their own brands.

During the year, total revenue of the Group has increased by approximately RMB373 million, or approximately 32.1%, while profit attributable to shareholders has increased by approximately RMB23.3 million, representing a growth of approximately 19.4%. The Directors believe that besides the Group's enhanced marketing efforts, the increase of sales and profits is mainly due to the Group's leading position in the corn oil industry and good control of raw material costs. The Group has higher bargaining power over the suppliers because that i) the usage of corn embryos is relatively limited to production of corn oil only; and ii) the Group maintains good long-term relationship with its national suppliers.

During the year, the Group has applied significant resources in (1) marketing its brand image and recognition; and (2) enhancing and expanding its marketing and distribution network. Therefore, various marketing and advertising campaigns were launched in the media via advertising agencies to enhance the brand awareness of 長壽花 (Longevity Flower). In addition, the Group continues to expand its wholesale distribution and retailer network to more cities with potential consumer market in the PRC. During the year, a total of 9 new representative offices of the Group were set up in Tianjin, Shanghai, Taiyuan, Shenyang, Chengdu, Xiamen, Heifei, Nanning and Shenzhen. As at 31 December 2010, the Group had a distribution network of approximately 222 wholesale distributors (2009: 60), approximately 64 retailers (2009: 36) and 16 sales representative offices (2009: 7) covering 29 (2009: 20) provinces and/or administrative municipalities in the PRC. The investments in marketing the brand image of 長壽花 (Longevity Flower) and enhancing the marketing and distribution network had shown the Group's effort to put a higher focus towards the sales of corn oil under our brand in view of its strong performance for the year 2010. For the year ended 31 December 2010, the Group's sales of corn oil under our brand increased by approximately RMB215.12 million or 113.8% whereas the gross profit generated from the sales of corn oil under our brand increased by approximately RMB83.26 million or 183.8% for the year ended 31 December 2010.

In early 2010, the Group commenced the construction of a new production plant located next to the existing one for the refinement process ("New Refinement Plant") in anticipation of the growing demand for its edible oil products. The construction of the New Refinement Plant was completed during the year and production commenced in the fourth quarter of 2010. Upon the completion of the New Refinement Plant, the Group had additional annual production capacity of 100,000 tonnes of corn and other oil and the Group's total annual refinement capacity was increased to 282,000 tonnes of corn and other oil.

In addition, the Group is expanding its squeezing production capacity by the construction of two new squeezing production plants in Inner Mongolia ("New Mongolia Squeezing Plant") and Liaoning ("New Liaoning Squeezing Plant"). The Directors consider that the construction of the two plants can enable the Group to: (1) enhance its ability to obtain crude corn oil for its refinement process via its squeezing production, which could lessen the Group's reliance on sourcing crude corn oil via external purchase and become less vulnerable to price fluctuations in crude corn oil; and (2) have more direct access to procure corn embryos in Inner Mongolia and Liaoning due to the rich supply in these regions. As such, the Group can have better control of its purchase cost of corn embryos. The New Mongolia Squeezing Plant and the New Liaoning Squeezing Plant will each house an additional production line for the Group's squeezing production process and is expected that, upon full operation, the Group will have additional annual production capacity of 200,000 tonnes (100,000 tonnes each) of crude corn and other oil for the squeezing process.

It is expected that the construction of the two plants will be completed in the second quarter of 2011 and production will commence by the end of second quarter of 2011. Upon full operation of the New Mongolia Squeezing Plant and the New Liaoning Squeezing Plant, the Group's total annual production capacity for the squeezing process will be increased to 300,000 tonnes of crude corn and other oil. The Directors consider that such squeezing capacity will provide a steady and adequate supply of crude oil to the Group's increased annual refinement ability of 282,000 tonnes.

## APPRECIATION

I would like to take this opportunity to express my sincere gratitude to the contributions by all our Directors, management team and all staff to the Group. Also thanks for the support from our business partners, investors and shareholders throughout all these years.

**Wang Mingxing**
*Chairman*

Hong Kong, 22 March 2011

# Management Discussion and Analysis

## FINANCIAL REVIEW

For the year ended 31 December 2010, the Group recorded revenue of approximately RMB1,537 million (2009: RMB1,164 million), representing an increase of approximately 32.1%. For the year ended 31 December 2010, the sales of (1) corn oil under our brand; (2) non-branded corn oil in bulk; (3) corn meal; and (4) other oils amounted to approximately RMB404.1 million, RMB782.3 million, RMB244.2 million and RMB106.8 million (2009: approximately RMB189.0 million, RMB729.6 million, RMB154.9 million and RMB90.5 million) respectively, and accounted for approximately 26.3%, 50.9%, 15.9% and 6.9% (2009: 16.2%, 62.7%, 13.3% and 7.8%) respectively of the Group's total revenue. Sales of corn oil under our brand were all made in the PRC whilst the sales of the other products of the Group were made both in the PRC and overseas. Revenue from the PRC, Middle East and other overseas countries accounted for approximately 98.6%, 1.0% and 0.4% (2009: 96.1%, 2.7% and 1.2%) respectively of the Group's total sales for the year ended 31 December 2010.

# Management Discussion and Analysis

## Revenue and Gross Profit / (Loss)

The following tables sets forth the breakdown of revenue and gross profit/(loss) margin by product categories:

| | Year ended 31 December 2010 | | Year ended 31 December 2009 | |
|---|---|---|---|---|
| | RMB'000 | % | RMB'000 | % |
| **Revenue** | | | | |
| Corn oil | | | | |
| – Non-branded corn oil | 782,329 | 50.9% | 729,578 | 62.7% |
| – Corn oil under our brands | 404,129 | 26.3% | 189,014 | 16.2% |
| Corn meal | 244,158 | 15.9% | 154,860 | 13.3% |
| Other oil | 106,760 | 6.9% | 90,529 | 7.8% |
| | 1,537,376 | 100% | 1,163,981 | 100% |
| **Gross profit / (loss)** | | | | |
| Corn oil | | | | |
| – Non-branded corn oil | 87,236 | 34.3% | 92,194 | 61.7% |
| – Corn oil under our brands | 128,563 | 50.6% | 45,298 | 30.3% |
| Corn meal | 1,775 | 0.7% | (154) | (0.1)% |
| Other oil | 36,638 | 14.4% | 12,202 | 8.1% |
| | 254,212 | 100% | 149,540 | 100% |
| **Gross profit / (loss) ratio** | | | | |
| Corn oil | | | | |
| – Non-branded corn oil | | 11.2% | | 12.6% |
| – Corn oil under our brands | | 31.8% | | 24.0% |
| Corn meal | | 0.7% | | (0.1)% |
| Other oil | | 34.3% | | 13.5% |
| Overall | | 16.5% | | 12.9% |

## Increase in the average selling prices of corn oil products

The following table sets forth the increase in average selling prices of the Group's corn oil products:

| | Year ended 31 December 2010 | Year ended 31 December 2009 |
|---|---|---|
| **Quantities sold (tonnes)** | | |
| Non-branded corn oil | 105,113 | 109,546 |
| Branded corn oil | 36,014 | 21,521 |
| **Average selling price (RMB/tonne)** | | |
| Non-branded corn oil | 7,443 | 6,660 |
| Branded corn oil | 11,221 | 8,783 |
| **Percentage increase/(decrease) of average selling price** | | |
| Non-branded corn oil | 11.8% | (32.9)% |
| Branded corn oil | 27.8% | (25.0)% |
| **Average unit cost of sales (RMB/tonne)** | | |
| Non-branded corn oil | 6,613 | 5,806 |
| Branded corn oil | 7,652 | 6,678 |
| **Percentage increase/(decrease) of average unit cost of sales** | | |
| Non-branded corn oil | 13.9% | (33.2)% |
| Branded corn oil | 14.6% | (31.3)% |

## Increase in revenue

The increase in revenue of the Group from approximately RMB1,164 million for the year ended 31 December 2009 to approximately RMB1,537 million for the year ended 31 December 2010 by approximately RMB373 million or 32.1% was mainly the combined result of: (i) the increase in the sales of corn oil under our brand by approximately RMB215.1 million or 113.8%; (ii) the increase in the sales of non-branded corn oil by approximately RMB52.7 million or 7.2%; (iii) the increase in the sales of other oils by approximately RMB16.2 million or 17.9%; and (iv) the increase in the sales of corn meal by approximately RMB89.3 million or 57.7%.

The sales volume of corn oil under our brand for the year increased significantly by approximately 67.3% compared to the year 2009 which was mainly due to the marketing and distribution efforts of the Group. This increase in the sales volume, together with the increase in the average selling price of corn oil under our brand by approximately 27.8% from RMB8,783 per tonne for the year ended 31 December 2009 to RMB11,221 per tonne for the year ended 31 December 2010 resulted in the significant increase in the sales of corn oil under our brand.

The increase in the average selling price of corn oil under our brand is mainly due to:

(1) the increase in the market price of corn oil for 2010 as compared to 2009 which is in general in line with the increase in the future prices of soybean oil for 2010 compared to 2009;

(2) the Group directly sold most of its own brand corn oil to supermarkets and retailers for the year ended 31 December 2010, instead of selling via 鄒平三星油脂工業有限公司 (Zouping Sanxing Grease Industry Company Limited) ("Sanxing Grease") through the Sales Arrangement (as defined below). For the year ended 31 December 2009, the Group sold certain of its own brand corn oil to Sanxing Grease for on-sale to supermarkets and retailers ("Sales Arrangement"), pursuant to which the prices charged by the Group to Sanxing Grease were based on the on-sale market prices charged by Sanxing Grease, as adjusted downward for the expenses ("Sales Expenses") paid by Sanxing Grease in relation to its performance of the Sales Arrangement; and

(3) the increase in advertising and marketing efforts in promoting the brand awareness of 長壽花 (Longevity Flower), hence boosted the market demand of corn oil under our brand name.

The sales volume of non-branded corn oil in bulk for the year decreased slightly by approximately 4.0% compared to the year 2009, which was mainly due to the Group's refinement production capacity limited at 182,000 tonnes throughout most of 2010. Accordingly, the Group had placed stronger focus on the sales segment of own brand corn oil for the year in view of the larger profit margin of 31.8% as compared to 11.2% of non-branded corn oil.

The sales of other oil for the year ended 31 December 2010 mainly comprised sunflower seed oil, olive oil and flaxseed oil. The increase in sales of other oil by approximately RMB16.2 million or 17.9% was mainly due to (i) the significant increase in the sales of sunflower seed oil under our brand by approximately RMB34.7 million to RMB65.4 million (2009: RMB30.7 million), as a result of the increase in retail sales demand; (ii) the significant increase in the sales of olive oil under our brand by approximately RMB8.2 million to RMB16.0 million (2009: RMB7.8 million), as a result of the increase in retail sales demand; (iii) the decrease in sales of soybean oil by approximately RMB2.1 million to RMB18.3 million (2009: RMB20.4 million); and (iv) the Group recorded bulk sales of flaxseed oil of RMB7.2 million whereas none was noted in 2009. The Group also ceased the trading in palm oil in 2010, whereas bulk sales of approximately RMB31.8 million was recorded in 2009 given its limited business potential. The sales of corn meals increased by approximately RMB89.3 million or 57.7%, which is in line with the increase of the squeezed crude corn oil as corn meal is a by-product of the Group's squeezing production.

### Increase in gross profit and gross profit margin

The gross profit for the year ended 31 December 2010 was approximately RMB254.2 million (2009: RMB149.5 million) with gross profit margin of approximately 16.5% (2009: 12.9%), of which gross profit margins for the sales of (1) non-branded corn oil in bulk; (2) corn oil under our brand; (3) corn meal; and (4) other oil were approximately 11.2%, 31.8%, 0.7% and 34.3% (2009: 12.6%, 24.0%, (0.1)% and 13.5%) respectively.

The Group's gross profit margin of corn oil under our brand increased from 24.0% in the year 2009 to 31.8% in the year 2010 was mainly due to:

(i) the Group directly sold most of its own brand products to supermarkets and retailers in the year 2010 and accordingly, the Group's selling prices of corn oil under our brand was no longer adjusted downward for the Sales Expenses under the Sales Arrangement;

(ii) the Group could manage to influence and stabilise the selling price of its own brand corn oil by its increased advertising and marketing efforts. As such, the Group's average selling price per tonne of corn oil under our brand for the year ended 31 December 2010 increased by approximately 27.8% over the year in 2009, which far outweighs the percentage increase of 14.6% for the average cost of sales of branded corn oil; and

(iii) the Group successfully controlled its cost of sales with its bargaining power over its suppliers. As such, the Group's average cost of sales per tonne only increased by 14.6%, representing approximately half of the percentage increase in the average selling price per tonne.

Gross profit margin for non-branded corn oil dropped slightly from 12.6% in 2009 to 11.2% in 2010. This was mainly due to the average selling price per tonne of non-branded corn oil has increased by 11.8% during the year while the average cost of sales has risen by 13.9%, indicating less control over the selling price and cost of sales of non-branded corn oil.

The increase in the gross profit margin of other oil from 13.5% in 2009 to 34.3% in the 2010 was mainly due to the change in the Group's sales mix by increasing the sales of sunflower seed oil and olive oil under our brand which had high gross profit margin of 29.6% and 55.3% respectively, while ceasing the sales of palm oil which generated a lower gross profit margin of 6%.

### Cost of Sales

The cost of sales includes costs of raw materials, labour and manufacturing overhead. Labour costs include wages and other compensation paid to production workers. Manufacturing overhead includes freight costs, depreciation and utilities expenses. The costs of raw materials constituted the largest component of total cost of sales and accounted for approximately 93.6% of the total costs of sales for the year ended 31 December 2010 (2009: 93.0%).

### Other Income

Other income of approximately RMB26.6 million (2009: RMB23.9 million) comprised mainly sales of scrap materials of approximately RMB23.5 million (2009: RMB12.9 million); government grant of nil (2009: RMB8.5 million) and others of approximately RMB3.1 million (2009: RMB2.5 million). The increase in sales of scrap materials, the residual and scrap by-products of the Group's oil production, was due to the increase in production volume of the Group for the year ended 31 December 2010 as compared to the year 2009.

### Selling and Distribution Expenses

Selling and distribution expenses of approximately RMB65.9 million (2009: RMB21.6 million) comprised mainly carriage and transportation charges of approximately RMB18.0 million (2009: RMB10.7 million), advertising and marketing expenses of approximately RMB29.9 million (2009: RMB6.9 million), sales staff costs of approximately RMB14.7 million (2009: RMB2.9 million).

The increase in selling and distribution expenses by approximately RMB44.3 million was partly due to the Group directly sold most of its own brand products to supermarkets and retailers in 2010 and the relevant Sales Expenses under the previous Sales Arrangement were thus directly borne by the Group under selling and distribution expenses. In addition to the Sales Expenses, the increase in the selling and distribution expenses was mainly due to: (1) the increase in expenditure on advertising campaign of approximately RMB23.0 million; (2) the increase in sales staff costs of approximately RMB11.8 million. The sharp increase in staff costs was a combined result of the employment of staff from Sanxing Grease by the Group after the ceasing of the Sales Arrangement and the expansion of sales and distribution networks by setting up new sales representative offices and employment of more sales staff; and (3) the increase in transportation charges by approximately RMB7.3 million which is in line with the increase in the Group's sales for the year.

# Management Discussion and Analysis

In order to enhance the brand awareness of 長壽花 (Longevity Flower) and the corporate image, the Group has entered into 12 major contracts with advertising agencies to launch various marketing and advertising campaigns in the year 2010. On the other hand, the Group has expanded its marketing and distribution network to more cities in the PRC by setting up nine new representative offices in Tianjin, Shanghai, Taiyuan, Shenyang, Chengdu, Xiamen, Heifei, Nanning and Shenzhen during the year. The management of the Group is confident that the investments by the Group on the brand advertising campaigns and the expansion of distribution network for the year 2010 will result in better sales performance in the future.

## Administrative Expenses

Administrative expenses of approximately RMB43.5 million (2009: RMB12.2 million) comprised mainly: (i) share based payment expense for share options granted to staff in May 2010 of approximately RMB18.2 million (2009: nil); (ii) legal and professional fees of approximately RMB4.7 million (2009: RMB1.0 million); (iii) administrative staff costs of approximately RMB3.9 million (2009: RMB2.9 million); and (iv) net exchange loss of approximately RMB2.7 million (2009: nil).

In May 2010, options in aggregate of 25,000,000 shares ("Share Options") were granted to 6 executive Directors and 26 employees of the Group, the details of which were set out in the announcement of the Company dated 14 May 2010. The cost of the Share Options was measured by reference to the fair value at the date at which they are granted and would be recognised as share based payment expense over its vesting period from 2010 to 2012. The total share based payment expense of the Share Options is estimated to be approximately RMB39.1 million, of which approximately RMB18.2 million was recognised for the year ended 31 December 2010. The increase in legal and professional fees was mainly attributable to additional compliance costs and professional fees incurred after the Company's shares listing on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") at the end of 2009.

## Profit Before Taxation and Profit Attributable to Shareholders

The Group recorded profit before taxation of approximately RMB168.1 million for the year ended 31 December 2010 (2009: approximately RMB136.2 million), representing an increase of approximately 23.4% compared to the year ended 31 December 2009. The Group's profit attributable to owners of the Company increased by approximately 19.5% from approximately RMB120.0 million for the year ended 31 December 2009 to approximately RMB143.4 million for the year ended 31 December 2010. Several exceptional expenses were incurred during the year including the share based payment expenses for share options granted in May 2010 to Directors and employees of the Group of approximately RMB18.2 million and the exchange loss arose on the proceeds from HK IPO of approximately RMB2.7 million. Should these items be excluded, the Group's profit attributable to owners of the Company would have been approximately RMB164.3 million for the year ended 31 December 2010 ("2010 Adjusted Profit"). In 2009, the Group received government grant of RMB$8.5 million. Should such item was excluded, the Group's profit attributable to owners of the Company would have been approximately RMB111.5 million for the year ended 31 December 2009 ("2009 Adjusted Profit"). The increase in 2010 Adjusted Profit of approximately RMB52.8 million, representing an increase of 47.4% over the 2009 Adjusted Profit.

The net profit margin of the Group for the year ended 31 December 2010 was approximately 9.3% (2009: 10.3%). The basic earnings per share attributable to owners of the Company amounted to approximately RMB27.24 cents for the year ended 31 December 2010 (2009: RMB36.17 cents). The Directors consider that the decrease in net profit margin and basic earnings per share attributable to owners of the Company was mainly due to the incurrence of extraordinary expenses in 2010 which were not expected to continue in the future. While as discussed above, the adjusted profit attributable to owners of the Company has risen by 47%, indicating robust growth of the Group's core business.

## Acquisition of Property, Plant and Equipment and Land Use Rights

The Group has entered into contracts with the local governments in Inner Mongolia and Liaoning for the acquisition of two pieces of lands respectively that are used for the construction of the New Mongolia Squeezing Plant and the New Liaoning Squeezing Plant in May 2010. It is expected that the construction of the two plants will be completed in the second quarter of 2011 and production will commence by the end of second quarter of 2011.

The Group will continue to fund the construction of the New Mongolia Squeezing Plant and the New Liaoning Squeezing Plant principally by the Group's internal generated resources and the net proceeds raised from HK IPO.

### Trade and Notes Receivables

As at 31 December 2010, trade and notes receivables was approximately RMB90.4 million (2009: RMB55.0 million) comprised of trade receivables of approximately RMB82.4 million (2009: RMB47.5 million) and notes receivables of approximately RMB8.0 million (31 December 2009: RMB7.5 million). The increase in trade receivables was mainly as a result of increase in sales volume for the year ended 31 December 2010, whilst only a slight increase in notes receivables was recorded for the year ended 31 December 2010.

### Prepayments, Deposits and Other Receivables

As at 31 December 2010, prepayments, deposits and other receivables amounted to approximately RMB104.3 million (2009: RMB76.0 million) which mainly comprised deposits paid for the acquisition of capital assets, prepayment paid for advertising expenses and other receivables. The increase of the prepayment was as a result of several advertising contracts with contract periods of around 3 years in general entered into by the Group in the first half of 2010 to launch various marketing and advertising campaigns.

## FUTURE PLANS

The Group aims to continue to be the leading edible corn oil manufacturer in the PRC and to develop 長壽花 (Longevity Flower) as a leading brand in the PRC edible corn oil consumer market so as to maximize shareholders' benefits. The Group will continue to enhance brand image and recognition of 長壽花 (Longevity Flower), enhance the marketing and distribution network, explore new business opportunities, and penetrate to increase its market shares. Considering the strong sales growth and the high profit margin of the corn oil under our brand, the Group will continue to place a strong focus on this segment by investing in the promotion of the brand 長壽花 (Longevity Flower). The Group is optimistic over the future performance of the segment of corn oil under our brand and that it will contribute for a higher proportion of the Group's overall sales in the future. Overall, the Directors look forward to a more prosperous future performance of the Group's business.

