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

(incorporated in the Cayman Islands with limited liability)

(Stock code: 00827)

Annual Report 2011

Contents

Corporate Information

DIRECTORS

Executive Directors

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

Independent Non-Executive Directors

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

COMPANY SECRETARY

Mr. Chung Tin Ming, HKICPA, FCCA

QUALIFIED ACCOUNTANT

Mr. Chung Tin Ming, HKICPA, FCCA

AUDIT COMMITTEE

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

AUTHORIZED REPRESENTATIVES

Mr. Li Weiruo
Ms. Man Au Vivian

COMPLIANCE OFFICER

Ms. Chi Chuan

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

SHARE REGISTRAR

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

AUDITOR

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

PRINCIPAL BANKERS

China Construction Bank Corporation
— Dazhou Branch

Shenzhen Development Bank
— Chengdu City Wan Fu Branch

Bank of Dalian
— Chengdu Branch

China Mingsheng Banking Corp.
— Chengdu Branch

Huaxia Bank Co., Ltd.
— Chengdu Tianfu Branch

Industrial & Commercial Bank of China
— Guangan Branch
— Dazhou Branch

STOCK CODE

827

WEBSITE

www.koyochem.com

Highlights

— For the year ended 31st December 2011, the profit attributable to shareholders was approximately RMB100.2 million, which represents an increase of RMB125.8 million as compared to year 2010.

— Basic profit per share was approximately RMB1.40 cents for the year ended 31st December 2011.

— For the year ended 31st December 2011, sale turnover was approximately RMB1,427 million, which represents an increase of approximately 63.5% as compared to year 2010.

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

			% change compare with year 2010	
Type	**Sales amount** (million RMB)	**Sales quantities** (tonnes)	**Sales amount**	**Sales quantities**
BB & compound fertilizers	167	89,144	(35.3)	(43.6)
Urea	907	422,754	229.8	182.7
Ammonia	209	79,474	43.2	24.0

— The Directors do not recommend the payment of any final dividend for the year ended 31st December 2011.

Chairman's Statement

TO SHAREHOLDERS

It's my honour to report the results of Ko Yo Chemical (Group) Limited (the "Company") together with its subsidiaries (collectively, the "Group") for the year ended 31st December 2011 to you. I wish to express appreciation on behalf of the Board of Directors to all shareholders and our friends from all sectors of the society who concern for the development of the Group.

During the year under review, the Group's results achieved a turnaround from loss and recorded a significant increase in profit. For the year ended 31st December 2011, the audited profit attributable to shareholders of the Group amounted to approximately RMB100.2 million, representing an increase of RMB125.8 million as compared to a loss of RMB25.6 million last year. Basic earnings per share amounted to RMB1.40 cents (2010: a loss of RMB0.36 cents). The Group's turnover amounted to approximately RMB1,427 million, representing an increase of 63.5% as compared to RMB873 million of 2010. The Group's sales volume amounted to approximately 674,000 tonnes, representing an increase of approximately 18.7% as compared to 568,000 tonnes of last year.

The Group achieved a turnaround from operating losses sustained in the last two consecutive years. The significant growth in turnover and profits was mainly due to:

1. The stable operation of Dazhou Plant contributed substantial profit to the Group. Since the commencement of operation in the fourth quarter of 2010, the Plant has attained a stable increase in the efficiency and utilization rate for production equipment, benefited from the competitive advantages of its adjacency to the natural gas field and dedicated supply pipeline and the sound production coordination within the Group. During the first year of operation, the production equipment has consecutively been operated for more than 100 days, and the maximum daily production of urea has exceeded the designed capacity of the equipment. In 2011, due to the inspection at the beginning of 2011 and the early inspection for 2012 at the end of the year, the annual average operating rate for the production equipment for synthetic ammonia and urea were 83% and 80% respectively, and the average utilization rate of capacity for the production equipment for synthetic ammonia and urea amounted reached 85% and 92% respectively between February and November in the same year. During the period under review, the sales volume for the products from Dazhou's urea plant reached approximately 426,000 tonnes and recorded sales income of RMB899 million, representing 63.0% of the Group's sales income for the year. Profit contribution amounted to RMB92 million, representing 92.0% of the Group's profit for the year.

2. With the increased prices of agricultural products, the recovery in the fertilizer industry and the surging production costs for raw materials, coal and electricity, the price of fertilizers gradually moved upward and stayed at a higher level. For example, the average factory prices of urea and liquid ammonia products in PRC increased to $3,400/tonne and $2,100/tonne respectively at the end of the year from $2,600/tonne and $1,700/tonne at the beginning of the year, representing an average annual increase of 17% and 7.7% as compared to the corresponding period of last year. The selling price of the Group's product increased approximately by 14.7%–28.1% on average as compared to those of last year.

In contrast with the results for the same period of the last year, despite of the growth in the Group's results to a greater extent, the profit failed to meet the management's expectation, which mainly resulted from the adverse effects as follows:

1. The surging costs for raw materials. Since the prices for natural gas rose in 2010, the price of anthracite also increased. For example, the average truck-loading price for middle anthracite in Jincheng, Shanxi have increased more than 50% in 2011 as compared to the average price in 2010. During the same year, the price of power for industrial use in PRC also increased for three times with accumulated increase of approximately 7%. The operating results of our plant located at Dazhu, Sichuan, was also unsatisfactory as affected by the surge in production cost and the plant only recorded an annual profit of RMB2.6 million for the year upon the suspension of operation in the last quarter.

2. Operating rate. As affected by Sinopec Corp.'s gas supply schedule, the operation of the production equipment at Dazhou Plant was suspended for inspection in December 2011, which was originally scheduled to be carried out in 2012 and thus there were 53 days of the suspended operation for the inspection of the production equipment at Dazhou plant during the year, which affected the annual operating rate of the equipment to a certain extent. Moreover, the operation of Xindu Plant was also suspended in the second half of 2011 due to its relocation, further affecting the production and sales volume of the products of the Group for the year, and results in a loss of RMB15.8 million for the year in Xindu plant.

Faced with the production and operation condition in 2011, the Group adopted the following measures to tackle the problems in a positive manner so as to achieve the operation indicators for the coming year.

As to production: Since the inspection of the production equipment at Dazhou Plant for 2012 has already been completed ahead of the schedule in December 2011, the management expect the operation efficiency in 2012 can be exceed those in 2011. Thus, the Company will strive to increase the load capacity of the production equipment and focus on ensuring the stable operation of the production equipment in the long run in order to fully capitalize the operation efficiency of the production equipment at Dazhou Plant.

As to the market: 1. The Group will increase its market shares in key markets and the promotion of the regional brand effect of the products by increasing the efficiency on the usage of the corporate internal resources; 2. The Group will continue to maintain the existing sales network by way of increasing external processing and trading of products during the suspended operation of Xindu Plant for its relocation and until the resumption of operation of Guangan; 3. The Group will increase the trading income while taking strategic measures and establishing the sale channels for marketing the products from the Guangan Project and 2nd Phase of Dazhou Project.

As to the management: The Group will increase its overall productivity by the implementation of ERP system, streamlining the management flow and improves the overall quality of the staff.

Considering the Group's result during the year under review, the Directors do not recommend the payment of any final dividend for the year ended 31st December 2011. The Group has not declared any dividend for the year ended 31st December 2011 (2010: Nil).

PROSPECT

Industry review

Domestic Market: The chemical fertilizer industry saw a stable growth in 2011 and the price of urea will stay at a higher level in the spring of 2012

2011 was the beginning of the Twelve Five Year Plan. Despite of the complicated domestic and international environment, the economy in China still maintained a stable and relative fast growth. Meanwhile, the chemical fertilizer industry has developed stably in line with the increasing prices of agricultural products and a stable increase of demand. Recently, the production capacity of fertilizer in China has continued to experience an upward trend. In 2011, the production capacity for phosphate and potash fertilizer in China remained a faster growth despite of the slowdown of the growth of the production capacity for nitrogen fertilizer. According to the information from Statistics Bureau, the total production of fertilizer in China amounted to 55,608,900 tonnes (net amount, same as below) for the first 11 months, representing a YOY increase of 11.62%, among which, the total production of nitrogen fertilizer, phosphate and potash fertilizer amounted to 38,450,000 tonnes, 13,558,000 tonnes and 3.6 million tonnes respectively, representing a YOY increase of 7.7%, 24.3% and 12.1% respectively.