In addition, as stated in the above paragraph, the Group has expanded its production capacity by the construction of the New Refinement Plant which had commenced operation in the fourth quarter of 2010. On the other hand, the Group is expanding its squeezing production capacity by the construction of the New Mongolia Squeezing Plant and the New Liaoning Squeezing Plant respectively. Upon full operation of the New Mongolia Squeezing Plant and the New Liaoning Squeezing Plant, which is expected to take place at the end of the second quarter of 2011, the Group's total annual squeezing capacity is estimated to be increased to 300,000 tonnes of crude corn and other oil. The Directors consider that the construction of the New Mongolia Squeezing Plant and the New Liaoning Squeezing Plant can enable the Group to: (1) enhance its ability to obtain crude corn oil for its refinement process via its squeezing production, which could lessen the Group's reliance on sourcing crude corn oil via external purchase and become less vulnerable to price fluctuations in crude corn oil; and (2) have more direct access to procure corn embryos in Inner Mongolia and Liaoning due to the rich supply in these regions. As such, the Group can have better control of its purchase cost of corn embryos.

Moreover, due to the increase in sales amounts of the Group's branded oil products in the year 2010 and in anticipation of further growing demand for its branded oil products, the Group considers necessary to increase its packaging production capacity. Accordingly, the Group has invested approximately RMB50 million in January 2011 for the construction of a new packaging production plant ("New Packaging Plant") to be located next to its existing production plant in Zouping in the Shandong Province. The New Packaging Plant will house an additional production line for the Group's packaging process for injection of the Group's edible oil products into plastic bottles and is expected that upon full operation, the Group will have additional annual production capacity for the packaging process of 100,000 tonnes of edible oil and the Group's total annual packaging capacity for the packaging process will be increased to 150,000 tonnes of edible oil. The construction of the New Packaging Plant is expected to be completed and commence operation at the end of the second quarter of 2011.

The Group also intended to invest additional resources to strengthen the research and capacities and to improve the expertise and technical know-how in relation to product quality and production techniques of edible corn oil products.

## CAPITAL STRUCTURE

The Company's issued share capital as at 31 December 2010 is HK$52,625,000 divided into 526,250,000 shares of HK$0.1 each.

The Group adopts a prudent treasury policy, and its gearing ratio (calculated as total borrowings divided by the amount of shareholders' equity) as at 31 December 2010 was 4.21% (2009: 4.88%). The current ratio (calculated as current assets divided by current liabilities) as at 31 December 2010 was 6.00 times (2009: 7.54 times). The Group continued to monitor stringent debt collection policy so as to minimize the risks of sales on credit and to ensure that funds are timely collected.

### Use of Net Proceeds From the Company's Initial Public Offering

The net proceeds (after deduction of the underwriting commission and the relevant expenses) received by the Company from the listing of the Company's shares on the Stock Exchange on 18 December 2009 amounted to approximately HK$684.5 million. As at 31 December 2010, approximately RMB328.9 million (or approximately HK$378.1 million) of the proceeds so raised was used, and the unused proceeds of approximately HK$306.4 million remain unused.

Details of the used proceeds of approximately HK$378.1 million are as follows:

1. approximately RMB63.4 million (or approximately HK$72.8 million) was used to market and promote our brands and products through media, roadshows and other marketing and promotional activities;

2. approximately RMB53.6 million (or approximately HK$61.6 million) was used to expand and enhance the marketing and distribution networks to more cities in the PRC; and

3. approximately RMB212.0 million (or approximately HK$243.7 million) was used for capital expenditures to establish new production facilities and purchase new production equipment.

The unutilized balance was placed in short-term bank deposits in accounts at commercial banks in the PRC and in Hong Kong. The Group intends to utilise the net proceeds balance in the same manner and proportion as set out in the prospectus of the Company dated 8 December 2009.

## LIQUIDITY AND FINANCIAL RESOURCES

At 31 December 2010, the Group's unsecured interest-bearing bank borrowing, which is repayable within one year, amounted to approximately RMB50 million (2009: RMB50 million) with a fixed interest rate at 5.841% per annum. The Group's cash and bank balances amounted to RMB519.0 million (2009: RMB638.8 million).

## MATERIAL ACQUISITION AND DISPOSALS

The Group did not have any material acquisition or disposal of subsidiaries or associates during the year ended 31 December 2010.

## EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGE

Most transactions of the Group are settled in Renminbi ("RMB") since the operations of the Group are mainly carried out in the PRC, and the major subsidiaries of the Group are operating in an RMB environment and the functional currency of the major subsidiaries is RMB. The reporting currency of the Group is RMB. The Group has exported edible oil and refined oil products to the Middle East, Singapore and Malaysia and the transactions were settled in either United States Dollars or Euro. The Group's cash and bank deposits are predominantly denominated in RMB. The Company will pay dividends in Hong Kong Dollars if dividends are declared. The Directors are of the view that RMB is relatively stable against the other currencies and the Group will closely monitor the fluctuations in exchange rates, and that hedging by means of derivative instruments is therefore not necessary.

RMB is currently not a freely convertible currency. A portion of the Group's RMB revenue or profit may be converted into other currencies to meet foreign currency obligations of the Group such as the payment of dividends, if declared.

## PLEDGE OF GROUP ASSETS

As at 31 December 2010, the Group had not pledged any of its assets to its bankers to secure banking facilities granted to the Group.

## CAPITAL COMMITMENTS AND OPERATING LEASE COMMITMENTS

The Group has capital commitment of approximately RMB61.7 million (2009: RMB0.8 million) as at 31 December 2010. The significant increase of such capital commitment was mainly attributable to commitment for the construction of the New Mongolia Squeezing Plant and the New Liaoning Squeezing Plant. The Group has operating lease commitments of RMB3.6 million in respect of properties as at 31 December 2010 (2009: RMB30,000).

## EMPLOYEE BENEFITS

As at 31 December 2010, the Group had a total of 1,704 employees (2009: 637). The significant increase in the number of employees of the Group was due to the Group's business expansion and the employment of the staff from Sanxing Grease after the ceasing of the Sales Arrangement.

Moreover, the share option scheme (the "Scheme") was adopted on 23 November 2009 to retain staff members who have made contributions to the success of the Group. On 14 May 2010, options in an aggregate of 25,000,000 shares were granted to 6 executive Directors and 26 employees of the Group. The Directors believe that the compensation packages offered by the Group to staff members are competitive in comparison with market standards and practices.

As required by the PRC regulations on social insurance, the Company participates in the social insurance schemes operated by the relevant local government authorities which include retirement pension, medical insurance, unemployment insurance, industrial injuries insurance and maternity insurance.

## SIGNIFICANT INVESTMENTS HELD

There were no significant investments held by the Company as at 31 December 2010.

## CONTINGENT LIABILITIES

As at 31 December 2010, the Group has no material contingent liabilities.

## FINAL DIVIDEND

The Directors resolved to recommend to the shareholders of the Company at the forthcoming annual general meeting of the Company to be held on Wednesday, 4 May 2011 a final dividend of HK cents 7 per share for the year ended 31 December 2010 to be paid on Tuesday, 17 May 2011 to the shareholders whose names appear on the register of members of the Company on Wednesday, 4 May 2011.

# Corporate Governance Report

The Company is committed to maintaining good corporate governance standard and procedures to ensure the integrity, transparency and quality of disclosure in order to enhance the shareholders' value.

## Corporate Governance Practice

The Company has adopted the code provisions set out in the Code on Corporate Governance Practices (the "CG Code") as set out in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules").

During the year ended 31 December 2010, the Company was in compliance with the code provisions set out in the CG Code except that code A.2.1 requires the role of chairman and chief executive officer should be separated and should not be performed by the same individual. Mr. Wang Mingxing, the Chairman of the Company, was also acting as the chief executive officer of the Company. The Board believes that vesting the roles of both chairman and chief executive officer in the same person has the benefit of ensuring consistent leadership within the Group and enables more effective and efficient overall strategic planning for the Group. The Board believes that the balance of power and authority for the present arrangement will not be impaired and is adequately ensured by current Board which comprises experienced and high calibre individuals with sufficient number thereof being independent non-executive Directors.

Save as those mentioned above and in the opinion of the Directors, the Company has met the code provisions set out in the CG Code during the year ended 31 December 2010.

## Directors' Securities Transactions

The Company has adopted the code of conduct regarding directors' securities transactions as set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") at set out in Appendix 10 to the Listing Rules. Having made specific enquiry to all Directors, the Company confirmed that all Directors have complied with the required standards set out in the Model Code throughout the year.

## Board of Directors (the "Board")

The Board is responsible for the leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance. The management was delegated the authority and responsibility by the Board for the management of the Group. In addition, the Board has also delegated various responsibilities to the Board Committees. Further details of these committees are set out in this report.

The Board currently consists of ten Directors including six executive Directors, one non-executive Director and three independent non-executive Directors:

### Executive Directors

Mr. Wang Mingxing *(Chairman and Chief Executive Officer)*
Mr. Wang Mingfeng
Mr. Wang Mingliang
Mr. Wang Fuchang
Mr. Sun Guohui
Mr. Huang Da

### Non-executive Director

Mr. Ke Shifeng

## Independent non-executive Directors

Mr. Wang Aiguo
Mr. Liu Shusong
Mr. Wang Ruiyuan

Mr. Wang Mingxing is the younger brother of Mr. Wang Mingfeng and the elder brother of Mr. Wang Mingliang, and they together with Mr. Sun Guohui are shareholders of Shandong Sanxing Group Company Limited which holds 33.6% interest in Zouping Sanxing Grease Industry Limited, the controlling shareholder of the Company.

Save as aforesaid, the Board members have no financial, business, family or other material/relevant relationships with each other. Such balanced Board composition is formed to ensure strong independence exists across the Board and has met the recommended practice under the CG Code for the Board to have at least one-third of its members comprising independent non-executive Directors. The biographical information of the Directors are set out on pages 31 to 35 under the section headed "Biographical Details of Directors and Senior Management".

The Board decides on corporate strategies, approves overall business plans and evaluates the Group's financial performance and management. Specific tasks that the Board delegates to the Group's management including the implementation of strategies approved by the Board, the monitoring of operating budgets, the implementation of internal controls procedures, and the ensuring of compliance with relevant statutory requirements and other rules and regulations.

## Chairman and Chief Executive Officer

Mr. Wang Mingxing, the Chairman of the Company, was also acted as the chief executive officer of the Company. The Board believes that vesting the roles of both Chairman and chief executive officer in the same person has the benefit of ensuring consistent leadership within the Group and enables more effective and efficient overall strategic planning for the Group. The Board believes that the balance of power and authority for the present arrangement will not be impaired and is adequately ensured by current Board which comprises experienced and high calibre individuals with sufficient number thereof being independent non-executive Directors.

## Non-executive Directors

The non-executive Director and the three independent non-executive Directors are persons of high caliber, with academic and professional qualifications in the fields of accounting, laws and oil industry. With their experience gained from various sectors, they provide strong support towards the effective discharge of the duties and responsibilities of the Board. Each independent non-executive Director gives an annual confirmation of his independence to the Company, and the Company considers each of them is independent under Rule 3.13 of the Listing Rules.

The non-executive Directors are appointed for a term of three years commenced from 18 December 2009 and are subject to retirement by rotation in accordance with the Articles of Association of the Company.

## Board Meetings

The Board has four scheduled meetings a year at quarterly interval and additional meetings will be held as and when required. The four scheduled Board meetings for a year are planned in advance. During the regular meetings of the Board, the Board reviewed the operation and financial performance and reviewed and approved the annual, interim or quarterly results.

# Corporate Governance Report

During the financial year ended 31 December 2010, the Board held 4 meetings, All Directors are given an opportunity to include any matters in the agenda for regular Board meetings, and are given sufficient time to review documents and information relating to matters to be discussed in Board meetings in advance.

| Name of Director | Number of attendance |
|---|---|
| Mr. Wang Mingxing | 4/4 |
| Mr. Wang Mingfeng | 4/4 |
| Mr. Wang Mingliang | 4/4 |
| Mr. Wang Fuchang | 4/4 |
| Mr. Sun Guohui | 4/4 |
| Mr. Huang Da | 4/4 |
| Mr. Ke Shifeng | 4/4 |
| Mr. Wang Aiguo | 4/4 |
| Mr. Liu Shusong | 4/4 |
| Mr. Wang Ruiyuan | 4/4 |

Board minutes are kept by the Company Secretary and are open for inspection by the Directors. Every Board member is entitled to have access to Board papers and related materials and has unrestricted access to the advice and services of the Company Secretary, and has the liberty to seek external professional advice if so required.

## Audit Committee

The Company established an audit committee (the "Audit Committee") on 23 November 2009. The Audit Committee of the Company comprises three independent non-executive Directors, namely Mr. Wang Aiguo (as Chairman), Mr. Wang Ruiyuan and Mr. Liu Shusong.

The Audit Committee is mainly responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditors and to approve the remuneration and terms of engagement of the external auditors, and any questions of resignation or dismissal of such auditors; reviewing the interim and annual reports and accounts of the Group; and overseeing the Group's financial reporting system and internal control procedures.

Terms of reference adopted by the Audit Committee are aligned with the code provisions set out in the CG Code.

The Audit Committee meets the external auditors at least once a year to discuss any area of concern during the audits or review. The Audit Committee reviews the interim and annual reports before submission to the Board. The Audit Committee focuses not only on the impact of the changes in accounting policies and practices but also on the compliance with accounting standards, the Listing Rules and the legal requirements in the review of the Company's interim and annual report. The Audit Committee noted the existing internal control policies of the Group and also noted that review of the same will be carried out and anticipate there may have further improvement to the said policies.

During the financial year ended 31 December 2010, the Audit Committee held 2 meetings.

| Name of Director | Number of attendance |
|---|---|
| Mr. Wang Aiguo (Chairman) | 2/2 |
| Mr. Liu Shusong | 2/2 |
| Mr. Wang Ruiyuan | 2/2 |

## Nomination of Directors

In considering the nomination of new Directors, the Board will take into account the qualification, ability, working experience, leadership and professional ethics of the candidates, especially their experience in the oil industry and/or other professional area.

The Company established a Nomination Committee (the "Nomination Committee"), with written terms of reference, on 23 November 2009. The Nomination Committee consists of one executive Director, namely Mr. Wang Mingxing (as chairman) and three independent non-executive Directors, namely Mr. Wang Aiguo, Mr. Wang Ruiyuan and Mr. Liu Shusong.

The functions of the Nomination Committee are reviewing and supervising the structure, size and composition of the Board, identifying qualified individuals to become members of the Board, assessing the independence of independent non-executive Directors and making recommendations to the Board on the appointment or re-appointment of Directors.

During the financial year ended 31 December 2010, the Nomination Committee held 1 meeting.

| Name of Director | Number of attendance |
|---|---|
| Mr. Wang Mingxing (Chairman) | 1/1 |
| Mr. Wang Aiguo | 1/1 |
| Mr. Liu Shusong | 1/1 |
| Mr. Wang Ruiyuan | 1/1 |

## Remuneration of Directors

The Company established a Remuneration Committee (the "Remuneration Committee"), with written terms of reference, on 23 November 2009. The Remuneration Committee consists of one executive Director, namely Mr. Wang Mingxing (as chairman) and three independent non-executive Directors, namely Mr. Wang Aiguo, Mr. Wang Ruiyuan and Mr. Liu Shusong.

The functions of the Remuneration Committee are establishing and reviewing the policy and structure of the remuneration for the Directors and senior management.

During the financial year ended 31 December 2010, the Remuneration Committee held 1 meeting.

| Name of Director | Number of attendance |
|---|---|
| Mr. Wang Mingxing (Chairman) | 1/1 |
| Mr. Wang Aiguo | 1/1 |
| Mr. Liu Shusong | 1/1 |
| Mr. Wang Ruiyuan | 1/1 |

The Remuneration Committee reviewed the remuneration package of the Directors and senior executives and discussed the proposals for their remuneration package by reference to the prevailing market conditions, the business development of the Group as well as the performance of individual Directors and senior executives.

The Company has adopted a share option scheme on 23 November 2009. The purpose of the share option scheme is to enable the Board to grant options to selected eligible participants to motivate them and to optimise their performance and efficiency for the benefit of the Group. Details of the share option scheme are set out in the Report of the Directors. The emolument payable to Directors will depend on their respective contractual terms under employment contracts, if any, and as recommended by the Remuneration Committee. Details of the Directors' remuneration for the year ended 31 December 2010 are set out in note 14 to the financial statements.

## Auditors' Remuneration

For the year ended 31 December 2010, the remuneration paid/payable to the Company's auditors, BDO Limited, and the former auditors, Grant Thornton ("GTHK"), now known as JBPB & Co., are as follows:-

| | HK$'000 |
|---|---|
| **Services rendered by GTHK** | |
| Audit services | – |
| Non-audit services | 280 |
| | 280 |
| **Services rendered by BDO Limited** | |
| Audit services | 1,000 |
| Non-audit services | 5 |
| | 1,005 |

## Internal Control

The Board has conducted a review of the effectiveness of the Group's internal control system, covering its financial, operational, compliance control and risk management functions.

## Directors' Responsibilities for the Financial Statements

The Directors acknowledge its responsibility to prepare the Company's account for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing the financial statements for the year ended 31 December 2010, the Board has selected suitable accounting policies and applied them consistently; made judgments and estimates that are prudent, fair and reasonable and prepared the accounts on a going concern basis. The Directors are responsible for taking all reasonable and necessary steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors, having made appropriate enquiries, consider that the Group has adequate resources to continue in operational existence for the foreseeable future and that, for this reason, it is appropriate to adopt the going concern basis in preparing the financial statements.

## Shareholder Rights

The rights of shareholders and the procedures for demanding a poll on resolutions at shareholders' meetings are contained in the Articles. Details of such rights to demand a poll were included in the circular to shareholders in relation to the holding of general meeting and explained, together with the procedures for conducting a poll, at the commencement of the meetings.

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of shareholder at a general meeting must be taken by poll. As such, all resolutions set out in the notice of the 2010 annual general meeting of the Company will be voted by poll.

The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. Mr. Wang Mingxing, the Chairman of the Company, attended the 2010 annual general meeting of the Company. The annual report together with the relevant circular are distributed to all the shareholders at least 20 clear business days before the annual general meeting.

## Investor Relations

The Company is committed to a policy of open and regular communication and reasonable disclosure of information to its shareholders. Information of the Company is disseminated to the shareholders in the following manner:

- Delivery of annual and interim results and reports to all shareholders;
- Publication of announcements on the annual and interim results on the website of the Stock Exchange and the Company's website, and issue of other announcements and shareholders' circulars in accordance with the continuing disclosure obligations under the Listing Rules; and
- The general meeting of the Company is also an effective communication channel between the Board and shareholders.

# Report of the Directors

The board of directors ("Directors") of the Company is pleased to submit their report together with the audited financial statements of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2010.

## Principal Activities

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are set out in note 17 to the financial statements.

## Results and Appropriations

The Group's profit for the year ended 31 December 2010 and the state of affairs of the Company and of the Group as at that date are set out in the financial statements on pages 37 to 87.

The Directors resolved to recommend to the shareholders of the Company at the forthcoming annual general meeting of the Company to be held on Wednesday, 4 May 2011 (the "2011 AGM") a final dividend of HK cents 7 per share for the year ended 31 December 2010 to be paid on Tuesday, 17 May 2011 to the shareholders whose names appear on the register of members of the Company on Wednesday, 4 May 2011.

## Closure of Register of Members

The Register of Members of the Company will be closed from Tuesday, 3 May 2011 to Wednesday, 4 May 2011, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend and to attend the 2011 AGM, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Friday, 29 April 2011.

## Share Capital

Details of movements in the Company's share capital for the year ended 31 December 2010 are set out in note 27 to the financial statements.

## Pre-Emptive Rights

There are no provisions for pre-emptive rights under the Company's articles of association (the "Articles") or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders of the Company (the "Shareholders").

## Purchase, Redemption or Sale of Listed Securities of the Company

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

## Distributable Reserves

As at 31 December 2010, the Company's reserves available for distribution to the Shareholders amounted to approximately RMB83,487,000 (2009: RMB92,351,000).

# Report of the Directors

## Directors

The Directors of the Company during the year and up to the date of this report were as follows:

### Executive Directors

Mr. Wang Mingxing
Mr. Wang Mingfeng
Mr. Wang Mingliang
Mr. Wang Fuchang
Mr. Sun Guohui
Mr. Huang Da

### Non-executive Director

Mr. Ke Shifeng

### Independent Non-executive Directors

Mr. Wang Aiguo
Mr. Liu Shusong
Mr. Wang Ruiyuan

In accordance with Article 84(1) of the Company's Articles, Mr. Wang Mingxing, Mr. Ke Shifeng and Mr. Wang Aiguo will retire by rotation at the 2011 AGM. Mr. Wang Mingxing and Mr. Wang Aiguo, being eligible, offered themselves for re-election at the 2011 AGM. Mr. Ke Shifeng confirmed that he will not offer himself for re-election due to the reason that he would like to spend more time on pursuing his own business.