Chairman's Statement

In 2011, as affected by such factors as the surging prices of coal and sulphur, shortage supply of natural gas and increasing price of power, the prices of various types of fertilizer in China stayed at a high level. During the spring season for farming and fertilizing between January and April in 2011, the trading in urea market was quiet. Although the supply in the market remained in balance, the overall prices were stable and the market did not see a shortage of supply and the surge in prices. The factors affecting the urea market during the spring of 2012 include the increasing price of anthracite, the tight supply of natural gas and the delayed launch of low season fertilizer reserves. All these factors supported the price of urea staying at a high level. It is expected that the supply of urea during the spring of 2012 will be more sufficient than that in 2011. Though there will be abundant supply in the market, with the support of the cost of raw material and increasing price of agricultural products, the price will go higher as compared to that of the same period in 2011.

International Market: The global chemical fertilizer industry remained a strong demand and the international market of nitrogen fertilizer in general was prosperous

Despite the volatility of the global economic environment, the European debt crises and the economic downturn in the US in 2011, the international market of nitrogen fertilizer continued to recover since 2010 without being affected by the factors as mentioned above. With the support of the increasing price of agricultural products, the tightening supply of energy and the strong rebound of the demand for chemical fertilizer, the chemical fertilizer experienced a substantial increase in international price and a prosperous market.

According to the International Fertilizer Industry Association (IFA), the high price of agricultural products has attracted the producers of agricultural products around the world to make more investment in the agricultural industry, driving a growth of demand for fertilizers. It is expected that the global spending on fertilizers during 2011/12 will grow by 3% YOY to 178.3 million tonnes, recording a historical high.

In 2011, the global production of and spending on urea maintained a trend of upward movement. As estimated by IFA, the amounts for the supply of and spending on urea would be 155.6 million tonnes (physical amount, same as below) and 153.3 million tonnes respectively. Approximately 89% and 11% of urea is for agricultural and industrial uses respectively. Although the prices of agricultural products and power remains high, the global market of nitrogen fertilizer in general would still be positive in 2012. However, the price may remain volatile under the uncertain global economy. It is expected that the global market of nitrogen fertilizer will continue to recover and demand for urea will maintain the upward momentum and grow at a rate of approximately 3.2%, among which, east and south Asia will see substantial increase in demand, being followed by Latin America and North America.

Despite the impact of uncertain global economic environment and the possibility of the slowdown of growth in China in 2012, the Directors of the Group ("Directors") believe that the fertilizer industry will remain positive with the support of the rigid demand for raw material and food and the surging price of agricultural products.

Chairman's Statement

OBJECTIVES AND STRATEGIES

Progress in the relocation of production equipment for Xindu

The Company has ceased the operation and the settlement of staff involved in the relocation of Xindu Plant by 2011 in accordance with the requests from the People's Government of Chengdu, making a good preparation for a smooth removal of the plant to Guangan.

On 16th June 2011, Ko Yo Development entered into the Equity Transfer Agreement with Chengdu Hexin Real Estate Co., Ltd. ("Purchaser") pursuant to which Ko Yo Development has agreed to sell, and the Purchaser has agreed to purchase 40% equity interests in Chengdu Ko Yo Chemical Industry Co., Ltd. for a consideration of RMB20 million (equivalent to approximately HK$24 million). Further to the Equity Transfer Agreement, Ko Yo Development and the Purchaser also entered into the Supplemental Agreement in respect of the disposition of the assets and liabilities of Chengdu Ko Yo Chemical Industry Co., Ltd. The Purchaser has also agreed to settle the debt of RMB49.44 million (equivalent to approximately HK$59.33 million) subject to the terms and conditions of the Supplemental Agreement.