## Independence Confirmation

The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company considers all of the independent non-executive Directors are independent.

## Share Option Scheme

The Company adopted a share option scheme (the "Scheme") which was approved by a resolution of the then sole Shareholder passed on 23 November 2009 and adopted by a resolution of the Board on 23 November 2009. The purpose of the Scheme is to provide incentives to Participants (as defined in the Prospectus) to contribute to the Group by providing the Participants the opportunity to acquire the proprietary interests in the Company and to encourage the Participants to work towards enhancing the value of the Company as well as to enable the Group to recruit high-calibre employees and/or attract human resources that are valuable to the Group.

The principal terms of the Scheme are summarised as follows:

(1) The limit on the total number of shares of the Company which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other scheme(s) of any member of the Group must not exceed 10% of the nominal amount of all the issued share capital of the Company as at the date of commencement of the listing of the shares on the Stock Exchange, i.e. 18 December 2009 (the "Listing Date") (which is 50,000,000 shares) unless Shareholders' approval has been obtained, and which must not in aggregate exceed 30% of the shares in issue from time to time.

(2) The total number of shares issued and which may be issued upon exercise of all options (whether exercised, cancelled or outstanding) granted to any Participant in any 12-month period shall not exceed 1% of the issued shares as of the proposed grant date.

(3) The subscription price for the shares under the options to be granted under the Scheme will be a price determined by the Board at the time of grant of the options, and will be at least the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotation sheets on the date of grant (subject to acceptance) of the options, which must be a business day; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the shares.

(4) An option may be exercised in accordance with the terms of the Scheme at any time during a period to be notified by the Board to each Participant who accepts the grant of any options, which must not be more than 10 years from the date of the grant (subject to acceptance) of the option.

(5) HK$1.00 is payable by the participant who accepts the grant of an option in accordance with the terms of the Scheme on acceptance of the grant of an option.

(6) The Scheme shall be valid and effective for a period of ten years commencing on the Listing Date, i.e. 18 December 2009.

Other details of the Scheme are set out in the Prospectus.

A total of 25,000,000 share options were granted to 6 executive Directors and 26 employees of the Group on 14 May 2010, details of which are as follows:

| **Grantee** | **Date of grant of share options** | **Vesting period** | **Exercise period** | **Exercise price of share options** (HK$) | **Outstanding at 1 January 2010** | **Granted/ (Lapsed) during the year** | **Outstanding at 31 December 2010** |
|---|---|---|---|---|---|---|---|
| **Directors** | | | | | | | |
| Mr. Wang Mingxing | 14 May 2010 | 14 May 2010 to 13 May 2011 | 14 May 2011 to 13 May 2015 | 5.4 | — | 400,000 | 400,000 |
| | | 14 May 2011 to 13 May 2012 | 14 May 2012 to 13 May 2015 | 5.4 | — | 400,000 | 400,000 |
| Mr. Wang Mingfeng | 14 May 2010 | 14 May 2010 to 13 May 2011 | 14 May 2011 to 13 May 2015 | 5.4 | — | 400,000 | 400,000 |
| | | 14 May 2011 to 13 May 2012 | 14 May 2012 to 13 May 2015 | 5.4 | — | 400,000 | 400,000 |
| Mr. Wang Mingliang | 14 May 2010 | 14 May 2010 to 13 May 2011 | 14 May 2011 to 13 May 2015 | 5.4 | — | 400,000 | 400,000 |
| | | 14 May 2011 to 13 May 2012 | 14 May 2012 to 13 May 2015 | 5.4 | — | 400,000 | 400,000 |

| Grantee | Date of grant of share options | Vesting period | Exercise period | Exercise price of share options (HK$) | Outstanding at 1 January 2010 | Granted/ (Lapsed) during the year | Outstanding at 31 December 2010 |
|---|---|---|---|---|---|---|---|
| Mr. Wang Fuchang | 14 May 2010 | 14 May 2010 to 13 May 2011 | 14 May 2011 to 13 May 2015 | 5.4 | — | 400,000 | 400,000 |
| | | 14 May 2011 to 13 May 2012 | 14 May 2012 to 13 May 2015 | 5.4 | — | 400,000 | 400,000 |
| Mr. Sun Guohui | 14 May 2010 | 14 May 2010 to 13 May 2011 | 14 May 2011 to 13 May 2015 | 5.4 | — | 400,000 | 400,000 |
| | | 14 May 2011 to 13 May 2012 | 14 May 2012 to 13 May 2015 | 5.4 | — | 400,000 | 400,000 |
| Mr. Huang Da | 14 May 2010 | 14 May 2010 to 13 May 2011 | 14 May 2011 to 13 May 2015 | 5.4 | — | 400,000 | 400,000 |
| | | 14 May 2011 to 13 May 2012 | 14 May 2012 to 13 May 2015 | 5.4 | — | 400,000 | 400,000 |
| **Employees** | | | | | | | |
| In aggregate | 14 May 2010 | 14 May 2010 to 13 May 2011 | 14 May 2011 to 13 May 2015 | 5.4 | — | 10,100,000 | 10,100,000 |
| | | 14 May 2011 to 13 May 2012 | 14 May 2012 to 13 May 2015 | 5.4 | — | 10,100,000 | 10,100,000 |
| Total | | | | | | 25,000,000 | 25,000,000 |

Notes:

(1) The exercise period will lapse in 1 month after the resignation of the grantee.

(2) The closing price of the shares of the Company on 13 May 2010, i.e. the date immediately proceeding the date of grant of the share options on 14 May 2010, was HK$5.41.

(3) The exercise price of the share options is subject to adjustment in the case of rights or bonus issue, or other similar changes in the Company's share capital.

The estimated fair value of the options at the date of grant was RMB39,091,000. The fair value was calculated using Binomial Option Pricing model after taking into account a number of assumptions. The fair value calculated are inherently subjective and uncertain due to the assumptions made and the limitations of the model used. The value of the share options varies with different variables of certain subjective assumptions. Any change in variables so adopted may materially affect the estimation of the fair values of the share options.

Save as aforesaid, no further options were granted during the year ended 31 December 2010.

# Report of the Directors

## Directors' Rights to Acquire Shares or Debentures

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire such rights in any other body corporate.

## Directors' Service Contracts

Each of the executive Directors has entered into a service agreement dated 23 November 2009 with the Company for an initial fixed term of three years commencing from 18 December 2009 (i.e. the date of the shares of the Company commenced listing on the Stock Exchange) (the "Listing Date") until terminated by not less than three months' notice in writing served by either party to the other or in accordance with the provisions set out in the respective service agreement. Each of the executive Directors may receive a discretionary bonus, the amount of which will be determined by reference to the comments of the remuneration committee of the Company.

Each of the non-executive Director and independent non-executive Directors has signed a letter of appointment dated 23 November 2009 with the Company for an initial fixed term of three years commencing from the Listing Date unless terminated by not less than three months' notice in writing served by either party on the other.

None of the Directors who are proposed for re-election at the 2011 AGM has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

## Directors' Interests in Contracts

None of the Directors had a significant beneficial interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

# Report of the Directors

## Directors' Interest in Shares

As at 31 December 2010, the interest or short positions of the Directors or chief executives in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of the Securities and Futures Ordinance ("SFO") which were 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 provision of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), are set out below:

### 1. Interests and in shares, underlying shares of the Company

| Name of Directors | Nature of interest | Long position/ Short position | Number of ordinary shares/ underlying shares | Approximate percentage of shareholding in the Company |
|---|---|---|---|---|
| Mr. Wang Mingxing | Interest of controlled corporations (Note 1) | Long position | 269,037,249 | 51.12% |
| | Beneficial owner | Long position | 800,000 (Note 2) | 0.15% |
| Mr. Wang Mingfeng | Interest of controlled corporations (Note 1) | Long position | 269,037,249 | 51.12% |
| | Beneficial owner | Long position | 800,000 (Note 2) | 0.15% |
| Mr. Wang Mingliang | Interest of controlled corporations (Note 1) | Long position | 269,037,249 | 51.12% |
| | Beneficial owner | Long position | 800,000 (Note 2) | 0.15% |
| Mr. Wang Fuchang | Beneficial owner | Long position | 800,000 (Note 2) | 0.15% |
| Mr. Sun Guohui | Beneficial owner | Long position | 800,000 (Note 2) | 0.15% |
| Mr. Huang Da | Beneficial owner | Long position | 800,000 (Note 2) | 0.15% |

Notes:

1. Mr. Wang Mingxing, Mr. Wang Mingfeng and Mr. Wang Mingliang are deemed to be interested in 268,883,630 and 153,619 shares held by SanXing Trade Co., Ltd. ("Sanxing Trade") and China Corn Oil S.A. ("Corn Oil Luxembourg "), whereby Corn Oil Luxembourg is owned as to approximately 82.7% by Sanxing Trade, which in turn is wholly-owned by Zouping Sanxing Grease Industry Company Limited ("Sanxing Grease"), which in turn is owned as to 33.4% by Mr. Wang Mingxing, 16.5% by Mr. Wang Mingfeng, 16.5% by Ms. Huo Chunling ("Ms. Huo") (the spouse of Mr. Wang Mingliang) and 33.6% by Shandong Sanxing Group Company Limited ("Shandong Sanxing"), which in turn is owned as to 20.4% by Mr. Wang Mingfeng, 20% by Mr. Wang Mingliang.

2. These interests are derived from the interests in the share options granted by the Company. Details are set out in the section headed "Share Option Scheme".

## 2. Interest in associated corporations

| Name of Directors | Name of associated corporations | Nature of interest | Long position/ Short position | Approximate percentage of shareholding in the company |
|---|---|---|---|---|
| Mr. Wang Mingxing | Sanxing Grease | Beneficial owner | Long position | 33.4% |
| | Sanxing Trade | Interest of controlled corporations | Long position | 33.4% |
| | Corn Oil Luxembourg (Note 1) | Interest of controlled corporations | Long position | 33.4% |
| Mr. Wang Mingfeng | Sanxing Grease | Beneficial owner | Long position | 16.5% |
| | Sanxing Trade | Interest of controlled corporations | Long position | 16.5% |
| | Corn Oil Luxembourg (Note 1) | Interest of controlled corporations | Long position | 16.5% |
| Mr. Wang Mingliang | Sanxing Grease | Beneficial owner | Long position | 16.5% |
| | Sanxing Trade | Interest of controlled corporations | Long position | 16.5% |
| | Corn Oil Luxembourg (Note 1) | Interest of controlled corporations | Long position | 16.5% |

Notes:

1. Pursuant to the resolution passed by the shareholders of Corn Oil Luxembourg at an extraordinary general meeting held on 22 December 2009, Corn Oil Luxembourg was put into liquidation with effect from 22 December 2009 and expected will be completed in year 2011.

2. Ms. Huo owns 16.5% equity interest in Sanxing Grease, which holds 100% equity interest in Sanxing Trade, which in turn holds approximately 82.7% interest in Corn Oil Luxembourg. Ms. Huo is the spouse of Mr. Wang Mingliang, an executive Director of the Company. Mr. Wang Mingliang is therefore deemed to be interested in 16.5% equity interest in Sanxing Grease.

Save as disclosed above, none of the Directors or chief executive of the Company or their associates, had any interest in short position in the shares, underlying shares or debentures of the Company or its associated corporations which were recorded in the register required to be kept under section 352 of the SFO or notified to the Company and the Stock Exchange pursuant to the Model Code as at 31 December 2010.

## Substantial Shareholders

As at 31 December 2010, the interests or short positions of every person, other than Directors or chief executives of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO, are set out as follows:-

| Name of shareholders | Nature of interest | Long position/ Short position | Number of ordinary shares/ underlying share | Approximate percentage of shareholding in the Company |
|---|---|---|---|---|
| Sanxing Trade (Note 1) | Beneficial owner | Long position | 268,883,630 | 51.12% |
| | Interest of controlled corporations | Long position | 153,619 | |
| Sanxing Grease (Note 1) | Interest of controlled corporations | Long position | 269,037,249 | 51.12% |
| Shangdong Sanxing Group Company Limited ("Shangdong Sanxing") (Note 1) | Interest of controlled corporations | Long position | 269,037,249 | 51.12% |
| Ms. Huo (Note 2) | Interest of spouse | Long position | 269,837,249 | 51.28% |
| BNP Paribas Asset Management SAS (Note 3) | Investment manager | Long position | 31,520,000 | 5.99% |

Notes:

1. 153,619 shares were held by Corn Oil Luxembourg (where it is in the process of voluntary winding up, these 153,619 shares will be distributed by way of transfer to its then existing shareholders on a pro-rata basis), which is owned as to approximately 82.7% by Sanxing Trade; and 268,883,630 shares were held by Sanxing Trade, which is wholly owned by Sanxing Grease, which in turn is owned as to 33.6% by Shandong Sanxing, and therefore, Sanxing Grease and Shandong Sanxing are deemed to be interested in these 269,037,249 shares pursuant to the SFO.

2. Ms. Huo owns 16.5% equity interest in Sanxing Grease, which holds 100% equity interest in Sanxing Trade. Ms. Huo is the spouse of Mr. Wang Mingliang, an executive Director of the Company and is deemed to be interested in 269,037,249 shares held by Corn Oil Luxembourg and Sanxing Trade and 800,000 share options of the Company granted to Mr. Wang Mingliang pursuant to the SFO.

3. These 31,520,000 shares were held by Shinhan BNP Paribas Investment Trust Management Co., Ltd., which in turn is wholly-owned by BNP Paribas Asset Management SAS as investment manager.

Save as disclosed above, no other parties were recorded in the register of the Company required to be kept under section 336 of the SFO as having interests or short positions in the shares or underlying shares of the Company as at 31 December 2010.

# Report of the Directors

## Model Code for Securities Transactions by Directors

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules on the Stock Exchange as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry to all Directors, the Company confirmed that all Directors have complied with the required standard set out in the Model Code.

## Connected Transactions

山東三星玉米產業有限公司 (Shandong Sanxing Corn Industry Technology Company Limited) ("Corn Industry"), a wholly-owned subsidiary of the Company entered into a construction agreement on 15 January 2010 with 鄒平三星鋼結構有限公司 (Zouping Sanxing Steel Structure Company Limited) ("Sanxing Steel"), a company owned as to approximately 35% by 山東三星集團有限公司 ("Shandong Sanxing"), which is owned as to 60.4% by Mr. Wang Mingxing, Mr. Wang Mingfeng and Mr. Wang Mingliang, 4.4% by Mr. Sun Guohui, all being executive Directors of the Company, and therefore a connected person of the Company as defined under the Listing Rules, pursuant to which Corn Industry agreed to engage and Sanxing Steel agreed to be engaged to carry out the construction of New Refinement Plant for Corn Industry at a consideration of RMB14,000,000, which has been completed in April 2010.

## Exempted continuing connected transactions

The following continuing connected transactions (as defined in the Listing Rules) for the Company which are exempted from the reporting, announcement and independent shareholders' approval requirements pursuant to Rule 14A.33(3)(b) of the Listing Rules:

1. Sanxing Grease and Corn Industry entered into two trademark licence agreements dated 16 November 2009 (the "Trademark Licence Agreements"), pursuant to which Sanxing Grease agreed to licence to Corn Industry to use the registered trademarks 長壽花 (Longevity Flower) and 金銀花 (Gold & Silver Flower) on an exclusive, sole and royalty-free basis for a term of 10 years commencing from 16 November 2009, which is automatically renewable on a 10-year term upon expiry of the then current term, unless Corn Industry terminates the agreements by written notice prior to the expiry of the said agreements. According to the Trademark Licence Agreements, Corn Industry has options to acquire the registered trademarks 長壽花 (Longevity Flower) and 金銀花 (Gold & Silver Flower) at any time during the term of the agreements for a nominal consideration of RMB10 for each registered trademark.

2. The Company has been purchasing petrol, diesel and lubricating oil from Shandong Sanxing or its subsidiaries (the "Sanxing Group") which are used by the Group's production equipment during the production process. The purchase of the oil products from Sanxing Group for the year ended 31 December 2010 amounted to approximately RMB160,000 which constitute de minimis continuing connected transactions, which are exempted from the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

## Non-exempt continuing connected transactions

The following continuing connected transactions constitute non-exempt continuing connected transactions for the Company under Chapter 14A of the Listing Rules:

1. Sanxing Grease and Corn Industry entered into the sales agreement (the “Sales Agreement”) dated 16 November 2009, pursuant to which Corn Industry agreed to sell edible oil products under the Group’s brands to Sanxing Grease for the purpose of on-selling to the retailers by Sanxing Grease, and Sanxing Grease shall perform the sales services, details as set out in the Prospectus, for a term up to 30 June 2010.

   The cap for the annual transaction amount for the sales of edible oil products under the Sales Agreement for the six months ended 30 June 2010 is RMB10 million.

   The actual amount for the sales of edible oil products to Sanxing Gease for the year ended 31 December 2010 amounted to approximately RMB1,367,000.

2. Corn Industry and 內蒙古三星糧油工業有限公司 (Inner Mongolia Sanxing Food & Oil Industry Company Limited) (“Sanxing Mongolia”), a company owned as to approximately 86.7% by Mr. Wang Mingliang, an executive Director of the Company, entered into a master purchase agreement dated (the "Master Purchase Agreement") 16 November 2009, pursuant to which Sanxing Mongolia agreed to supply corn embryo and sunflower crude oil to Corn Industry for a term of three years commencing from 16 November 2009.

   The cap for the annual transaction amount for the purchases of corn embryo and/or sunflower crude oil under the Master Purchase Agreement for the year ended 31 December 2010 is RMB10 million.

   The actual amount for the purchases of corn embryo and / or sunflower crude oil under the Master Purchase Agreement for the year ended 31 December 2010 amounted to approximately RMB3,723,000.

3. Corn Industry and 山東明達熱電有限公司 (Shandong Mingda Heat and Electricity Company Limited) (“Shandong Mingda”), a company owned as to 51% by Shandong Sanxing entered into a steam and electricity supply agreement (the “Steam and Electricity Supply Agreement”) dated 16 November 2009, pursuant to which Shandong Mingda agreed to supply steam and/or electricity to Corn Industry for a term of three years commencing from 16 November 2009.

   The cap for the annual transaction amount for the supply of steam and/or electricity under the Steam and Electricity Supply Agreement for the year ended 31 December 2010 is RMB35 million.

   The actual amount for the supply of steam and/or electricity under the steam and Electricity Supply Agreement for the year ended 31 December 2010 amount to approximately RMB26,645,000.

The Stock Exchange granted to the Company a waiver dated 20 November 2009 for the above items 1-3 under Rule 14A.42(3) of the Listing Rules from compliance with the announcement and/or (where applicable) independent shareholders’ approval requirement under Chapter 14A of the Listing Rules.

4. Corn Industry and Sanxing Mongolia entered into a framework agreement (the "Master Processing Agreement") dated 11 August 2010, pursuant to which Sanxing Mongolia agreed to provide processing services to Corn Industry by processing the corn embryo supplied by Corn Industry into crude oil and corn meal through Sanxing Mongolia's squeezing production process commencing from 11 August 2010 and will expire on 31 December 2011.

   The cap for the annual transaction amount for the processing services provided by Sanxing Mongolia under to the Master Processing Agreement for the year ended 31 December 2010 is RMB7 million.

   The actual amount for the processing services provided by Sanxing Mongolia under the Master Processing Agreement for the year ended 31 December 2010 amounted to approximately RMB4,291,000.

The independent non-executive Directors of the Company have reviewed the above continuing connected transactions and confirmed that the transactions have been entered into:

1. in the ordinary and usual course of the Group's business;

2. on normal commercial terms or on terms that are fair and reasonable so far as the shareholders of the Company are concerned; and

3. have been carried out in accordance with the terms of the agreement governing such transactions.

The auditors of the Company has provided a letter to the Board of Directors of the Company confirming the matters stated in Rule 14A.38 of the Listing Rules in respect of the continuing connected transactions as set out above which took place during the year.

As far as the transactions set out in note 31(a) to the financial statements under heading of "Related Party Transactions" are concerned, the transactions as set out in note (i) Sales to related companies; (iv) Repair and maintenance services rendered by related companies; and (vii) Purchases of property, plant and equipment from related companies were connected transactions which were exempt from any disclosure and shareholders' approval requirements under the Listing Rules. The transaction set out in note (ix) Construction services rendered by a related company was a connected transaction which had been previously disclosed by way of announcement of the Company. The transactions set out in note (ii) Purchases from related companies (to the extent of approximately RMB160,000); and (vi) Exclusive right of use of trademark from a shareholder were continuing connected transactions which were exempted from the reporting, announcement and independent shareholders' approval requirements under the Listing Rules. The transactions set out in note (i) Sales to shareholders; (ii) Purchases from related companies (to the extent of approximately RMB3,723,000); (iii) Supply of steam and electric power from a related company; and (iv) Subcontracting services rendered by a related company were continuing connected transactions which had been previously disclosed by way of announcement of the Company and approved by the independent shareholders of the Company, where applicable, under the Listing Rules.

As far as transactions set out in note 31(b) are concerned, the remuneration of the Directors as determined pursuant to the service contracts entered into between the Directors and the Group and the securities issued and to be issued upon exercise of options granted to the Directors under the share option scheme of the Company were connected transactions which were exempt from any disclosure and shareholders' approval requirements under the Listing Rules.

## Major Customers and Suppliers

During the year, less than 30% of the Group's turnover and less than 30% of the Group's purchases were attributable to the Group's five largest customers and five largest suppliers, respectively.

## Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained a sufficient public float as required under the Listing Rules during the year and up to the date of this report.

## Audit Committee

The Company established an audit committee (the "Audit Committee") on 23 November 2009 with written terms of reference in compliance with the CG Code as set out in Appendix 14 to the Listing Rules. The Audit Committee is mainly responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditors and to approve the remuneration and terms of engagement of the external auditors, and any questions of resignation or dismissal of such auditors; reviewing the interim and annual reports and accounts of the Group; and overseeing the Group's financial reporting system and internal control procedures.

The Audit Committee comprises three independent non-executive Directors, namely Mr. Wang Aiguo (as Chairman), Mr. Wang Ruiyuan and Mr. Liu Shusong. The Audit Committee has reviewed the annual results of the Group for the year ended 31 December 2010.

## Corporate Governance

A report on the principal corporate governance practices adopted by the Company is set out on pages 14 to 18 of the 2010 Annual Report.

## Auditors

The Company's financial statements were audited by Grant Thornton ("GTHK"), now known as JBPB & Co., since its incorporation date on 9 September 2009. Due to a merger of the businesses of GTHK and BDO Limited ("BDO") to practise in the name of BDO, GTHK resigned and BDO was appointed as auditors of the Company effective from 23 November 2010.The financial statements for the year ended 31 December 2010 were audited by BDO.

A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint BDO as auditors of the Company.

On behalf of the Board
**China Corn Oil Company Limited**
**Wang Mingxing**
*Chairman*

Hong Kong, 22 March 2011

# Biographical Details of Directors and Senior Management

## Executive Directors

### Mr. Wang Mingxing

Aged 47, the co-founder of the Group, was appointed as the executive Director of the Company on 9 September 2009. He is the Chairman of the Board and the chief executive officer of the Company. He is also the chairman of each of the Remuneration Committee and Nomination Committee of the Company. Mr. Wang is also an executive director of Zouping Sanxing Grease Industry Company Limited, the controlling shareholder of the Company, and a director of each of Shandong Sanxing Corn Industry Technology Company Limited and Corn Industry Investment Co., Ltd., each of them are the subsidiaries of the Company. He is responsible for the overall strategic planning and management of the Group. Mr. Wang has extensive experience in the corn products industry, and has been engaged in the edible corn oil products business for over eight years. Mr. Wang obtained a bachelor degree in Mechanical Engineering from Shandong University of Technology (山東工業大學) in 1985 and was qualified as a Chinese Career Manager in 2005 by Chinese Career Manager Coalition. Mr. Wang had received a number of awards during the recent years. Among others, he was awarded as The Fifth National Rural Entrepreneur (第五屆全國鄉鎮企業家) by the Ministry of Agriculture of the PRC in 2004. In 2006, Mr. Wang was awarded as The Fourth Entrepreneur of Edible Oil in Shandong (第四屆 "山東省糧油企業家") by The Grain and Food Association of Shangdong Province (山東省糧食行業協會). He was also elected by The China Food Safety Annual Conference (中國食品安全年會組委會) as the Outstanding Managing Entrepreneur of the China Food Safety Annual Conference in 2007 (2007年度中國食品安全年會優秀管理企業家). He was also admitted as a member of China Association for Quality Inspection in 2007. Mr. Wang did not have any directorship in other listed companies in the past three years.

Mr. Wang has entered into a service agreement with the Company for a term of three years commencing from 18 December 2009 unless terminated by not less than three months' notice in writing served by either party to the other. He is subject to retirement by rotation at least once every three years in accordance with the Articles of Association of the Company (the "Articles").

As at the date of this report, Mr. Wang is interested and deemed to be interested in i) an aggregate of 269,037,249 shares held by Zouping Sanxing Grease Industry Company Limited ("Sanxing Grease"), the controlling shareholder of the Company, representing approximately 51.12% of the existing issued shares of the Company; and ii) the share options of the Company exercisable into 800,000 shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) ("SFO").

Mr. Wang Mingxing, is the younger brother of Mr. Wang Mingfeng and the elder brother of Mr. Wang Mingliang, both of them are executive Directors of the Company. Save as disclosed above, he does not have any relationship with any other directors, senior management, substantial shareholders (as defined in the Listing Rules) or controlling shareholders (as defined in the Listing Rules) of the Company.

### Mr. Wang Mingfeng

Aged 52, the co-founder of the Group, was appointed as an executive Director of the Company on 23 November 2009. He is also a director of Shandong Sanxing Corn Industry Technology Company Limited, a subsidiary of the Company. Mr. Wang is responsible for the internal control system of the Group and leads an internal audit team of the Group. He has been engaged in the edible corn oil product business for over seven years. Mr. Wang obtained a bachelor degree in Business Administration from Hebei Radio & TV University (河北廣播電視大學) in 1983. He was awarded as Vice President of The Eighth Industrial and Commercial Joint Association in Zhouping (鄒平縣第八屆工商業聯合會副會長) by Chinese Communist Zouping Committee (中共鄒平縣委員會) in 2006. Mr. Wang was awarded as The Outstanding Business Management Expert of Binzhou City (濱州市"優秀企業經營管理人才") by Chinese Communist Binzhou City Committee (中共濱州市委) and the People's Government of Binzhou City (濱州市人民政府) in 2007. Mr. Wang also became The First Vice President of Binzhou Municipal Association of Grain Sector (濱州市糧食行業協會第一屆理事會副會長) in June 2007. Mr. Wang did not have any directorship in other listed companies in the past three years.

Mr. Wang has entered into a service agreement with the Company for a term of three years commencing from 18 December 2009 unless terminated by not less than three months' notice in writing served by either party to the other. He is subject to retirement by rotation at least once every three years in accordance with the Articles.

As at the date of this report, Mr. Wang is interested and deemed to be interested in i) an aggregate of 269,037,249 shares held by Sanxing Grease; and ii) the share options of the Company exercisable into 800,000 shares of the Company within the meaning of Part XV of the SFO.

Mr. Wang Mingfeng, is the elder brother of Mr. Wang Mingxing and Mr. Wang Mingliang, both of them are executive Directors of the Company. Save as disclosed above, he does not have any relationship with any other directors, senior management, substantial shareholders (as defined in the Listing Rules) or controlling shareholders (as defined in the Listing Rules) of the Company.

## Mr. Wang Mingliang

Aged 39, the co-founder of the Group, was appointed as the executive Director on 23 November 2009. He is also a director of Shandong Sanxing Corn Industry Technology Company Limited, a subsidiary of the Company. Mr. Wang is responsible for handling customer relationships. He has been engaged in the edible corn oil product business for over seven years. Mr. Wang obtained a bachelor degree in Mechanical Engineering from Harbin University of Science and Technology (哈爾濱科學技術大學) in 1994 and was qualified as an Internal Inspector of Quality System in 2001 by Beijing Oxford and Cambridge Senior Training Center (北京牛津 – 劍橋高級培訓中心). Mr. Wang further completed the Tsinghua University Chief Executives' Leadership and Commercial Strategy Class (清華大學領導商略總裁高級研修班) in 2006. Mr. Wang was awarded as The Top 10 Factory Manager of Zouping (鄒平縣"十佳廠長") by Chinese Communist Zhouping County (中共鄒平縣委員) and the People's Government of Zouping County (鄒平縣人民政府) in 2004. Mr. Wang did not have any directorship in other listed companies in the past three years.

Mr. Wang has entered into a service agreement with the Company for a term of three years commencing from 18 December 2009 unless terminated by not less than three months' notice in writing served by either party to the other. He is subject to retirement by rotation at least once every three years in accordance with the Articles.

As at the date of this report, Mr. Wang is interested and deemed to be interested in i) an aggregate of 269,037,249 shares held by Sanxing Grease; and ii) the share options of the Company exercisable into 800,000 shares of the Company within the meaning of Part XV of the SFO.

Mr. Wang Mingliang is the younger brother of Mr. Wang Mingfeng and Mr. Wang Mingxing, both of them are executive Directors of the Company. Ms. Huo Chunling (霍春玲), one of the controlling shareholders of the Company, is the spouse of Mr. Wang. Save as disclosed above, he does not have any relationship with any other directors, senior management, substantial shareholders (as defined in the Listing Rules) or controlling shareholders (as defined in the Listing Rules) of the Company.

## Mr. Wang Fuchang

Aged 51, the chief financial officer of the Group, was appointed as an executive Director of the Company on 9 September 2009. He is also a director of Shandong Sanxing Corn Industry Technology Company Limited, a subsidiary of the Company. Mr. Wang joined the Group in 2005 as deputy general manager and is responsible for the finance management of the Group. He is experienced in banking system and finance management, and has 12 years of management experience in the food industry before joining Bank of China in 1993. Mr. Wang obtained a bachelor degree in Management Science from Shandong University (山東大學) in 1988. In 1997, Mr. Wang completed an accounting course at Shandong Economic University (山東經濟學院) and in 2003, he completed a law course at Shandong University. In 2006, he completed a course in relation to financial management at Peking University. Mr. Wang did not have any directorship in other listed companies in the past three years.

Mr. Wang has entered into a service agreement with the Company for a term of three years commencing from 18 December 2009 unless terminated by not less than three months' notice in writing served by either party to the other. He is subject to retirement by rotation at least once every three years in accordance with the Articles.

As at the date of this report, Mr. Wang is interested in the share options of the Company exercisable into 800,000 shares of the Company within the meaning of Part XV of the SFO.

Mr. Wang does not have any relationship with any other directors, senior management, substantial shareholders (as defined in the Listing Rules) or controlling shareholders (as defined in the Listing Rules) of the Company.

### Mr. Sun Guohui

Aged 33, the executive sales manager of the Company. He was appointed as an executive Director of the Company on 23 November 2009. Mr. Sun worked at Zhouping Vehicle Standard Parts Factory (鄒平汽車標準件廠) from 1996 to 2000 and joined the Hainan office of such factory in 1999. Mr. Sun joined the Group in 2000. He is responsible for the sales and marketing of our products. Mr. Sun is familiar with the edible oil industry and is experienced in the sales and marketing affairs. Mr. Sun graduated from Shandong Province Binzhou Agriculture Secondary School (山東省濱州農業學校) in 1994. He further completed the Tsinghua University Chief Executives' Leadership and Commercial Strategy Class (清華大學領導商略總裁高級研修班) in 2006. In 2005 and 2006, Mr. Sun was awarded as an Outstanding Manager by Sanxing Group. He was awarded as Safe Manufacturing Advanced Individual (安全生產先進個人) by Chinese Communist Zhouping County (中共鄒平縣委) and the People's Government of Zouping County (鄒平縣人民政府) in 2006. He was awarded as The Top 10 Outstanding Youth (十佳青年) by Chinese Communist Handian City Committee of the People's Government of Handian City (韓店鎮人民政府中共韓店鎮委員會) in 2008. Mr. Sun did not have any directorship in other listed companies in the past three years.

Mr. Sun has entered into a service agreement with the Company for a term of three years commencing from 18 December 2009 unless terminated by not less than three months' notice in writing served by either party to the other. He is subject to retirement by rotation at least once every three years in accordance with the Articles.

As at the date of this report, Mr. Sun is interested in the share options of the Company exercisable into 800,000 shares of the Company within the meaning of Part XV of the SFO.

Mr. Sun does not have any relationship with any other directors, senior management, substantial shareholders (as defined in the Listing Rules) or controlling shareholders (as defined in the Listing Rules) of the Company.

### Mr. Huang Da

Aged 28, was appointed as an executive Director of the Company on 23 November 2009. Mr. Huang joined the Group in 2008. He is responsible for corporate affairs and investor relations. He obtained a master degree in Western Economics from Fudan University (復旦大學) in 2008. Mr. Huang did not have any directorship in other listed companies in the past three years.

Mr. Huang has entered into a service agreement with the Company for a term of three years commencing from 18 December 2009 unless terminated by not less than three months' notice in writing served by either party to the other. He is subject to retirement by rotation at least once every three years in accordance with the Articles.

As at the date of this report, Mr. Huang is interested in i) 1,000,000 shares of the Company; and ii) the share options of the Company exercisable into 800,000 shares of the Company within the meaning of Part XV of the SFO.

Mr. Huang does not have any relationship with any other directors, senior management, substantial shareholders (as defined in the Listing Rules) or controlling shareholders (as defined in the Listing Rules) of the Company.

## Non-Executive Director

### Mr. Ke Shifeng

Aged 45, was appointed as a non-executive Director of the Company on 23 November 2009. Mr. Ke has 13 years' experience in investment. He was employed by Martin Currie Investment Management Limited from 1997 to 2006 to provide research and investment management services to certain of its clients investing in the Greater China and Taiwan Markets. He also served as a director of Martin Currie Investment Management Limited from February 2004 to June 2006. Since 2006, Heartland Capital Management Ltd has seconded Mr. Ke to Martin Currie Investment Management Ltd and its affiliates, including Martin Currie Inc (collectively "Martin Currie"). Through this arrangement, Mr. Ke continues to provide research and investment management services to certain clients of Martin Currie, including the China Fund Inc., on a full time basis with the same roles and responsibilities as a full time employee. He obtained a Master of Business Administration degree from the University of Edinburgh in 1997. Mr. Ke was appointed to the Board based on his substantial experience set out above and his management skills, which the Group consider can enhance the overall management and strategic development of the Company. Mr. Ke did not have any directorship in other listed companies in the past three years.

Mr. Ke has signed a letter of appointment with the Company for a term of three years commencing from 18 December 2009 unless terminated by not less than three months' notice in writing served by either party on the other. He is subject to retirement by rotation at least once every three years in accordance with the Articles.

As at the date of this report, Mr. Ke does not have any interest in the shares of the Company within the meaning of Part XV of the SFO.

Mr. Ke does not have any relationship with any other directors, senior management, substantial shareholders (as defined in the Listing Rules) or controlling shareholders (as defined in the Listing Rules) of the Company.

## Independent Non-Executive Directors

### Mr. Wang Aiguo

Aged 45, was appointed as an independent non-executive Director of the Company on 23 November 2009. He is also the chairman of the Audit Committee of the Company and a member of each of the Remuneration Committee and Nomination Committee of the Company. Mr. Wang is currently the Dean of the School of Accounting of Shandong Economic University and a member of the council of the Accounting Society of China (中國會計學會). He obtained a doctorial degree in Management Science and Engineering from Tianjin University (天津大學) in 2006. Mr. Wang engages in researches in the area of accounting and auditing. His publications include Accounting Theory Research – building up an accounting theory model with Chinese feature (會計理論研究 – 構建中國特色的會計理論體系) published by Nanhai Publishing Company (南海出版公司) in 1995, Cost Accounting Theory (成本會計理論) published by Inner Mongolia University Press (內蒙古大學出版社) in 1999, and Innovative Research on the Strategic Management Mode of High-Technique Enterprise (高技術企業戰略管理模式的創新研究) published by Shandong People's Publishing House (山東人民出版社) in 2009. His research papers were also published in various finance and accounting journals. He is currently an independent director of Laiwu Steel Corporation, an A-share company listed on the Shanghai Stock Exchange, engaging in the manufacture and sale of cast iron, steel, steel materials, and steel bands. Save as aforesaid, Mr. Wang did not have any directorship in other listed companies in the past three years.

Mr. Wang has signed a letter of appointment with the Company for a term of three years commencing from 18 December 2009 unless terminated by not less than three months' notice in writing served by either party on the other. He is subject to retirement by rotation at least once every three years in accordance with the Articles.

As at the date of this report, Mr. Wang does not have any interest in the shares of the Company within the meaning of Part XV of the SFO.

Mr. Wang does not have any relationship with any other director, senior management, substantial shareholders (as defined in the Listing Rules) or controlling shareholders (as defined in the Listing Rules) of the Company.

### Mr. Liu Shusong

Aged 45, was appointed as an independent non-executive Director on 23 November 2009. He is also a member of each of the Audit Committee, Remuneration Committee and Nomination Committee of the Company. Mr. Liu obtained a master degree in Laws from China University of Political Science and Law (中國政法大學) in 2001. He was jointly accredited as The Top 10 Lawyer in the City ("全市十佳律師") by Binzhou Judiciary (濱州市司法局) and Binzhou Law Society (濱州市律師協會) in 2004. In the same year, Mr. Liu was recognised as Shandong Province Outstanding Member of China Democratic League (中國民主同盟山東省優秀盟員). Mr. Liu was also awarded as The Seventh "Top 10 Outstanding Youngsters in Binzhou" (第七屆"濱州十大傑出青年") in August 2005. Mr. Liu was a committee member of The Nineth Binzhou City Chinese People's Political Consultative Conference Committee (中國人民政治協商會議第九屆濱州市委員會) in 2008. Mr. Liu did not have any directorship in other listed companies in the past three years.

Mr. Liu has signed a letter of appointment with the Company for a term of three years commencing from 18 December 2009 unless terminated by not less than three months' notice in writing served by either party on the other. He is subject to retirement by rotation at least once every three years in accordance with the Articles.

As at the date of this report, Mr. Liu does not have any interest in the shares of the Company within the meaning of Part XV of the SFO.

Mr. Liu does not have any relationship with any other directors, senior management, substantial shareholders (as defined in the Listing Rules) or controlling shareholders (as defined in the Listing Rules) of the Company.

### Mr. Wang Ruiyuan

Aged 72, was appointed as an independent non-executive Director of the Company on 23 November 2009. He is also a member of each of the Audit Committee, Remuneration Committee and Nomination Committee of the Company. Mr. Wang is currently the vice president of Chinese Cereals and Oils Association. He obtained a bachelor degree in Food Engineering from Jiangnan University (江南大學) (formerly know as "Wuxi Light Industry Institute (無錫輕工業學院)") in 1964. He is the chief editor of various publications in the area of oil and grease including Vegetable Oil Processing Industry (植物油料加工產業學) and The History of Development in the Oil and Grease Industry in China (中國油脂工業發展史) both published by Chemical Industry Press (化學工業出版社), and Food and Medicine Confidence Project Science Popularisation Series – Food and Oil (食品藥品放心工程科普叢書 – 糧油食品) published by State Food and Drug Administration (國家食品藥品監督管理局) and China National Association of Grain Sector (中國糧食行業協會). Mr. Wang was awarded the Government special subsidy (政府特殊津貼) by the State Council of the PRC (中華人民共和國國務院) in 1996 in respect of his contribution in the engineering technology for the PRC. Mr. Wang did not have any directorship in other listed companies in the past three years.

Mr. Wang has signed a letter of appointment with the Company for a term of three years commencing from 18 December 2009 unless terminated by not less than three months' notice in writing served by either party on the other. He is subject to retirement by rotation at least once every three years in accordance with the Articles.

As at the date of this report, Mr. Wang does not have any interest in the shares of the Company within the meaning of Part XV of the SFO.

Mr. Wang does not have any relationship with any other directors, senior management, substantial shareholders (as defined in the Listing Rules) or controlling shareholders (as defined in the Listing Rules) of the Company.

## Company Secretary

### Ms. Chan Yuen Ying, Stella

Aged 39, was appointed as the company secretary of the Company on 23 November 2009. Ms. Chan is an associate member of the Institute of Chartered Secretaries and Administrators and an associate member of the Hong Kong Institute of Chartered Secretaries. She is also a member of the Hong Kong Institute of Directors. Ms. Chan has over 15 years' experience in handling listed company secretarial matters.

# Independent Auditors' Report

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**TO THE SHAREHOLDERS OF CHINA CORN OIL COMPANY LIMITED**
*(incorporated in Cayman Islands with limited liability)*

We have audited the consolidated financial statements of China Corn Oil Company Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 37 to 87, which comprise the consolidated and company statements of financial position as at 31 December 2010, and the consolidated income statement, consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## Directors' responsibility for the consolidated financial statements

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards 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.

## Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, in accordance with the terms of our engagement, 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 International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider 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 Group and of the Company as at 31 December 2010, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**BDO Limited**
*Certified Public Accountants*

**Lo Ngai Hang**
*Practising Certificate Number P04743*

Hong Kong, 22 March 2011

# Consolidated Income Statement

For the year ended 31 December 2010

| | Notes | 2010<br>RMB'000 | 2009<br>RMB'000 |
|---|---|---|---|
| **Revenue** | 8 | 1,537,376 | 1,163,981 |
| Cost of sales | | (1,283,164) | (1,014,441) |
| **Gross profit** | | 254,212 | 149,540 |
| Other income | 8 | 26,577 | 23,933 |
| Selling and distribution costs | | (65,903) | (21,622) |
| Administrative expenses | | (43,453) | (12,163) |
| Other operating expenses | | (480) | (347) |
| **Profit from operations** | 9 | 170,953 | 139,341 |
| Finance costs | 10 | (2,851) | (3,139) |
| **Profit before taxation** | | 168,102 | 136,202 |
| Income tax expense | 11 | (24,734) | (16,175) |
| **Profit for the year attributable to owners of the Company** | | 143,368 | 120,027 |
| **Earnings per share attributable to owners of the Company** | 13 | | |
| – Basic (RMB cents) | | 27.24 | 36.17 |
| – Diluted (RMB cents) | | 27.19 | N/A |

# Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

| | 2010<br>RMB'000 | 2009<br>RMB'000 |
|---|---|---|
| **Profit for the year** | 143,368 | 120,027 |
| **Other comprehensive income** | | |
| Exchange differences arising on translation of foreign operations | 227 | – |
| **Other comprehensive income for the year, net of tax** | 227 | – |
| **Total comprehensive income attributable to owners of the Company** | 143,595 | 120,027 |

# Statements of Financial Position

As at 31 December 2010

| | Notes | Group 2010 RMB'000 | Group 2009 RMB'000 | Company 2010 RMB'000 | Company 2009 RMB'000 |
|---|---|---|---|---|---|
| **ASSETS AND LIABILITIES** | | | | | |
| **Non-current assets** | | | | | |
| Property, plant and equipment | 15 | 388,059 | 225,119 | – | – |
| Land use rights | 16 | 56,552 | 35,419 | – | – |
| Deposits paid for acquisition of capital assets | 20 | 27,383 | – | – | – |
| Interest in subsidiaries | 17 | – | – | 699,529 | 123,895 |
| | | 471,994 | 260,538 | 699,529 | 123,895 |
| **Current assets** | | | | | |
| Inventories | 18 | 171,894 | 101,195 | – | – |
| Trade and notes receivables | 19 | 90,391 | 55,019 | – | – |
| Prepayments, deposits and other receivables | 20 | 76,866 | 76,040 | 186 | 35,220 |
| Amounts due from related parties | 21 | 81 | 10,795 | – | – |
| Cash and bank balances | 22 | 518,985 | 638,843 | 12,185 | 600,770 |
| | | 858,217 | 881,892 | 12,371 | 635,990 |
| **Current liabilities** | | | | | |
| Trade payables | 23 | 16,542 | 7,160 | – | – |
| Accrued liabilities, other payables and deposits received | 24 | 57,798 | 53,098 | 1,558 | 26,140 |
| Amounts due to related companies | 25 | 4,052 | 2,826 | – | – |
| Amount due to a subsidiary | 17 | - | – | 8,334 | 9,958 |
| Interest-bearing bank borrowing | 26 | 50,000 | 50,000 | – | – |
| Taxation | | 14,553 | 3,879 | – | – |
| | | 142,945 | 116,963 | 9,892 | 36,098 |
| Net current assets | | 715,272 | 764,929 | 2,479 | 599,892 |
| **Net assets** | | 1,187,266 | 1,025,467 | 702,008 | 723,787 |
| **EQUITY** | | | | | |
| **Equity attributable to owners of the Company** | | | | | |
| Share capital | 27 | 46,340 | 46,340 | 46,340 | 46,340 |
| Reserves | 28 | 1,140,926 | 979,127 | 655,668 | 677,447 |
| **Total equity** | | 1,187,266 | 1,025,467 | 702,008 | 723,787 |

On behalf of the Board

**Wang Mingxing**
*Director*

**Wang Fuchang**
*Director*

# Consolidated Statement of Changes in Equtiy

For the year ended 31 December 2010

| | Share capital RMB'000 | Share premium* RMB'000 | Share option reserve* RMB'000 | Other reserves* RMB'000 (note 28(i)) | Capital reserve* RMB'000 (note 28(ii)) | Merger reserve* RMB'000 (note 28(iii)) | Translation reserve* RMB'000 | Proposed final dividend* RMB'000 | Retained profits* RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| **At 1 January 2009** | 465 | 47,294 | – | 15,405 | 53,941 | 50,000 | (11) | – | 135,538 | 302,632 |
| Arising from Restructuring Exercise (note 3) | 28,163 | (47,294) | – | – | – | 19,131 | – | – | – | – |
| Issue of shares (notes 27(d) and (e)) | 17,712 | 618,168 | – | – | – | – | – | – | – | 635,880 |
| Share issue expenses | – | (33,072) | – | – | – | – | – | – | – | (33,072) |
| **Transactions with owners** | 45,875 | 537,802 | – | – | – | 19,131 | – | – | – | 602,808 |
| Profit for the year | – | – | – | – | – | – | – | – | 120,027 | 120,027 |
| Other comprehensive income | – | – | – | – | – | – | – | – | – | – |
| **Total comprehensive income for the year** | – | – | – | – | – | – | – | – | 120,027 | 120,027 |
| Transfer to statutory reserves | – | – | – | 12,326 | – | – | – | – | (12,326) | – |
| **At 31 December 2009 and 1 January 2010** | 46,340 | 585,096 | – | 27,731 | 53,941 | 69,131 | (11) | – | 243,239 | 1,025,467 |
| 2010 final dividend proposed | – | (31,119) | – | – | – | – | – | 31,119 | – | – |
| Recognition of share-based payments | – | – | 18,204 | – | – | – | – | – | – | 18,204 |
| **Transactions with owners** | – | (31,119) | 18,204 | – | – | – | – | 31,119 | – | 18,204 |
| Profit for the year | – | – | – | – | – | – | – | – | 143,368 | 143,368 |
| Other comprehensive income | – | – | – | – | – | – | 227 | – | – | 227 |
| **Total comprehensive income for the year** | – | – | – | – | – | – | 227 | – | 143,368 | 143,595 |
| Transfer to statutory reserves | – | – | – | 16,805 | – | – | – | – | (16,805) | – |
| **At 31 December 2010** | 46,340 | 553,977 | 18,204 | 44,536 | 53,941 | 69,131 | 216 | 31,119 | 369,802 | 1,187,266 |

* The consolidated reserves of the Group of approximately RMB1,140,926,000 (2009: approximately RMB979,127,000) as at 31 December 2010 as presented in the statement of financial position comprised these reserve accounts.

# Consolidated Statement of Cash Flows

For the year 31 December 2010

| | Notes | 2010 RMB'000 | 2009 RMB'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before taxation | | 168,102 | 136,202 |
| Adjustments for: | | | |
| Interest income | 8 | (1,608) | (76) |
| Interest expenses | 10 | 2,851 | 3,139 |
| Depreciation of property, plant and equipment | 9 | 27,000 | 23,459 |
| Amortisation of land use rights | 9 | 712 | 204 |
| Loss/(gain) on disposal of property, plant and equipment | 9 | 1,264 | (928) |
| Reversal of written down of inventories to net realisable value | 9 | – | (4,501) |
| Share-based compensation expense | 9 | 18,204 | – |
| Operating profit before working capital changes | | 216,525 | 157,499 |
| Increase in inventories | | (70,699) | (43,040) |
| Increase in trade and notes receivables | | (35,372) | (45,591) |
| Increase in prepayments, deposits and other receivables | | (826) | (61,094) |
| Increase/(decrease) in trade payables | | 9,382 | (7,640) |
| Increase in accrued liabilities, other payables and deposits received | | 4,700 | 36,330 |
| Cash generated from operations | | 123,710 | 36,464 |
| Income taxes paid | | (14,060) | (12,296) |
| *Net cash generated from operating activities* | | 109,650 | 24,168 |
| **Cash flows from investing activities** | | | |
| Interest received | | 1,608 | 76 |
| Purchases of property, plant and equipment | | (191,252) | (25,077) |
| Additions to land use rights | | (21,845) | (35,623) |
| Deposits paid for acquisition of capital assets | | (27,383) | – |
| Proceeds from disposal of property, plant and equipment | | 48 | 8,075 |
| *Net cash used in investing activities* | | (238,824) | (52,549) |
| **Cash flows from financing activities** | | | |
| Interest paid | | (2,851) | (3,139) |
| Proceeds from issue of shares | | – | 635,880 |
| Share issue expenses | | – | (33,072) |
| Decrease/(increase) in amounts due from related parties | | 10,714 | (10,483) |
| Increase/(decrease) in amounts due to related companies | | 1,226 | (6,178) |
| Drawdown of bank borrowings | | 50,000 | 50,000 |
| Repayment of bank borrowings | | (50,000) | – |
| *Net cash generated from financing activities* | | 9,089 | 633,008 |
| **Net (decrease)/increase in cash and cash equivalents** | | (120,085) | 604,627 |
| **Cash and cash equivalents at 1 January** | | 638,843 | 34,216 |
| **Effect of foreign exchange rates, net** | | 227 | – |
| **Cash and cash equivalents at 31 December** | | 518,985 | 638,843 |
| **Analysis of balances of cash and cash equivalents** | | | |
| Cash and bank balances | | 518,985 | 638,843 |

## 1. Corporate Information

China Corn Oil Company Limited (the "Company") was incorporated in the Cayman Island as an exempted company with limited liability under the Companies Law of Cayman Islands on 9 September 2009.

The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The principal place of business of the Company and its subsidiaries (the "Group") is located at Handian Industrial Park, Zouping County, Shandong, the People's Republic of China. The Company's shares have been listed on the Mainboard of The Stock Exchange of Hong Kong Limited (the "HKEX") since 18 December 2009.

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are set out in note 17 to the financial statements. The directors of the Company consider the ultimate holding company is Zouping Sanxing Grease Industry Company Limited, a wholly-foreign-owned enterprise established in the PRC.

The financial statements for the year ended 31 December 2010 were approved by the board of directors on 22 March 2011.

## 2. Adoption of New and Amended Standards

### 2.1 New and amended standards adopted by the Group

In the current year, the Group has applied for the first time one amendment issued by the International Accounting Standards Board ("IASB"), which are relevant to and effective for the Group's financial statements for the annual period on 1 January 2010. This is the amendments to International Accounting Standard ("IAS") 17 included in annual improvements to International Financial Reporting Standards ("IFRSs") 2009.

#### IAS 17 (Amendments) – Leases

As part of Improvements to IFRSs issued in 2009, IAS 17 has been amended in relation to the classification of leasehold land. Before the amendment to IAS 17, the Group was required to classify leasehold land as operating leases and to present leasehold land as prepaid lease payments in the statement of financial position. The amendment to IAS 17 has removed such a requirement and requires that the classification of leasehold land should be based on the general principles set out in leased asset have been transferred to the lessees. The Group conclude that the classification of such leases as operating leases continues to be appropriate.

## 2. Adoption of New and Amended Standards (Continued)

### 2.2 New or revised IFRSs that have been issued but are not yet effective

At the date of authorisation of these financial statements, certain new or amended IFRSs have been published but are not yet effective, and have not been adopted early by the Group.

The directors anticipate that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning after the effective date of the pronouncement. Information on new and amended IFRSs that are expected to have impact on the Group's accounting policies is provided below. Certain other new and amended IFRSs have been issued but are not expected to have a material impact of the Group's financial statements.

IAS 24 (Revised) clarifies and simplifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government. The standard is effective for accounting periods beginning on or after 1 January 2011.

The amendments to IFRS 7 improve the disclosure requirements for transfer transactions of financial assets and allow users of financial statements to better understand the possible effects of any risks that may remain with the entity on transferred assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period. The standard is effective for accounting periods beginning on or after 1 July 2011.

Under IFRS 9, financial assets are classified into financial assets measured at fair value or at amortised cost depending on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Fair value gains or losses will be recognised in profit or loss except for those non-trade equity investments, which the entity will have a choice to recognise the gains and losses in other comprehensive income. IFRS 9 carries forward the recognition and measurement requirements for financial liabilities from IAS 39, except for financial liabilities that are designated at fair value through profit or loss, where the amount of change in fair value attributable to change in credit risk of that liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, IFRS 9 retains the requirements in IAS 39 for derecognition of financial assets and financial liabilities. The standard is effective for accounting periods beginning on or after 1 January 2013.

## 3. The Restructuring Exercise

Pursuant to a group restructuring exercise (the "Restructuring Exercise") carried out by the Group to rationalise the structure of the Group in preparation for the initial public offering of the Company's shares on the HKEX, the Company became the holding company of the subsidiaries comprising the Group. This was accomplished by the following steps:

(i) Zouping Sanxing Grease Industry Company Limited 鄒平三星油脂工業有限公司 ("Sanxing Grease") established Shandong Sanxing Corn Industry Technology Company Limited 山東三星玉米產業科技有限公司 ("Corn Industry") on 14 November 2006 for the purpose of transferring the operation and management of edible oil business (the "Business") to Corn Industry. Corn Industry was established with an initial registered capital of RMB50 million, contributed as to RMB35 million in fixed assets and as to RMB15 million in cash by Sanxing Grease. Since Corn Industry's establishment, Sanxing Grease has transferred its assets and liabilities in relation to the Business to Corn Industry over a period of time for nil consideration, and all administrative procedures in relation to the transfer were completed on 31 March 2007.

(ii) On 11 January 2007, Sanxing Grease entered into a share transfer agreement with Corn Industry Investment Co., Ltd., ("Corn BVI") to transfer its 100% equity interest in Corn Industry to Corn BVI, which was then wholly owned by Mr. Koay Kang Lin ("Mr. Koay"), for a consideration of USD10 million (the "Consideration"). Corn Industry became a foreign investment enterprise wholly owned by Corn BVI on 13 February 2007. On 9 May 2007, SanXing Trade Company Limited ("Sanxing Trade"), a company incorporated in Mauritius with limited liability and a wholly-owned subsidiary of Sanxing Grease, acquired 99.8% interest in Corn BVI from Mr. Koay for a consideration of USD49,900. Sanxing Grease retained its power to govern the financial and operating policies of Corn Industry from 13 February 2007 to 29 June 2007, the date Corn BVI fully settled the Consideration. Also, Mr. Koay has not participated in the management of the Business at all.

(iii) On 1 April 2007, Corn BVI entered into a loan agreement with New Garden Pte. Ltd. ("NGPL") (formerly known as New Wellmei Pte. Ltd.), pursuant to which USD2 million was lent by NGPL to Corn BVI. Pursuant to the loan agreement, if NGPL elects to invest in Corn BVI in future, a separate agreement has to be entered between the parties for the details of the investment (including but not limited to the number of shares to be invested and share price) and NGPL should then forgo its entitlement to the loan of USD2 million. On 14 June 2007, Corn BVI allotted and issued 3,233 shares, 3,233 shares and 3,235 shares (representing 5.415%, 5.415% and 5.420% of the issued share capital of Corn BVI respectively) to The China Development Capital Partnership Master Fund LP ("CDCP"), General Motors Investment Management Corporation ("GMIM") and NGPL respectively, for an aggregate consideration of USD8 million. Following the said allotment, NGPL waived the repayment of the loan of USD2 million advanced to Corn BVI in April 2007.

(iv) On 19 December 2007, Sanxing Trade set up China Corn Oil SA ("Corn Oil Luxembourg") with an initial issued capital of 3,650 shares of Euro 8.50 each. On 14 January 2008, Corn Oil Luxembourg acquired 100% equity interest of Corn BVI from Sanxing Trade, Mr. Koay, CDCP, GMIM and NGPL. In consideration, Corn Oil Luxembourg transferring its increased share capital of 4,015,870 shares of Euro 1.70 each to Sanxing Trade, Mr. Koay, CDCP, GMIM and NGPL on a pro-rata basis. On 15 January 2008, the initial share capital of 3,650 shares of Euro 8.50 each was changed to 18,250 shares of Euro 1.70 each. Immediately after the acquisition, Corn Oil Luxembourg was owned as to 83.66% by Sanxing Trade, 0.17% by Mr. Koay, 5.39% by CDCP, 5.39% by GMIM and 5.39% by NGPL.

## 3. The Restructuring Exercise (Continued)

(v) On 25 March 2008, Corn Oil Luxembourg was listed on the Alternext, an exchange regulated market organised by Euronext Paris S.A. (the "Alternext"), through the placement of 252,144 new shares. After the listing on the Alternext, Corn Oil Luxembourg was owned as to 78.735% by Sanxing Trade, 0.157% by Mr. Koay, 5.074% by CDCP, 5.074% by GMIM, 5.077% by NGPL and 5.883% by other investors. Since the listing of Corn Oil Luxembourg's shares on Alternext, Sanxing Trade had made on-market purchases and sales of Corn Oil Luxembourg's shares on Alternext from time to time. As of 25 September 2009, Corn Oil Luxembourg was owned as to 82.162% by Sanxing Trade, 5.074% by CDCP, 5.074% by GMIM, 5.072% by NGPL and 2.618% by other investors. On 4 November 2009, Corn Oil Luxembourg announced Sanxing Trade together with CDCP, GMIM and NGPL had made a proposal to acquire all the shares of Corn Oil Luxembourg not already owned, controlled or agreed to be acquired by Sanxing Trade or entities controlled by or associated with it, other than those shares held by CDCP, GMIM and NGPL which together with Sanxing Trade is then interested in approximately 97.38% of the issued share capital of Corn Oil Luxembourg and to seek the voluntary delisting of Corn Oil Luxembourg from the Alternext. The privatisation offer was made on 5 November 2009 at an offer price of approximately Euro 22 in cash per share and was closed on 19 November 2009. Following the closing of the privatisation offer, the issued share capital of Corn Oil Luxembourg was owned as to 82.733% by Sanxing Trade, 5.074% by CDCP, 5.074% by GMIM, 5.072% by NGPL and 2.047% by other investors. On 20 November 2009, Corn Oil Luxembourg delisted from Alternext.

(vi) On 9 September 2009, the Company was incorporated in the Cayman Islands and allotted and issued one share to Codan Trust Company (Cayman) Limited which was subsequently transferred to Sanxing Trade on the same date.

(vii) On 26 November 2009, Corn Oil Luxembourg transferred its entire interest in Corn BVI to the Company in consideration of the Company issuing and allotting 324,999,999 ordinary shares of HK$0.10 each and Sanxing Trade also transferred its one share in the Company to Corn Oil Luxembourg at a consideration of HK$0.10.

Subsequent to the Restructuring Exercise, on 18 December 2009, the Company issued totally 175,000,000 shares to public under placing and public offer ("Share Offer") at HK$3.59 per share, and the shares of Company were listed on the Main Board of The Stock Exchange of Hong Kong. The total number of issued shares of the Company after the Share Offer was 500,000,000 shares.

At an extraordinary general meeting of Corn Oil Luxembourg held on 22 December 2009, resolutions have been passed for dissolution of Corn Oil Luxembourg. Pursuant to and following the winding up of Corn Oil Luxembourg, all the issued shares of the Company held by Corn Oil Luxembourg have be distributed by way of transfer or otherwise to the then existing shareholders of Corn Oil Luxembourg on a pro-rata basis, save that 153,619 shares of the Company which the holders cannot be located.

The Group is regarded as a continuing entity resulting from the Restructuring Exercise since the Business and the companies which took part in the Restructuring Exercise were either controlled by Sanxing Grease before and after the Restructuring Exercise or incorporated/established by Sanxing Grease for the purpose of the Restructuring Exercise, with the exception of Corn BVI which became part of the Group during the year ended 31 December 2007. Consequently, immediately after the Restructuring Exercise, there was a continuation of the risks and benefits to the ultimate controlling party holders that existed prior to the Restructuring Exercise. The financial statements have therefore been prepared using the principles of merger accounting as if the Group had always been in existence, except for Corn BVI which has been accounted for using the purchase method in 2007. Accordingly, the results and cash flows of the Group for the year include the results and cash flows of the subsidiaries as if the current group structure had been in existence throughout the year ended 31 December 2009.

## 4. Basis of Preparation

### 4.1 Statement of compliance

The financial statements have been prepared in accordance with IFRSs which collective term includes all applicable individual International Financial Reporting Standards and Interpretations approved by the IASB, and all applicable individual International Accounting Standards and Interpretations as originated by the Board of the International Accounting Standards Committee and adopted by the IASB. The financial statements also include the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

### 4.2 Basis of measurement

The financial statements have been prepared under the historical cost basis.

### 4.3 Functional and presentation currency

The financial statements are presented in Renminbi ("RMB"), which is the same as the functional currency of the Company.

## 5. Significant Accounting Policies

### 5.1 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries made up to 31 December each year.

Inter-company transactions and balances between group companies together with unrealised gains and losses are eliminated in full in preparing the consolidated financial statements. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from the Group's perspective.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective dates of acquisition or up to the effective dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

### 5.2 Subsidiaries

A subsidiary is an entity over which the Company is able to exercise control. Control is achieved where the Company, directly or indirectly, has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are presently exercisable are taken into account.