In accordance with the overall development strategy as planned by the Group, the Company will transform this location into a new development opportunity. By leveraging on the resources, such as salt mines, natural gas and coal in Guangan, Sichuan, the Company will set up a new production base of chemicals. The Company will introduce a set of production equipment of synthetic ammonia-methanol through preliminary research for Guangan Koyo Chemical Co., Ltd and Guangan Lotusan Natural Gas Chemical Industry Co., Ltd., a project with an annual production of 300,000 tonnes of synthetic ammonia and 500,000 tonnes of methanol ("1st Phase of Project at Guangan"). Currently, the preliminary approval and preparation work for the project have been completed. The indicated use in natural gas of 650 million cubic meter in total that is required by the project has obtained approval from the People's Government of Guangan, PetroChina Southwest Oil & Gasfield Company and PetroChina Nanchong City Gas Company Limited. The disassembly of the overseas equipment is now going on and it is expected that the equipments will be started to delivery to the site from March 2012 onward for inspection and installation.

Stable increase of the production capacity of Dazhou Plant and mild slowdown of the 2nd Phase of the Project in Dazhou

In view of the operation of Dazhou Plant in 2011 and the progress in the relocation of the plant in Xindu to Guangan, the Company will place emphasis on stable production, increase of the production capacity of the equipment of Dazhou Plant and the construction of the 1st Phase of the Project in Guangan. Thus, the "Project for Annual Output of 300,000 Tonnes of Urea and 40,000 Tonnes of Melamine" (the "2nd Phase of the Dazhou Project") will be appropriately adjusted and postponed.

Melamine is a downstream product for urea. The production of melamine will further extend the product chain, enhance the added value of products, optimize the composition of the Company's products and profitability.

After preliminary research and inspection, the Company had acquired a set of idle Melamine production equipment from US. This equipment adopts DSM technique featuring advanced technology, low energy consumption, nil pollution and premium product quality. At present, the equipment has been arrived at the site and under inspection and testing. As the project is located at the 1st Phase of the Project in Dazhou, the land used by the project was already reserved in the 1st Phase of the Dazhou Project, and the project would share the common facilities with the 1st Phase. Therefore, investment cost will be saved and it will also be benefited from the advantage of low cost raw materials in the upper stream.

Chairman's Statement

Through the expansion in capacity and technology upgrade from the 2nd Phase of the Dazhou Project, it is expected that the annual productivity of Dazhou plant will finally reach 500,000 tonnes of synthetic ammonia, 800,000 tonnes of urea, and 40,000 tonnes of melamine respectively.

The Directors expected that the stable operation of Dazhou plant upon completion will become a profit centre for the Company this year. At the same time, the commencement of the 1st Phase of the Project in Guangan and the 2nd Phase of the Dazhou Project in will also bring new opportunities for the development of the Company in future, and allow the Company to gradually move into a phase of rapid growth.

Progress in the project of phosphorous mine

Sichuan Chengyuan Chemical Industry Company Limited ("Sichuan Cuyo"), a wholly-owned subsidiary of the Group, has successfully obtained exploitation licence for its phosphorous mine located at Qingping Township, Mianzhu City, Sichuan Province upon examination and approval by Bureau of Land and Resource of the State in 2010. Currently, the Company intends to jointly develop the exploiting technology of low-grade phosphorous mine with the well-known science and technology institutions in China in order to produce phosphoric acid for industrial use with the raw material of middle- and low-grade phosphorous mine. The Company can have the right of property of the patented technology that allow the Company's industry chain to expand both upstream and downstream and laying a foundation for further improvement of economic benefits and the sustainable development of the Company.

APPRECIATION

In 2011, with the uncertainty of the global economy and such adverse factors as the increasing cost of raw material, power price and cost of human resources, the management of the Company placed high emphasis on the safety and environmental protection, stable production and improvement in efficiency. The Company not only successfully settled the issues about the preliminary relocation of Xindu Plant and the settlement of staff, but also achieved a consecutive operation of Dazhou plant for more than 100 days, leading to the turnaround from losses of the Company.

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

Li Weiruo
Chairman

28th March 2012

Business Review

FINANCIAL PERFORMANCE

Results

For the year ended 31st December 2011, the Group remained focused on manufacture and distribution of chemical fertilizers and chemical products, including BB Fertilizers and complex fertilizers, sodium carbonate, urea, ammonium chloride, ammonium bicarbonate and ammonia.

During the year under review, the Group recorded turnover of approximately RMB1,427 million, an increase of 63.5% over the previous year. The profit attributable to shareholders of the Company amounted to approximately RMB100.2 million, representing an increase of approximately RMB125.8 million as compared to last year. Basic profit per share amounted to approximately RMB1.40 cents.

Cost and profit margin

Cost of sales of the Group amounted to approximately RMB1,145 million, representing an increase of 47.0% as compared to the figure in 2010. The reasons of increase in cost of sales were increase in sales quantities and the price of raw materials.

Gross profit margin of the Group increased approximately from 10.8% in 2010 to 19.8% in 2011. The increase in the gross profit margin was due to the commence production of the Dazhou plant.

During the year under review, distribution costs increased approximately by 33.5% as compared with last year. The ratio of the distribution costs over sales was 3.1% in 2011 which was lower than 3.8% in 2010.

In comparison with last year, there was an increase in administrative expenses of the Group by approximately 51.6% from RMB59.3 million in 2010 to RMB89.9 million in 2011. The increase in administrative expenses is mainly due to the expenses incurred during the closing of Xindu plant.

Starting from the year under review, the Group prepaid income tax in 2011 amounting to approximately RMB6 million. Details of tax schemes are set out in Note 29 to consolidated financial statements.

Dividends

Considering the Group's result during the year under review, the Directors do not recommend the payment of any final dividend for the year ended 31st December 2011. The Group has not declared any dividend for the year ended 31st December 2011 (2010: Nil).

Business Review

PRODUCTS

Sales of the Group's products for the year 2010 and 2011 are as follows:

	Turnover in year 2011		Turnover in year 2010		**Percentage Change in turnover**
	RMB'000	**Composite %**	RMB'000	Composite %	**%**
BB & compound fertilizers	**167,000**	**11.7**	258,000	29.6	(35.3)
Sodium carbonate	**60,000**	**4.2**	100,000	11.5	(40.0)
Ammonium chloride	**20,000**	**1.4**	45,000	5.1	(55.6)
Urea	**907,000**	**63.6**	275,000	31.5	229.8
Ammonia	**209,000**	**14.6**	146,000	16.7	43.2
Ammonium bicarbonate	**9,000**	**0.6**	17,000	1.9	(47.1)
Others	**55,000**	**3.9**	32,000	3.7	71.9

During the year under review, due to the commence operation of the Dazhou urea plant, the sales volumes of urea and ammonia were greatly increased as compared to year 2010. On the other land, with the closing of Xindu Plant in the second half of year 2011, the sales volumes of BB & compound fertilizers, sodium carbonate and ammonium chloride decreased as compared to year 2010.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31st December 2011, the Group had net current liabilities of approximately RMB524,640,000. Current assets as at 31st December 2011 comprised cash and bank deposits of approximately RMB132,094,000, pledged bank deposits of approximately RMB789,009,000, inventories of approximately RMB43,220,000, trade receivables of approximately RMB18,343,000 and prepayments and other current assets of approximately RMB341,992,000. Current liabilities as at 31st December 2011 comprised short-term borrowings of approximately RMB1,448,846,000, short-term portion for long-term borrowings of approximately RMB93,329,000, trade and notes payables of approximately RMB65,548,000, advances from customers of approximately RMB74,067,000 and accrued charges and other payables of approximately RMB167,508,000. Details of the Group's adoption of going concern basis in preparing the consolidated financial statements is set out in Note 2.1 to the consolidated financial statements.

CAPITAL COMMITMENTS

As at 31st December 2011, the Group had outstanding capital commitments of approximately RMB78 million. Details of the Group's capital commitments are set out in Note 34 to the consolidated financial statements.