Business combinations arising from transfers of interests in entities or businesses that are under the common control of shareholders are accounted for using merger accounting. Under merger accounting, the net assets of the combining entities or businesses are combined using the existing book values from the controlling parties' perspective. No amount is recognised as consideration for goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over at the time of common control combination, to the extent of the continuation of the controlling party or parties' interests.

In the Company's statement of financial position, interest in subsidiaries is stated at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable. All dividends whether received out of the investee's pre or post-acquisition profits are recognised in the Company's profit or loss.

## 5. Significant Accounting Policies (Continued)

### 5.3 Property, plant and equipment

Property, plant and equipment, other than construction in progress ("CIP"), are stated at cost less accumulated depreciation and accumulated impairment losses.

The cost of property, plant and equipment includes its purchase price and the costs 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 flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised as an expense in profit or loss during the financial period in which they are incurred.

Property, plant and equipment are depreciated so as to write off their cost net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period. The useful lives are as follows:

| | |
|---|---|
| Buildings | The shorter of the lease terms and 20 years |
| Plant and machinery | 10 years |
| Office equipment | 5 years |

CIP represents buildings under construction, and plant and machinery pending installation, is stated at cost less accumulated impairment losses. Cost comprises direct costs incurred during the periods of construction, installation and testing. No depreciation is provided on CIP until such time as the relevant assets are completed and ready for intended use. When the assets concerned are available for use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated above.

The gain or loss arising on retirement or disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss on retirement or disposal.

### 5.4 Leasing

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases. Where the Group has the right to use the assets held under operating leases, payments made under the leases are charged to profit or loss on a straight line basis over the lease terms except where an alternative basis is more representative of the time pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rental are charged to profit or loss in the accounting period in which they are incurred.

## 5. Significant Accounting Policies (Continued)

### 5.5 Financial Instruments

#### (a) Financial assets

The Group classifies its financial assets at initial recognition, depending on the purpose for which the asset was acquired. Financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. All financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument.

The Group's financial assets are classified as loans and receivables, which are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, they are carried at amortised cost using the effective interest method, less any identified impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost.

#### (b) Impairment loss on financial assets

The Group assesses, at the end of each reporting period, whether there is any objective evidence that financial asset is impaired. Financial assets are impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

An impairment loss on loans and receivables is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the original effective interest rate.

In relation to trade and notes receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. Except for trade and notes receivables, the carrying amount of loans and receivables is directly reduced by any identified amount of impairment. Impaired debts are derecognised when they are assessed as uncollectible. Impairment losses in respect of trade and notes receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly.

## 5. Significant Accounting Policies (Continued)

### 5.5 Financial Instruments (Continued)

#### (b) Impairment loss on financial assets (Continued)

Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

#### (c) Financial liabilities

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred. Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument.

Financial liabilities at amortised cost including trade payables, accrued liabilities, other payables, interest-bearing bank borrowing and amount due to related companies/ a subsidiary are subsequently measured at amortised cost using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

#### (d) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

#### (e) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

#### (f) Derecognition

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with IAS 39.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

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

## 5. Significant Accounting Policies (Continued)

### 5.6 Land use rights

The operating or finance lease determination is stated in note 5.4 and also applied to leases of land. Land use rights in the PRC are accordingly determined to be operating leases.

Land use rights represent up-front payments to acquire long term interests in the usage of land in the PRC. They are stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is calculated on a straight-line basis over the period of the leases.

### 5.7 Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated cost of completion and the estimated costs necessary to make the sale.

### 5.8 Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, demand deposits with banks and short term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and form an integral part of the Group's cash management.

### 5.9 Revenue recognition

Revenue is recognised to the extent when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably. Revenue is measured at the fair value of the consideration received, net of allowances for returns, trade discounts and value-added tax. The following specific recognition criteria must also be met before revenue is recognised:

(i) Sale of goods is recognised when the significant risks and rewards of ownership have been transferred to the customers, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold. Normally, risk is transferred upon dispatch of goods.

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

(iii) Dividend is recognised when the right to receive payment is established.

### 5.10 Cost of sales

Direct cost of production, which includes primarily raw materials costs, labour costs, electricity costs, depreciation expenses, tax and repair and maintenance expenses are recognised in inventories and then as cost of sales when the revenue from sale of goods is recognised.

## 5. Significant Accounting Policies (Continued)

### 5.11 Income tax

Income taxes for the year comprise current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the reporting date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in profit or loss.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all temporary differences. Deferred tax assets are recognised for to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates expected to apply in the period when the liability is settled or the asset is realised based on tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income.

Current tax assets and current tax liabilities are presented in net if, and only if,

(a) the Group has the legally enforceable right to set off the recognised amounts; and

(b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The Group presents deferred tax assets and deferred tax liabilities in net if, and only if,

(a) the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and

(b) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:

    (i) the same taxable entity; or

    (ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

## 5. Significant Accounting Policies (Continued)

### 5.12 Foreign currency translation

Transactions entered into by the consolidated entities in currencies other than the functional currency are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

On consolidation, income and expense items of foreign operations are translated into the presentation currency of the Group (i.e. RMB) at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. All assets and liabilities of foreign operations are translated at the rate ruling at the end of reporting period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity as translation reserve. Exchange differences recognised in profit or loss of group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the foreign operation concerned are reclassified to other comprehensive income and accumulated in equity as translation reserve.

### 5.13 Employee benefits

#### (a) Defined contribution retirement plan

The employees of the Group's subsidiaries which operate in the PRC are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of its payroll costs to the central pension scheme. The contributions are charged to the profit or loss as they become payable in accordance with the rules of the central pension scheme.

#### (b) Short-term employee benefits

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

Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

## 5. Significant Accounting Policies (Continued)

### 5.14 Share-based payments

Where share options are awarded to employees and others providing similar services, the fair value of the options at the date of grant is recognised in profit or loss over the vesting period with a corresponding increase in the employee share option reserve within equity. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at the end of each reporting period so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also recognised in profit or loss over the remaining vesting period.

### 5.15 Impairment of non-financial assets

At the end of each reporting period, the Group reviews the carrying amounts of the property, plant and equipment, land use rights, deposits paid and other non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased.

An impairment loss is recognised as an expense immediately for the amount by which the asset's recoverable amount is estimated to be less than its carrying amount. Recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent 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. A reversal of an impairment loss is recognised as income immediately.

### 5.16 Borrowing costs

Borrowing costs attributable directly to the acquisition, construction or production of qualifying assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalised. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

## 5. Significant Accounting Policies (Continued)

### 5.17 Government grants

Government grants are recognised when there is reasonable assurance that they will be received and the Group will comply with the conditions attaching to them. Government grants relating to income is presented in gross under "Other income" in the statement of comprehensive income.

### 5.18 Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present obligation (legal or constructive) as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation. All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more future uncertain events not wholly within the control of the Group, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Contingent liabilities are recognised in the course of the allocation of purchase price to the assets and liabilities acquired in a business combination. They are initially measured at fair value at the date of acquisition and subsequently measured at the higher of the amount that would be recognised in a comparable provision as described above and the amount initially recognised less any accumulated amortisaton, if appropriate.

### 5.19 Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior management for the purpose of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purpose unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type of class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

## 5. Significant Accounting Policies (Continued)

### 5.20 Related parties

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

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

## 6. Critical Accounting Estimates and Judgements

In the process of applying the Group's accounting policies, which are described in note 5, management has made various estimates and judgments which are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Estimates and judgements are continually evaluated. The key source of estimation uncertainty and accounting judgments that results in significant risk of causing a material adjustment to the carrying amount of assets and liabilities in the next financial year or significantly affect the amounts recognised in the financial statements are discussed below:

### (i) Impairment of receivables

The Group's management determines the provision for impairment of receivables. This estimate is based on the evaluation of collectability and ageing analysis of receivables and on management's judgment. A considerable amount of judgment is required in assessing the expected timing of collection and ultimate realisation of these receivables, including credit worthiness and collection history of each customer and other debtors. Management will reassess the provision at the reporting date. If the financial conditions of the customers or debtors of the Group deteriorate thus resulting in impairment as to their ability to make payment, additional allowances may be required.

## 6. Critical Accounting Estimates and Judgements (Continued)

### (ii) Useful lives and residual values of items of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of the property, plant and equipment of similar nature and functions. Management will revise the depreciation charge where useful lives are different to those previously estimated, or will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

### (iii) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of selling products of similar nature. It could change significantly as a result of competitors' actions in response to severe industry cycles. Management reassesses the estimations at the reporting date.

### (iv) Provision for tax

The Group is mainly subject to various taxes in the PRC including enterprise income tax. Significant judgment is required in determining the amount of the provision for taxes and the timing of related taxes. The Group recognises liabilities for anticipated tax based on estimates of whether additional taxes will be due. Where the final outcome of these matters is different from the amounts that were initially recorded, such differences will impact the tax provisions in the period in which such determination is made.

## 7. Segment Information

The Group has identified its operating segments and prepared segment information based on the regular internal financial information reported to the Group's executive directors for their decisions about resources allocation to the Group's business components and review of these components' performance. The business components in the internal reporting to the executive directors are determined following the Group's major products and service lines which are production and sale of (i) Corn oil, including non-branded corn oil and own brand corn oil; (ii) Other oil, mainly refined edible sunflower seed oil, refined edible olive oil, refined edible cotton seed oil; and (iii) Corn meal.

For the purposes of assessing segment performance and allocating resources between segments, the directors assess segment profit or loss by gross profit or loss as measured in IFRS financial statements.

For the purpose of presenting geographical location of the Group's revenue from external customers and the Group's non-current assets, country of domicile is determined by reference to the country where the majority of the Company's subsidiaries operate.

## 7. Segment Information (Continued)

Information regarding the Group's reportable segments as provided to the Group's executive directors is set out below:

| | Year ended 31 December 2010 | | | | |
|---|---|---|---|---|---|
| | Corn oil | | | | |
| | Non-branded corn oil RMB'000 | Own brand corn oil RMB'000 | Other oil RMB'000 | Corn meal RMB'000 | Total RMB'000 |
| Revenue from external customers | 782,329 | 404,129 | 106,760 | 244,158 | 1,537,376 |
| **Reportable segment revenue** | 782,329 | 404,129 | 106,760 | 244,158 | 1,537,376 |
| **Reportable segment profits** | 87,236 | 128,563 | 36,638 | 1,775 | 254,212 |

| | Year ended 31 December 2009 | | | | |
|---|---|---|---|---|---|
| | Corn oil | | | | |
| | Non-branded corn oil RMB'000 | Own brand corn oil RMB'000 | Other oil RMB'000 | Corn meal RMB'000 | Total RMB'000 |
| Revenue from external customers | 729,578 | 189,014 | 90,529 | 154,860 | 1,163,981 |
| **Reportable segment revenue** | 729,578 | 189,014 | 90,529 | 154,860 | 1,163,981 |
| **Reportable segment profits/(loss)** | 92,194 | 45,298 | 12,202 | (154) | 149,540 |

## 7. Segment Information (Continued)

Reportable segment revenue represented turnover of the Group in the consolidated income statement. A reconciliation between the reportable segment profit and the Group's profit before taxation is set out below:

| | 2010<br>RMB'000 | 2009<br>RMB'000 |
|---|---|---|
| **Profit** | | |
| Reportable segment profit | 254,212 | 149,540 |
| Other income | 26,577 | 23,933 |
| Selling and distribution costs | (65,903) | (21,622) |
| Administrative expenses | (43,453) | (12,163) |
| Other operating expenses | (480) | (347) |
| Finance costs | (2,851) | (3,139) |
| **Profit before taxation** | 168,102 | 136,202 |

The following table set out information about the geographical location of the Group's revenue from external customers. The geographical location of customers is determined based on the location at which the goods were delivered.

| | 2010<br>RMB'000 | 2009<br>RMB'000 |
|---|---|---|
| Local (country of domicile): | | |
| – PRC | 1,515,421 | 1,118,975 |
| Export (foreign countries): | | |
| – Middle East | 15,724 | 30,836 |
| – Singapore, Malaysia and the Philippines | 6,231 | 14,170 |
| | 21,955 | 45,006 |
| | 1,537,376 | 1,163,981 |

The Group's non-current assets are solely located in the PRC (the country of domicile of the Company).

## 8. Revenue and Other Income

Revenue from the Group's principal activities, which is also the Group's turnover, represented the net invoiced value of goods sold, net of allowances for returns, trade discounts and value-added tax. An analysis of the Group's revenue and other income is as follows:

| | 2010<br>RMB'000 | 2009<br>RMB'000 |
|---|---|---|
| **Revenue** | | |
| Sale of goods | 1,537,376 | 1,163,981 |
| **Other income** | | |
| Interest income: | | |
| – bank balances | 338 | 76 |
| – others | 1,270 | – |
| Sales of scrap materials | 23,496 | 12,869 |
| Compensation income from sundry creditors | – | 1,151 |
| Government grant related to income | – | 8,500 |
| Gain on disposal of property, plant and equipment | – | 928 |
| Others | 1,473 | 409 |
| | 26,577 | 23,933 |

## 9. Profit from Operations

| | 2010<br>RMB'000 | 2009<br>RMB'000 |
|---|---|---|
| Profit from operations is arrived at after charging/(crediting): | | |
| Auditors' remuneration | 870 | 825 |
| Cost of inventories recognised as an expense | 1,200,594 | 943,866 |
| Depreciation on property, plant and equipment * | 27,000 | 23,459 |
| Amortisation of land use rights ** | 712 | 204 |
| Loss/(gain) on disposal of property, plant and equipment | 1,264 | (928) |
| Net foreign exchange loss/(gain) | 1,423 | (64) |
| Operating lease charges on: | | |
| – rented premises | 638 | 202 |
| – land lease payments | – | 80 |
| Staff costs (including directors' remuneration) | | |
| – Wages, salaries and bonus | 26,386 | 11,964 |
| – Contribution to defined contribution pension plan ^^ | 791 | 236 |
| – Share-based compensation expense | 18,204 | – |
| Total staff cost | 45,381 | 12,200 |
| Reversal of written down of inventories to net realisable value ^ | – | (4,501) |

## 9. Profit from Operations (Continued)

* Depreciation expenses have been included in:

- cost of sales of approximately RMB25,445,000 (2009: RMB23,084,000); and
- administrative expenses of approximately RMB1,555,000 (2009: RMB375,000).

** Amortisation of land use rights have been included in administrative expenses.

^ During the year ended 31 December 2009, the Group reversed RMB4,501,000 of inventories previously written down in prior year. The Group has sold all of the goods to unrelated third parties at prices higher than the original costs. The reversal of write down was included in cost of inventories recognised as expense.

^^ At the reporting date, the Group had no forfeited contributions available to reduce its contributions to the pension scheme.

## 10. Finance Costs

| | 2010<br>RMB'000 | 2009<br>RMB'000 |
|---|---|---|
| Interest charges on financial liabilities stated at amortised cost: | | |
| Bank and other borrowings | | |
| – wholly repayable within one year | 2,851 | 3,139 |

## 11. Income Tax Expense

| | 2010<br>RMB'000 | 2009<br>RMB'000 |
|---|---|---|
| Current tax | | |
| – Provision for PRC inc`ome tax | 24,734 | 16,175 |

Pursuant to the rules and regulations of the Cayman Islands and BVI, the Group is not subject to any taxation under the jurisdiction of Cayman Islands and BVI during the years.

PRC corporate income tax is provided at the rates applicable to the subsidiaries in the PRC on the income for statutory reporting purpose, adjusted for income and expense items which are not assessable or deductible for income tax purposes based on existing PRC income tax regulations, practices and interpretations thereof.

Corn Industry was approved as a foreign invested enterprise in 2007. Pursuant to an approval document on certain tax preferential policies titled "Guo Shui Han (2007) No. 41" issued by the Bureau of State Tax of Zouping County, Shandong Province (山東省鄒平縣國家稅務局鄒國稅函 (2007) 41號文), Corn Industry is entitled for exemption of PRC enterprise income tax ("EIT") for two years starting from the first year of profitable operations after offsetting prior year tax losses, followed by a three-year 50% tax deduction. The year ended 31 December 2007 was Corn Industry's first profit-making year and was the first year of its tax holiday. For the years ended 31 December 2009 and 2010, Corn Industry is subject to EIT tax rate of 12.5%.

## 11. Income Tax Expense (Continued)

No deferred tax has been provided as the Group did not have any significant temporary differences which gave rise to a deferred tax asset or liability as at 31 December 2009 and 2010.

Deferred tax liabilities have not been established for the withholding tax and other taxation that would be payable on the unremitted earnings of a subsidiary of RMB344,092,000 (2009: RMB192,844,000) as the Group is in a position to control the dividend policies of the subsidiary and it is probable that such amount will be permanently reinvested.

A reconciliation of income tax expense and accounting profit at applicable tax rate is as follows:

| | 2010<br>RMB'000 | 2009<br>RMB'000 |
|---|---|---|
| Profit before income tax | 168,102 | 136,202 |
| Tax calculated at the rates applicable to profits in the tax jurisdiction concerned | 48,134 | 34,475 |
| Expenses not deductible for tax purpose | 1,334 | – |
| Income not taxable for tax purpose | – | (2,125) |
| Effect of tax holiday of PRC subsidiary | (24,734) | (16,175) |
| Income tax expense | 24,734 | 16,175 |

## 12. Dividends

The Directors recommend the payment of a final dividend to the shareholders of HK cents 7 per share for the year ended 31 December 2010, subject to shareholders' approval at the forthcoming annual general meeting. The final dividend proposed after the reporting date has not been recognised as a liability at the reporting date, but reflected as an appropriation of share premium account for the year.

## 13. Earnings Per Share

The calculation of basic earnings per share is based on the profit attributable to owners of the Company of RMB143,368,000 (2009: RMB120,027,000) divided by the weighted average number of 526,250,000 (2009: 331,856,000) ordinary shares in issue during the year.

The weighted average number of shares used to calculate the basic earnings per share for the year ended 31 December 2009 includes the weighted average of 6,856,000 shares after the listing of the Company's shares on the HKEX on 18 December 2009 in addition to the (i) the 1 share of the Company allotted and issued at nil paid on 9 September 2009 (note 27(b)); and the 324,999,999 shares issued as consideration for the acquisition of a subsidiary pursuant to the Restructuring Exercise (note 27(c)(ii)). Shares issued under (i) and (ii) were assumed to be in existence throughout 2009 for the propose of earnings per share calculation.

The diluted earnings per share attributable to the owners of the Company for the year ended 31 December 2010 is based on the profit attributable to the owners of the Company of approximately RMB143,368,000 and on the weighted average of 527,322,000 ordinary shares outstanding during the year ended 31 December 2010, being the weighted average number of 526,250,000 ordinary shares used in basic earnings per share calculation and adjusted for the effect of the share options of 1,072,000 shares.

## 14. Directors' Emoluments and Five Highest Paid Individuals

### (a) Directors' emoluments

Directors' emoluments disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, are as follows:

| | Fees RMB'000 | Salaries, allowances and other benefits RMB'000 | Discretionary bonuses RMB'000 | Contribution to pension plans RMB'000 | Share-based compensation expense RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| **Year ended 31 December 2010** | | | | | | |
| *Executive directors* | | | | | | |
| Wang Mingxing | – | 500 | – | – | 583 | 1,083 |
| Wang Mingfeng | – | 500 | – | – | 583 | 1,083 |
| Wang Mingliang | – | 500 | – | – | 583 | 1,083 |
| Wang Fuchang | – | 500 | – | – | 583 | 1,083 |
| Sun Guohui | – | 500 | – | 8 | 583 | 1,091 |
| Huang Da | – | 500 | – | 8 | 583 | 1,091 |
| | – | 3,000 | – | 16 | 3,498 | 6,514 |
| *Non-executive director* | | | | | | |
| Ke Shifeng | – | – | – | – | – | – |
| *Independent non-executive directors* | | | | | | |
| Liu Shusong | 53 | – | – | – | – | 53 |
| Wang Ruiyuan | 107 | – | – | – | – | 107 |
| Wang Aiguo | 53 | – | – | – | – | 53 |
| | 213 | – | – | – | – | 213 |
| | 213 | 3,000 | – | 16 | 3,498 | 6,727 |

## 14. Directors' Emoluments and Five Highest Paid Individuals (Continued)

### (a) Directors' emoluments (Continued)

| | Fees RMB'000 | Salaries, allowances and other benefits RMB'000 | Discretionary bonuses RMB'000 | Contribution to pension plans RMB'000 | Share-based compensation expense RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| **Year ended 31 December 2009** | | | | | | |
| *Executive directors* | | | | | | |
| Wang Mingxing | – | 500 | – | – | – | 500 |
| Wang Mingfeng | – | 500 | – | – | – | 500 |
| Wang Mingliang | – | 500 | – | – | – | 500 |
| Wang Fuchang | – | 500 | – | – | – | 500 |
| Sun Guohui | – | 300 | – | 4 | – | 304 |
| Huang Da | – | 300 | – | – | – | 300 |
| | – | 2,600 | – | 4 | – | 2,604 |
| *Non-executive director* | | | | | | |
| Ke Shifeng | – | – | – | – | – | – |
| *Independent non-executive directors* | | | | | | |
| Liu Shusong | – | – | – | – | – | – |
| Wang Ruiyuan | – | – | – | – | – | – |
| Wang Aiguo | – | – | – | – | – | – |
| | – | – | – | – | – | – |
| | – | 2,600 | – | 4 | – | 2,604 |

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2009: nil).