FINANCIAL RESOURCES

As at 31st December 2011, the Group had cash and bank deposits of approximately RMB132,094,000 and pledged bank deposits of approximately RMB789,009,000. The Company intends to finance the Group's future operations, capital expenditure and other capital requirements with the existing bank balances and the capital market.

As at 31st December 2011, the total borrowings and notes payable balances of the Group amounted to RMB1,834,930,000.

Business Review

GEARING RATIO

The Group's gearing ratios were approximately 219% and 172% as at 31st December 2011 and 31st December 2010 respectively. The gearing ratios were calculated based on total liabilities over total equity as at the respective balance sheet dates. Details of the Group's gearing ratio is set out in Note 3.2 to the consolidated financial statements.

CONTINGENT LIABILITIES

The Group had no significant contingent liabilities as at 31st December 2011.

MATERIAL ACQUISITION/DISPOSAL

Other than the disposal of the 40% equity interest in Chengdu Ko Yo Chemical Industry Company Limited as per announcement dated 16th June 2011, there was no material acquisition or disposal in the year 2011 which would have been required to be disclosed under the Rules Governing the Listing of Securities ("Listing Rules") on Stock Exchange.

SEGMENTAL INFORMATION

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

DETAILS OF FUTURE PLANS FOR MATERIAL INVESTMENT OR CAPITAL ASSETS

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

EXPOSURE ON EXCHANGE RATE FLUCTUATION

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

CHARGES ON THE GROUP'S ASSETS

As at 31st December 2011, certain land use rights and buildings with a total net book value of approximately RMB158,869,000 (2010: RMB76,988,000), plant and machinery, construction in progress with a total net book value of approximately RMB786,030,000 (2010: RMB443,469,000) and bank deposits approximately RMB789,009,000 (2010: RMB389,712,000) were pledged as collateral for the Group's borrowings and notes payable.

DIVIDEND

After considering of the heavy capital expenditure of the new urea plant, the Directors do not recommend the payment of any final dividend for the year ended 31st December 2011.

NUMBER OF EMPLOYEES AND THEIR REMUNERATION

As at 31 December 2011, the Group had 1,080 (2010: 2,131) employees, comprising 6 (2010: 6) in management, 124 (2010: 123) in finance and administration, 898 (2010: 1,914) in production, 48 (2010: 84) in sales and marketing and 4 (2010: 4) in research and development, 1,074 (2010: 2,125) of these employees were located in the PRC and 6 (2010: 6) were located in Hong Kong.

Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Li Weiruo, aged 58, is the Chairman of the Board and the founder of the Group. He graduated from Sichuan Institute of Finance and Economics with a certificate in economics in 1985. Mr. Li has over 20 years' experience in corporate management in the PRC. He was awarded a certificate for "Chief Economists of Large-to-Medium Sized Enterprises in the PRC" after completing "The Study Course for Chief Economists of Large-to-Medium Sized Enterprises" commissioned by the State Economics Commission at the Southwest University of Finance and Economics in 1986. He is one of the authors of "Modern Corporate Management" which was published by the Sichuan Education Publisher. Mr. Li was the former Vice-director of China Nonferrous Metal Corporation in Chengdu. Mr. Li moved to Hong Kong in 1994 and became a permanent resident of Hong Kong in 2001. He was appointed as a member of the Chinese People's Political Consultative Conference of Sichuan Province in 2003. Mr. Li was appointed as the vice chairman of the China Association for Quality Inspection in August 2005. In May 2006, Mr. Li was awarded the "Outstanding Entrepreneur of Privately-owned Petroleum and Chemical Enterprises in China 2006" (二零零六全國石油和化工優秀民營企業家) by the China Petroleum and Chemical Industry Association. In September 2007, Mr. Li received the "Asia 10 Brand Innovative Personality Award" (亞洲品牌十大創新人物獎) by the Asia Brand Ceremony Organizing Committee (亞洲品牌盛典委會). In December 2008, he was accredited the award of "World Economy Top 10 Outstanding Chinese Entrepreneurs" (世界十大華人傑出企業家獎) by the "2008 Asia Pacific Annual Chinese-Economy Council for Investment & Financing" (2008 亞太（投融資）華人經濟年會). Mr. Li is responsible for the overall management, strategic planning and business development of the Group.