Included to the directors' emoluments disclosed above, Mr. Wang Mingxing, Mr. Wang Mingfeng, Mr. Wang Mingliang, Mr. Wang Fuchang and Mr. Huang Da received emoluments from the Company's holding company amounting to RMB30,000, RMB30,000, RMB30,000, RMB28,000 and RMB30,000 respectively during the year ended 31 December 2009, part of which is in respect of their services to the Group. No apportionment has been made as the directors consider that it is impracticable to apportion this amount between their services to the Group and their services to the Company's holding company.

## 14. Directors' Emoluments and Five Highest Paid Individuals (Continued)

### (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the years ended 31 December 2009 and 2010 were also directors and their emoluments are reflected in the analysis presented above.

During the years ended 31 December 2009 and 2010, no emolument was paid by the Group to the directors as an inducement to join or upon joining the Group, or as compensation for loss of office.

## 15. Property, Plant and Equipment

### Group

| | Buildings RMB'000 | Plant and machinery RMB'000 | Office equipment RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **At 1 January 2009** | | | | | |
| Cost | 71,545 | 198,916 | 606 | – | 271,067 |
| Accumulated depreciation | (8,158) | (31,828) | (433) | – | (40,419) |
| **Net book amount** | 63,387 | 167,088 | 173 | – | 230,648 |
| **Year ended 31 December 2009** | | | | | |
| Opening net book amount | 63,387 | 167,088 | 173 | – | 230,648 |
| Additions | 17,134 | 23,493 | 194 | 120 | 40,941 |
| Disposal | (211) | (22,800) | – | – | (23,011) |
| Depreciation | (6,834) | (16,585) | (40) | – | (23,459) |
| **Closing net book amount** | 73,476 | 151,196 | 327 | 120 | 225,119 |

## 15. Property, Plant and Equipment (Continued)

### Group (Continued)

| | Buildings RMB'000 | Plant and machinery RMB'000 | Office equipment RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **At 31 December 2009 and 1 January 2010** | | | | | |
| Cost | 88,048 | 179,180 | 800 | 120 | 268,148 |
| Accumulated depreciation | (14,572) | (27,984) | (473) | – | (43,029) |
| **Net book amount** | 73,476 | 151,196 | 327 | 120 | 225,119 |
| **Year ended 31 December 2010** | | | | | |
| Opening net book amount | 73,476 | 151,196 | 327 | 120 | 225,119 |
| Additions | 14,088 | 95,076 | 12,909 | 69,179 | 191,252 |
| Transfer | 6,356 | 1,076 | – | (7,432) | – |
| Disposal | (1,265) | (47) | – | – | (1,312) |
| Depreciation | (5,652) | (20,378) | (970) | – | (27,000) |
| **Closing net book amount** | 87,003 | 226,923 | 12,266 | 61,867 | 388,059 |
| **At 31 December 2010** | | | | | |
| Cost | 106,635 | 275,202 | 13,709 | 61,867 | 457,413 |
| Accumulated depreciation | (19,632) | (48,279) | (1,443) | – | (69,354) |
| **Net book amount** | 87,003 | 226,923 | 12,266 | 61,867 | 388,059 |

The lease term of the land on which the buildings locate is held under medium term.

## 16. Land Use Rights

The Group's interests in land use rights represent prepaid operating lease payments and their net carrying amounts are analysed as follows:

| | **Group** |
|---|---|
| | RMB'000 |
| **Year ended 31 December 2009** | |
| Additions | 35,623 |
| Amortisation | (204) |
| Closing net carrying amount | 35,419 |
| **At 31 December 2009** | |
| Cost | 35,623 |
| Accumulated amortisation | (204) |
| Net carrying amount | 35,419 |
| **Year ended 31 December 2010** | |
| Opening net carrying amount | **35,419** |
| Additions | **21,845** |
| Amortisation | **(712)** |
| Closing net carrying amount | **56,552** |
| **At 31 December 2010** | |
| Cost | **57,468** |
| Accumulated amortisation | **(916)** |
| Net carrying amount | **56,552** |

Land use rights represented leasehold interests in land located in the PRC and held under medium term leases.

## 17. Interest in Subsidiaries

| | Company | |
|---|---|---|
| | **2010** | 2009 |
| | **RMB'000** | RMB'000 |
| Unlisted shares, at cost | **123,895** | 123,895 |
| Amount due from a subsidiary | **575,634** | – |
| | **699,529** | 123,895 |

Particulars of the subsidiaries as at 31 December 2010 are as follows:

| Name | Country/Place and date of incorporation/ establishment and kind of legal entity | Particulars of issued and fully paid share capital/registered capital | Effective interest held by the Company | Principal activities |
|---|---|---|---|---|
| ***Interests held directly*** | | | | |
| Corn Industry Investment Co., Ltd. | Incorporated on 28 December 2006 in the BVI, limited liability company | 59,701 shares at U.S. dollars ("US$") 1 per share | 100% | Investment holding |
| ***Interests held indirectly*** | | | | |
| Shandong Sanxing Corn Industry Technology Company Limited 山東三星玉米產業科技有限公司 | Established on 14 November 2006 in the PRC, wholly-foreign-owned enterprise | US$30,000,000 | 100% | Production and sale of edible oil |
| 內蒙三星玉米產業科技有限公司 | Established on 21 May 2010 in the PRC, wholly-foreign-owned enterprise | RMB10,000,000 | 100% | Inactive |
| 遼寧三星玉米產業科技有限公司 | Established on 24 May 2010 in the PRC, wholly-foreign-owned enterprise | RMB10,000,000 | 100% | Inactive |

The financial statements of the subsidiaries for the year ended 31 December 2010 are audited by BDO Limited for the purpose of incorporation into the Group's consolidated financial statements.

The amount due from/to a subsidiary is unsecured and interest free. In the opinion of the directors, the settlement of the amount due from a subsidiary is neither planned nor likely to occur in the foreseeable future and in substance, the amount is extension of the Company's investment in the subsidiary. The amount due to a subsidiary is repayable on demand.

## 18. Inventories

| | Group | |
|---|---|---|
| | 2010 RMB'000 | 2009 RMB'000 |
| Raw materials | 78,120 | 56,660 |
| Work-in-progress | 13,593 | 15,575 |
| Finished goods | 80,181 | 28,960 |
| | 171,894 | 101,195 |

## 19. Trade and Notes Receivables

| | Group | |
|---|---|---|
| | 2010 RMB'000 | 2009 RMB'000 |
| Trade receivables | 82,470 | 47,596 |
| Less: Allowance for impairment | (79) | (79) |
| | 82,391 | 47,517 |
| Notes receivables | 8,000 | 7,502 |
| Total trade and notes receivables | 90,391 | 55,019 |

Trade receivables are non-interest bearing. For domestic sales, 0 to 60 days and 0 to 180 days credit terms are granted to non-branded corn oil and own brand corn oil customers respectively. All overseas customers are usually given 60 days credit terms. They are recognised at their original invoice amounts which represent their fair values at initial recognition.

The ageing analysis of trade and notes receivables at the reporting date, based on invoice date, net of impairment provision, is as follows:

| | Group | |
|---|---|---|
| | 2010 RMB'000 | 2009 RMB'000 |
| Within 60 days | 72,528 | 47,671 |
| 61- 90 days | 5,384 | 2,031 |
| 91- 180 days | 11,712 | 4,764 |
| 181- 365 days | 767 | 553 |
| Total trade and notes receivables | 90,391 | 55,019 |

At each of the reporting date, the Group reviews receivables for evidence of impairment on both an individual and collective basis. There is no movement in the allowance for doubtful debts during the financial year.

## 19. Trade and Notes Receivables (Continued)

The ageing analysis of trade and notes receivables that are past due but are not considered impaired is as follows:

| | Group | |
|---|---|---|
| | 2010 RMB'000 | 2009 RMB'000 |
| Neither past due nor impaired | 90,255 | 55,005 |
| Not more than 3 months past due | 65 | 14 |
| 3 to not more than 6 months past due | 71 | – |
| | 90,391 | 55,019 |

Receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired related to a number of customers that have a good track record of repayment with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

## 20. Prepayments, Deposits and Other Receivables

| | Group | | Company | |
|---|---|---|---|---|
| | 2010 RMB'000 | 2009 RMB'000 | 2010 RMB'000 | 2009 RMB'000 |
| Prepayments | 61,246 | 30,358 | – | – |
| Other receivables | 15,620 | 45,682 | 186 | 35,220 |
| Deposits paid for acquisition of capital assets | 27,383 | – | – | – |
| | 104,249 | 76,040 | 186 | 35,220 |
| Less: Portion due within one year included under current assets | (76,866) | (76,040) | (186) | (35,220) |
| Non-current portion included under non-current assets | 27,383 | – | – | – |

## 21. Amounts Due from Related Parties

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | **RMB'000** | RMB'000 |
| **Amounts due from a shareholder** | | |
| – Sanxing Grease | **–** | 9,727 |
| **Amounts due from related companies** | | |
| – Zouping Anxing Automobile Co., Ltd. ("Zouping Anxing") | **–** | 3 |
| – Zouping Sanxing Logistic Centre Company Limited ("Sanxing Logistic") | **66** | 66 |
| – Shandong Sanxing Group Oil Products Company Limited ("Sanxing Petrol") | **9** | 866 |
| – Shandong Sanxing Group Co., Ltd. ("Sanxing Group") | **4** | – |
| – Zouping Sanxing Steel Structure Co., Ltd. ("Sanxing Steel") | **2** | – |
| | **81** | 935 |
| **Amounts due from directors** | | |
| – Wang Mingxing | **–** | 33 |
| – Huang Da | **–** | 100 |
| | **–** | 133 |
| | **81** | 10,795 |

## 21. Amounts Due from Related Parties (Continued)

Particulars of amount due from related parties are as follows:

| | As at 31 December 2010 RMB'000 | Maximum amount outstanding during the year RMB'000 | As at 1 January 2010 RMB'000 |
|---|---|---|---|
| **Amount due from a shareholder** | | | |
| – Sanxing Grease | – | 9,727 | 9,727 |
| **Amounts due from related companies** | | | |
| – Zouping Anxing | – | 3 | 3 |
| – Sanxing Logistic | 66 | 66 | 66 |
| – Sanxing Petrol | 9 | 1,016 | 866 |
| – Sanxing Group | 4 | 370 | – |
| – Sanxing Steel | 2 | 9,815 | – |
| **Amounts due from directors** | | | |
| – Wang Mingxing | – | 33 | 33 |
| – Huang Da | – | 100 | 100 |

| | As at 31 December 2009 RMB'000 | Maximum amount outstanding during the year RMB'000 | As at 1 January 2009 RMB'000 |
|---|---|---|---|
| **Amount due from a shareholder** | | | |
| – Sanxing Grease | 9,727 | 167,657 | – |
| **Amounts due from related companies** | | | |
| – Zouping Anxing | 3 | 3 | 3 |
| – Sanxing Logistic | 66 | 203 | 176 |
| – Sanxing Petrol | 866 | 866 | – |
| – Shandong Sanxing Machinery Co., Ltd. | – | 1,928 | – |
| **Amounts due from directors** | | | |
| – Wang Mingxing | 33 | 33 | 33 |
| – Sun Guohui | – | 10 | – |
| – Huang Da | 100 | 100 | 100 |

Mr. Wang Mingfeng, Mr. Wang Mingxing, Mr. Wang Mingliang and Mr. Sun Guohui, directors of the Company, have beneficial interest in each of the above shareholder and related companies.

The balances due from related parties are unsecured, interest-free and repayable on demand.

## 22. Cash and Bank Balances

| | Group | | Company | |
|---|---|---|---|---|
| | 2010 RMB'000 | 2009 RMB'000 | 2010 RMB'000 | 2009 RMB'000 |
| Cash at banks and in hand | 168,985 | 362,392 | 12,185 | 324,319 |
| Short-term bank deposits | 350,000 | 276,451 | – | 276,451 |
| | 518,985 | 638,843 | 12,185 | 600,770 |

The short-term bank deposits earn 0.36% (2009: 0.03%) interest per annum. They have a maturity of 30 days and are eligible for immediate cancellation without receiving any interest for the last deposit period. The other bank deposits earn interest at floating rates based on daily bank deposit rates.

The Group's cash and bank balances denominated in RMB were amounted to RMB506,606,000 (2009: RMB38,064,000) and were deposited with banks in the PRC. The RMB is not freely convertible into other currencies. Under the PRC Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks that are authorised to conduct foreign exchange business.

## 23. Trade Payables

Trade payables are non-interest bearing and are normally settled on 30 days terms.

The ageing analysis of trade payables at the reporting date is as follows:

| | Group | |
|---|---|---|
| | 2010 RMB'000 | 2009 RMB'000 |
| Within 30 days | 8,217 | 2,395 |
| 31-60 days | 2,573 | 1,865 |
| 61-90 days | 1,473 | 864 |
| 91-180 days | 1,834 | 1,095 |
| 181-365 days | 1,740 | 483 |
| Over 365 days | 705 | 458 |
| | 16,542 | 7,160 |

## 24. Accrued Liabilities, Other Payables and Deposits Received

| | Group | | Company | |
|---|---|---|---|---|
| | 2010 RMB'000 | 2009 RMB'000 | 2010 RMB'000 | 2009 RMB'000 |
| Accrued liabilities | 13,239 | 25,093 | 1,558 | 17,400 |
| Other payables | 23,799 | 11,902 | – | 8,740 |
| Deposits received | 20,760 | 16,103 | – | – |
| | 57,798 | 53,098 | 1,558 | 26,140 |

## 25. Amounts Due to Related Companies

Mr. Wang Mingfeng, Mr. Wang Mingxing, Mr. Wang Mingliang and Mr. Sun Guohui, Directors of the Company, have beneficial interest in the related companies.

The balances due to related companies are unsecured, interest-free and repayable on demand.

## 26. Interest-Bearing Bank Borrowing

| | Group | |
|---|---|---|
| | 2010 RMB'000 | 2009 RMB'000 |
| Unsecured bank borrowing repayable within one year | 50,000 | 50,000 |

The Group's interest-bearing bank borrowing is bearing fixed rate at 5.841% per annum as at 31 December 2009 and 2010.

The Group's interest-bearing bank borrowing is guaranteed by 鄒平星宇科技紡織有限公司 and 山東焦化集團有限公司 (formerly known as「山東鐵雄能源集團有限公司」), independent third parties, as at 31 December 2009 and 2010.

## 27. Share Capital

| | Notes | Number of shares | Amount HK$ |
|---|---|---|---|
| **Authorised:** | | | |
| Upon incorporation | (a) | 3,800,000 | 380,000 |
| Increase in authorised ordinary shares | (c)(i) | 8,996,200,000 | 899,620,000 |
| **At 31 December 2009 and 2010, ordinary shares of HK$0.10 each** | | **9,000,000,000** | **900,000,000** |
| **Issued and fully paid:** | | | |
| Upon incorporation | (b) | 1 | 1 |
| Issue of shares pursuant to the Restructuring Exercise | (c)(ii) | 324,999,999 | 32,499,999 |
| Issue of shares upon listing | (d) | 175,000,000 | 17,500,000 |
| Issue of shares for over-allotment option | (e) | 26,250,000 | 2,625,000 |
| **At 31 December 2009 and 2010, ordinary shares of HK$0.10 each** | | **526,250,000** | **52,625,000** |

The issued and fully paid share capital is equivalent to approximately RMB46,340,000 as at 31 December 2009 and 2010.

The movements in share capital were as follows:

(a) The Company was incorporated in the Cayman Islands on 9 September 2009. At the date of incorporation, the authorised share capital of the Company was HK$380,000 divided into 3,800,000 ordinary shares of HK$0.10 each.

(b) On 9 September 2009, 1 ordinary share of HK$0.10 each was allotted and issued nil-paid.

(c) Pursuant to written resolutions dated 23 November 2009, the following changes were approved:

(i) the increase in the authorised share capital of the Company from HK$380,000 dividend into 3,800,000 ordinary shares of HK$0.10 each to HK$900,000,000 divided into 9,000,000,000 ordinary shares of HK$0.10 each by the creation of an additional 8,996,200,000 ordinary shares of HK$0.10 each.

(ii) the allotment and issue of 324,999,999 shares of HK$0.10 each credited as fully paid pursuant to the Restructuring Exercise.

(d) The Company's shares were listed on the HKEX on 18 December 2009 and 175,000,000 shares of HK$0.10 each were issued at HK$3.59 each.

(e) On 30 December 2009, the Company issued 26,250,000 ordinary shares of HK$0.10 each pursuant to the over-allotment option as referred to in the prospectus of the Company dated 8 December 2009 at a price of HK$3.59 per share.

## 28. Reserves

### Group

Details of the movements on the Group's reserves are as set out in the consolidated statements of changes in equity on page 40.

Notes:

(i) **Other reserves**
The subsidiary of the Group established in the PRC is required to transfer 10% of its profits after taxation as determined in accordance with the accounting regulations in the PRC to the surplus reserve until the reserve balance reaches 50% of the respective registered capital of the PRC subsidiary. Such reserve may be used to reduce any losses incurred or for capitalisation as paid-up capital of the PRC subsidiary.

(ii) **Capital reserves**
Capital reserves of the Group represent the difference between the net assets value transferred from Sanxing Grease to Corn Industry pursuant to the Restructuring Exercise and the registered capital of Corn Industry.

(iii) **Merger reserve**
The merger reserve of the Group represented the difference between (a) the sum of nominal value of the combined capital and share premium of the subsidiaries acquired in pursuant to the Restructuring Exercise; and (b) the nominal value of the share capital of the Company issued in exchange thereof pursuant to the Restructuring Exercise.

### Company

| | Share premium RMB'000 | Share option reserve RMB'000 | Contributed surplus RMB'000 (note) | Proposed final dividend RMB'000 | Accumulated losses RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| **At 9 September 2009 (Date of incorporation)** | – | – | – | – | – | – |
| Issue of shares pursuant to Restructuring Exercise | – | – | 95,267 | – | – | 95,267 |
| Issue of shares (Note 27(d) and (e)) | 618,168 | – | – | – | – | 618,168 |
| Share issue expenses | (33,072) | – | – | – | – | (33,072) |
| **Transactions with owners** | 585,096 | – | 95,267 | – | – | 680,363 |
| Loss for the period | – | – | – | – | (2,916) | (2,916) |
| Other comprehensive income | – | – | – | – | – | – |
| **Total comprehensive income for the period** | – | – | – | – | (2,916) | (2,916) |
| At 31 December 2009 | 585,096 | – | 95,267 | – | (2,916) | 677,447 |
| 2010 final dividend proposed | (31,119) | – | – | 31,119 | – | – |
| Recognition of share-based payments | – | 18,204 | – | – | – | 18,204 |
| **Transactions with owners** | (31,119) | 18,204 | – | 31,119 | – | 18,204 |
| Loss for the year | – | – | – | – | (39,983) | (39,983) |
| Other comprehensive income | – | – | – | – | – | – |
| **Total comprehensive income for the year** | – | – | – | – | (39,983) | (39,983) |
| **At 31 December 2010** | **553,977** | **18,204** | **95,267** | **31,119** | **(42,899)** | **655,668** |

Note: The contributed surplus of the Company represented the difference between the net asset value of the subsidiary acquired and the nominal value of the share capital of the Company issued in exchange thereof pursuant to the Restructuring Exercise.

## 29. Share Option Scheme

On 14 May 2010, the Company granted to certain eligible participants a total of 25,000,000 share options to subscribe for ordinary shares of HK$0.10 each in the share capital of the Company under the share option scheme adopted by the Company on 23 November 2009. The share options granted are exercisable as follows:

(i) the first 50% of the share options between the first and fifth anniversary of the date of grant; and

(ii) the remaining share options between the second and fifth anniversary of the date of grant.

The following table discloses the movements of the share options during the year.

| | Number of share options | | | | | |
|---|---|---|---|---|---|---|
| **Grantees** | **Outstanding at 1 January 2010** | **Granted during the year** | **Lapsed during the year** | **Exercised during the year** | **Outstanding at 31 December 2010** | **Exercise price** |
| Wang Mingxing | – | 800,000 | – | – | 800,000 | HK$5.40 |
| Wang Mingfeng | – | 800,000 | – | – | 800,000 | HK$5.40 |
| Wang Mingliang | – | 800,000 | – | – | 800,000 | HK$5.40 |
| Wang Fuchang | – | 800,000 | – | – | 800,000 | HK$5.40 |
| Sun Guohui | – | 800,000 | – | – | 800,000 | HK$5.40 |
| Huang Da | – | 800,000 | – | – | 800,000 | HK$5.40 |
| Other employees | – | 20,200,000 | – | – | 20,200,000 | HK$5.40 |
| | – | 25,000,000 | – | – | 25,000,000 | |

The weighted average exercise price of share options outstanding at the end of the year is HK$5.40 and their remaining contractual life was 5 years. Of the total number of share options outstanding at the end of the year, no options had vested and were exercisable. The fair value of the share options granted during the year, valued as at the grant date, was RMB39,091,000. The share-based compensation expense of RMB18,204,000 is included in the consolidated income statement for the year ended 31 December 2010.

The following significant assumptions were used to derive the fair value, under Binomial Option Pricing Model, of the share options granted during the year ended 31 December 2010:

The first 50% of the share options

(i) an annualised volatility of 52.5% throughout the option life;

(ii) nil dividend yield;

(iii) the estimated expected life of the options granted is 2.5 years; and

(iv) the risk free rate of 0.77% which is based on the yields on the Hong Kong Monetary Authority exchange fund notes.

## 29. Share Option Scheme (Continued)

The remaining share options

(i) an annualised volatility of 53.5% throughout the option life;

(ii) nil dividend yield;

(iii) the estimated expected life of the options granted is 3 years; and

(iv) the risk free rate of 1% which is based on the yields on the Hong Kong Monetary Authority exchange fund notes.

## 30. Commitment

### Operating lease commitment

The total future minimum lease payments under non-cancellable operating leases are falling due as follows:

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | **RMB'000** | RMB'000 |
| Within one year | **481** | 30 |
| In the second to fifth years | **1,792** | – |
| After five years | **1,311** | – |
| | **3,584** | 30 |

The Group leases a number of properties under operating lease and leasehold land. The leases run for initial period of 6 months to 10 years, with an option to renew the lease at the expiry date or at dates as mutually agreed between the Group and respective lessor. None of the leases include contingent rental.

### Capital commitment

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | **RMB'000** | RMB'000 |
| Contracted but not provided for | **36,788** | 768 |
| Authorised but not contracted for | **24,906** | – |
| | **61,694** | 768 |

## 31. Related Party Transactions

(a) In addition to the transactions and balances detailed elsewhere in the financial statements, the Group had the following transactions with related parties at agreed terms.

| | | Group | |
|---|---|---|---|
| | Notes | 2010 RMB'000 | 2009 RMB'000 |
| Sales to shareholders | (i) | 1,367 | 115,309 |
| Sales to related companies | (i) | 424 | – |
| Purchases from a shareholder | (ii) | – | 10,488 |
| Purchases from related companies | (ii) | 3,883 | 10,357 |
| Supply of steam and electric power from a related company | (iii) | 26,645 | 22,244 |
| Repair and maintenance services rendered by related companies | (iv) | 35 | 11 |
| Freight services rendered by a related company | (iv) | – | 7,291 |
| Subcontracting services rendered by a related company | (iv) | 4,291 | 486 |
| Rental expenses paid to a shareholder | (v) | – | 110 |
| Exclusive right of use of trademark from a shareholder | (vi) | – | – |
| Purchases of property, plant and equipment from related companies | (vii) | 616 | 7,154 |
| Purchases of property, plant and equipment from a shareholder | (vii) | – | 32,875 |
| Purchases of land use rights from a shareholder | (vii) | – | 25,453 |
| Sale of property, plant and equipment to a shareholder | (viii) | – | 20,354 |
| Construction services rendered by a related company | (ix) | 14,000 | – |

## 31. Related Party Transactions (Continued)

### (b) Key management personnel compensation

| | Group | |
|---|---|---|
| | 2010<br>RMB'000 | 2009<br>RMB'000 |
| Short term employee benefits of directors and other members of key management | 8,266 | 2,852 |

Notes:

(i) Sales to shareholders and related companies, of which Mr. Wang Mingfeng, Mr. Wang Mingxing, Mr. Wang Mingliang and Mr. Sun Guohui were shareholders and/or directors and have beneficial interest, were made in the ordinary course of business with reference to the terms negotiated between the Group and these shareholders/related companies.

(ii) Purchases from a shareholder and related companies, of which Mr. Wang Mingfeng, Mr. Wang Mingxing, Mr. Wang Mingliang and/or Mr. Sun Guohui were shareholders and/or directors and have beneficial interest, were made in the ordinary course of business with reference to the terms negotiated between the Group and the shareholder/related companies.

(iii) Supply of steam and electric power from a related company, of which Mr. Wang Mingfeng, Mr. Wang Mingxing, Mr. Wang Mingliang and Mr. Sun Guohui were shareholders and/or directors and have beneficial interest in the related company. Steam and electric expenses were paid according to the terms of the service agreements.

(iv) Services rendered by related companies, of which Mr. Wang Mingfeng, Mr. Wang Mingxing, Mr. Wang Mingliang and/or Mr. Sun Guohui were shareholders and/or directors and have beneficial interest in the related companies, were made according to the terms of the agreements.

(v) Rental expenses paid to a shareholder, of which Mr. Wang Mingfeng, Mr. Wang Mingxing, Mr. Wang Mingliang and Mr. Sun Guohui were shareholders and/or directors and have beneficial interest in the shareholder, were made according to the terms of the agreements.

(vi) A shareholder, of which Mr. Wang Mingfeng, Mr. Wang Mingxing, Mr. Wang Mingliang and Mr. Sun Guohui were shareholders and/or directors and have beneficial interest in the shareholder, granted an exclusive right of its registered trademark "Longevity Flower" (長壽花) and "Gold & Silver Flower" (金銀花) to the Group with nil consideration for 10 years.

(vii) Purchase of property, plant and equipment and land use rights from related companies and a shareholder, of which Mr. Wang Mingfeng, Mr. Wang Mingxing, Mr. Wang Mingliang and Mr. Sun Guohui were shareholders and/or directors and have beneficial interest, were conducted under mutually agreed terms negotiated between the Group and these related companies/shareholders.

(viii) Sale of property, plant and equipment to a shareholder, of which Mr. Wang Mingfeng, Mr. Wang Mingxing, Mr. Wang Mingliang and Mr. Sun Guohui were shareholders and/or directors and have beneficial interest, was conducted under mutually agreed terms.

(ix) Construction services from a related company, of which Mr. Wang Mingxing, Mr. Wang Mingliang, Mr. Wang Mingfeng, Mr. Sun Guohui and Ms. Huo Chunling (the spouse of Mr. Wang Mingliang) were shareholders and/or directors and have beneficial interest, were conducted under mutually agreed terms negotiated between the Group and these shareholders.

## 32. Significant Non-Cash Transactions

During the year ended 31 December 2009, Corn Industry completed an exchange of certain property, plant and equipment with Sanxing Grease. The fair value of the assets acquired by Corn Industry was RMB15,864,000 as at the acquisition date as assessed by an independent professional valuer. The net book value of the assets disposed by Corn Industry was RMB20,345,000 as at that date. The difference of approximately RMB4,481,000 was settled by Sanxing Grease by cash during the year.

## 33. Financial Risk Management and Fair Value Measurements

The Group is exposed to financial risks through its use of financial instruments in its ordinary course of operations. The financial risks included market risk (including currency risk and interest risk), credit risk and liquidity risk. The Group does not have written risk management policies and guidelines. However, the board of directors of the Company meets periodically to analyse and formulate measures to manage the Group's exposure to the financial risk, including principally changes in interest rates and currency exchange rates. Generally, the Group employs a conservative strategy regarding its risk management. As the Group's exposure to market risk is kept at a minimum level, the Group has not used any derivatives or other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes.

### (a) Categories of financial assets and liabilities

The carrying amounts presented in the statements of financial position relate to the following categories of financial assets and financial liabilities:

| | Group | | Company | |
|---|---|---|---|---|
| | 2010 RMB'000 | 2009 RMB'000 | 2010 RMB'000 | 2009 RMB'000 |
| **Financial assets** | | | | |
| Loans and receivables | | | | |
| – Trade and notes receivables | 90,391 | 55,019 | – | – |
| – Other receivables | 15,620 | 45,682 | 186 | 35,220 |
| – Amounts due from related parties | 81 | 10,795 | – | – |
| Cash and bank balances | 518,985 | 638,843 | 12,185 | 600,770 |
| | 625,077 | 750,339 | 12,371 | 635,990 |
| **Financial liabilities** | | | | |
| At amortised cost | | | | |
| – Trade payables | 16,542 | 7,160 | – | – |
| – Other payables | 23,799 | 11,902 | – | 8,740 |
| – Amounts due to related companies | 4,052 | 2,826 | – | – |
| – Amount due to a subsidiary | – | – | 8,334 | 9,958 |
| – Interest-bearing bank borrowing | 50,000 | 50,000 | – | – |
| | 94,393 | 71,888 | 8,334 | 18,698 |

## 33. Financial Risk Management and Fair Value Measurements (Continued)

### (b) Interest rate risk

The Group's bank deposits were bearing floating interest rate and loans borrowed at fixed interest rates. Exposure to floating interest rate exists when there are unexpected adverse interest rate movements. The Group's policy is to manage its interest rate risk, working within an agreed framework, to ensure that there are no unduly exposures to significant interest rate movements and rates are approximately fixed when necessary.

#### (i) Interest rate profile

The following tables detail the interest rate profile of the Group's financial instruments at the reporting date:

| | Group | | | |
|---|---|---|---|---|
| | Weighted average effective interest rate | | Carrying amount | |
| | 2010 % | 2009 % | 2010 RMB'000 | 2009 RMB'000 |
| **Variable rate instruments** | | | | |
| **Financial assets** | | | | |
| Cash at bank | 0.27% | 0.05% | 168,614 | 362,274 |
| **Fixed rate instruments** | | | | |
| **Financial assets** | | | | |
| Short-term bank deposits | 0.36% | 0.03% | 350,000 | 276,451 |
| **Financial liabilities** | | | | |
| Interest-bearing bank borrowing | 5.84% | 5.84% | 50,000 | 50,000 |

| | Company | | | |
|---|---|---|---|---|
| | Weighted average effective interest rate | | Carrying amount | |
| | 2010 % | 2009 % | 2010 RMB'000 | 2009 RMB'000 |
| **Variable rate instruments** | | | | |
| **Financial assets** | | | | |
| Cash at bank | 0.02% | 0.01% | 12,185 | 324,319 |
| **Fixed rate instruments** | | | | |
| **Financial assets** | | | | |
| Short-term bank deposits | – | 0.03% | – | 276,451 |

## 33. Financial Risk Management and Fair Value Measurements (Continued)

### (b) Interest rate risk (Continued)

#### (ii) Interest rate sensitivity analysis

The following tables illustrate the sensitivity of the profit for the year and equity to a reasonably possible change in interest rates of +25 basis points and –25 basis points (2009: +/–25 basis points), with effect from the beginning of the year. These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on the Group's financial instruments held at each reporting date. All other variables are held constant. There is no impact on other components of consolidated equity in response to the possible change in interest rates.

| | Group | | | |
|---|---|---|---|---|
| | **2010** | | 2009 | |
| | **RMB'000** | **RMB'000** | RMB'000 | RMB'000 |
| | **+25 basis points** | **–25 basis points** | +25 basis points | –25 basis points |
| Effect on profit for the year and retained earnings | **245** | **(245)** | 894 | (894) |

| | Company | | | |
|---|---|---|---|---|
| | **2010** | | 2009 | |
| | **RMB'000** | **RMB'000** | RMB'000 | RMB'000 |
| | **+25 basis points** | **–25 basis points** | +25 basis points | –25 basis points |
| Effect on loss for the year/period and accumulated losses | **34** | **(34)** | 810 | (810) |

## 33. Financial Risk Management and Fair Value Measurements (Continued)

### (c) Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Group. The Group's exposure to credit risk mainly arises from granting credit to customers in the ordinary course of its business.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset as follows:

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | **RMB'000** | RMB'000 |
| Classes of financial assets – carrying amount | | |
| Trade and notes receivables | **90,391** | 55,019 |
| Other receivables | **15,620** | 45,682 |
| Amounts due from related parties | **81** | 10,795 |
| Cash and bank balances | **518,985** | 638,843 |
| | **625,077** | 750,339 |

| | Company | |
|---|---|---|
| | **2010** | 2009 |
| | **RMB'000** | RMB'000 |
| Classes of financial assets – carrying amount | | |
| Other receivables | **186** | 35,220 |
| Cash and bank balances | **12,185** | 600,770 |
| | **12,371** | 635,990 |

The Group continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporates this information into its credit risk controls. The Group's policy is to deal only with creditworthy counterparties.

The Group's management considers that all the above financial assets that are not impaired for each of the reporting dates under review are of good credit quality, including those that are past due.

None of the Group's financial assets are secured by collateral or other credit enhancements.

In respect of trade and other receivables, the Group is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. As at 31 December 2010, the Group has bank deposits of RMB12,185,000 (2009: RMB600,770,000) in a bank in Hong Kong. The credit risk for liquid funds and other short-term financial assets is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

## 33. Financial Risk Management and Fair Value Measurements (Continued)

### (d) Foreign currency risk

Currency risk refers to risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group is exposed to foreign currency risk primarily through sales that are denominated in a currency other than the functional currency of the entity within the Group to which they related. The currencies give rise to this risk are mainly HK$, EURO and US$.

#### (i) Foreign currency risk exposure

| | Group | | | | | |
|---|---|---|---|---|---|---|
| | 2010 | | | 2009 | | |
| | HK$ | EURO | US$ | HK$ | EURO | US$ |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Assets:** | | | | | | |
| Cash and bank balances | 12,185 | 8 | 186 | 600,770 | 9 | 6 |
| **Liabilities:** | | | | | | |
| Other payables | – | – | – | 8,740 | – | – |

| | Company | |
|---|---|---|
| | 2010 | 2009 |
| | HK$ | HK$ |
| | RMB'000 | RMB'000 |
| **Assets:** | | |
| Cash and bank balances | 12,185 | 600,770 |
| **Liabilities:** | | |
| Other payables | – | 8,740 |

Apart from the above, all the Group's financial assets and liabilities are denominated in RMB.

#### (ii) Foreign currency sensitivity analysis

The following table illustrates the sensitivity of the Group's profit after tax for the year and equity in regards to a 1% (2009: 1%) appreciation in the Group entities' functional currencies against HK$, Euro and US$. All other variables are held constant. The rate is used when reporting foreign currency risk internally to key management personnel and represents management's best assessment of the possible change in foreign exchange rates. There is no impact on other components of combined equity in response to the general fluctuation in the following foreign currency rates.

## 33. Financial Risk Management and Fair Value Measurements (Continued)

### (d) Foreign currency risk (Continued)

#### (ii) Foreign currency sensitivity analysis (Continued)

The sensitivity analysis of the Group's exposure to foreign currency risk at the reporting date has been determined based on the assumed percentage changes in foreign currency exchange rates taking place at the beginning of the financial year and held constant throughout the year.

| | Group | | | | | |
|---|---|---|---|---|---|---|
| | **2010** | | | 2009 | | |
| | **HK$** | **EURO** | **US$** | HK$ | EURO | US$ |
| | **RMB'000** | **RMB'000** | **RMB'000** | RMB'000 | RMB'000 | RMB'000 |
| Effect on profit for the year and retained earnings | **(106)** | **–** | **(2)** | (5,920) | – | – |

| | Company | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$** | HK$ |
| | **RMB'000** | RMB'000 |
| Effect on loss for the year / period and accumulated losses | **(106)** | (5,920) |

A weakening of RMB against the respective foreign currencies at the respective reporting date would have had the equal but opposite effect to the amounts shown above, on the basis that all other variables remain constant.

These are the same method and assumption used in preparing the sensitivity analysis included in the financial statements of the year ended 31 December 2009.

### (e) Liquidity risk

Liquidity risk relates to the risk that the Group will not be able to meet its obligations associated with its financial liabilities. The Group is exposed to liquidity risk in respect of settlement of trade payables and its financing obligations, and also in respect of its cash flow management.

The cash flow management of all operating entities is centralised, including the raising of funds to cover expected cash demands. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

## 33. Financial Risk Management and Fair Value Measurements (Continued)

### (e) Liquidity risk (Continued)

The table below analyses the Group's financial liabilities based on the remaining contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

| | Group | | | |
|---|---|---|---|---|
| | **Carrying amount** | **Total contractual undiscounted cash flow** | **On demand** | **Less than one year** |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **At 31 December 2010** | | | | |
| – Trade payables | **16,542** | **16,542** | **16,542** | **–** |
| – Other payables | **23,799** | **23,799** | **23,799** | **–** |
| – Amounts due to related companies | **4,052** | **4,052** | **4,052** | **–** |
| – Interest-bearing bank borrowing | **50,000** | **50,795** | **–** | **50,795** |
| | **94,393** | **95,188** | **44,393** | **50,795** |
| **At 31 December 2009** | | | | |
| – Trade payables | 7,160 | 7,160 | 7,160 | – |
| – Other payables | 11,902 | 11,902 | 11,902 | – |
| – Amounts due to related companies | 2,826 | 2,826 | 2,826 | – |
| – Interest-bearing bank borrowing | 50,000 | 50,464 | – | 50,464 |
| | 71,888 | 72,352 | 21,888 | 50,464 |

| | Company | | | |
|---|---|---|---|---|
| | **Carrying amount** | **Total contractual undiscounted cash flow** | **On demand** | **Less than one year** |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **At 31 December 2010** | | | | |
| – Amount due to a subsidiary | **8,334** | **8,334** | **8,334** | **–** |
| **At 31 December 2009** | | | | |
| – Other payables | **8,740** | **8,740** | **8,740** | **–** |
| – Amount due to a subsidiary | **9,958** | **9,958** | **9,958** | **–** |
| | **18,698** | **18,698** | **18,698** | **–** |

### (f) Fair value

The fair values of the Group's financial assets and liabilities as at 31 December 2009 and 2010 were not materially different from their carrying amounts because of the immediate or short term maturity of these financial instruments.

## 34. Capital Management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, to maintain an optimal capital structure to reduce the cost of capital and to support the Group's stability and growth. The Group actively and regularly reviews and manages its capital structure, taking into consideration the future capital requirements of the Group, to ensure optimal shareholder returns.

The Group monitors capital using a gearing ratio, which is total debts divided by total capital. Total debts are calculated as the sum of bank borrowing, trade and other payables, amounts due to related companies and amount due to a subsidiary as shown in the statement of financial position. The Group aims to maintain the gearing ratio at a reasonable level.

| | Group | | Company | |
|---|---|---|---|---|
| | 2010 RMB'000 | 2009 RMB'000 | 2010 RMB'000 | 2009 RMB'000 |
| **Total debts** | | | | |
| Trade payables | 16,542 | 7,160 | – | – |
| Accrued liabilities, other payables and deposits received | 57,798 | 53,098 | 1,558 | 26,140 |
| Amounts due to related companies | 4,052 | 2,826 | – | – |
| Amount due to a subsidiary | – | – | 8,334 | 9,958 |
| Interest-bearing bank borrowing | 50,000 | 50,000 | – | – |
| | 128,392 | 113,084 | 9,892 | 36,098 |
| Less: Cash and bank balances | (518,985) | (638,843) | (12,185) | (600,770) |
| Net debts | n/a | n/a | n/a | n/a |
| Equity | 1,187,266 | 1,025,467 | 702,008 | 723,787 |
| Total debts to equity ratio | n/a | n/a | n/a | n/a |

# Financial Highlights

For the year ended 31 December 2010

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | 2010 | 2009 | 2008 | 2007 | 2006 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **RESULTS** | | | | | |
| Revenue | **1,537,376** | 1,163,981 | 934,004 | 694,337 | 481,142 |
| Cost of sales | **(1,283,164)** | (1,014,441) | (834,167) | (624,948) | (419,374) |
| Gross profit | **254,212** | 149,540 | 99,837 | 69,389 | 61,768 |
| Other income | **26,577** | 23,933 | 15,642 | 13,818 | 13,632 |
| Selling and distribution costs | **(65,903)** | (21,622) | (12,448) | (11,792) | (15,266) |
| Administrative expenses | **(43,453)** | (12,163) | (9,918) | (6,621) | (6,918) |
| Other operating expenses | **(480)** | (347) | (193) | (327) | (409) |
| Finance costs | **(2,851)** | (3,139) | (1,550) | (2,596) | (5,390) |
| Profit before taxation | **168,102** | 136,202 | 91,370 | 61,871 | 47,417 |
| Income tax expense | **(24,734)** | (16,175) | – | (876) | (16,393) |
| Profit for the year attributable to owners of the Company | **143,368** | 120,027 | 91,370 | 60,995 | 31,024 |
| **ASSETS AND LIABILITIES** | | | | | |
| Total assets | **1,330,211** | 1,142,430 | 343,204 | 198,689 | 214,935 |
| Total liabilities | **(142,945)** | (116,963) | (40,572) | (34,725) | (139,421) |
| | **1,187,266** | 1,025,467 | 302,632 | 163,964 | 75,514 |