Mr. Yuan Bai, aged 53, is the Chief Executive Officer of the Group. Mr. Yuan is responsible for the cost management and general operations and research and development of the Group. Mr. Yuan graduated from Northeast Institute of Technology with a bachelor degree in engineering in 1982 and obtained a certificate as Senior Engineer in 1992. Mr. Yuan studied economy management in Qinghua University from September 1995 to March 1996. Prior to joining the Group in August 1999, Mr. Yuan was the Deputy General Manager of Chongqing Sanjiu Industrial Co., Ltd., which focused on the manufacture and trading of non-ferrous metal. Mr. Yuan was elected as a people's delegate of the first session of the People's Congress of Chongqing in 1997.

Ms. Chi Chuan, aged 56, is the Compliance Officer of the Group. She graduated from Sichuan Normal College with a bachelor degree in science in 1982. Ms. Chi has over 10 years' experience in finance and accounting. Prior to joining the Group in July 1999, Ms. Chi was the finance manager of Leshan Economic and Trade General Company, a trading company in the PRC. Ms. Chi is primarily responsible for the financial management of the Group since she joined the Group in July 1999.

Ms. Man Au Vivian, aged 48, is responsible for business development and investment activities of the Group. Ms. Man graduated from the University of International Business and Economics with a bachelor degree in economics in 1986. Ms. Man has over 15 years' experience in international trade. She formerly worked for China National Light Industrial Products Import and Export Corporation of MOFTEC. She joined the Group in January 1997.

Mr. Li Shengdi, aged 59, responsible for the construction and administrations of phase II of the Group's new urea plant in Dazhou and the relocation of the urea plant in Xindu. Mr. Li graduated from Chinese Communist Party School and North China University of Technology studying industrial enterprise management with a degree majoring economics and was entitled as an economist. Prior to joining the Group, he was the deputy manager of China Nonferrous Huludao Zinc Corporation, from 1983 to 1993, general manager of Hainan Hui Yuantang Medicine Co., Ltd. from 1996 to 1999 and general manager of Shanghai Haos Water Rectified Co., Ltd., a Sino-US joint venture from 2000 to 2002. Mr. Li joined the Group in October 2002 and was appointed as a Director of the Company on 29th April 2004.

Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Hu Xiaoping, aged 61, is an Independent Non-Executive Director. He obtained a bachelor degree in Economics from Sichuan Institute of Finance and Economics in 1982 and a master degree in Economics from Southwest University of Finance and Economics in 1987. Mr. Hu is currently a professor of the Southwest University of Finance and Economics. Mr. Hu has been involved in various research projects at both the provincial and state level and has published numerous articles in financial and economics publications in the PRC. He was appointed as an Independent Non- Executive Director in June 2003.

Mr. Woo Che-wor, Alex, aged 59, is an Independent Non-Executive Director. Mr. Woo has been the Chairman and Chief Executive Director of STI Certified Products Inc., a private company in California, U.S.A. since February 1988. From January 1976 to December 1988, Mr. Woo was the corporate treasurer of Fairchild Semiconductor Corporation, a multi-national semiconductor company with its headquarters in California, U.S.A.. Mr. Woo is qualified as Certified Management Accountant from Chartered Institute of Management Accountants of England and obtained an M.B.A. from San Jose State University of the U.S.A. in 1987. He was appointed as an Independent Non-Executive Director in June 2003.

Mr. Qian Laizhong, aged 69, is an Independent Non-Executive Director. Mr. Qian graduated from Sichuan Fine Arts Institute in 1968. Over the past 20 years, Mr. Qian actively participated in cultural and economical researches and publishes in Sichuan province, the PRC. Currently, Mr. Qian is a member of Sichuan Provincial Committee of Chinese Peoples Political Consultative Conference. He was appointed as an Independent Non-Executive Director on 16th August 2004.

SENIOR MANAGEMENT

Mr. Jiao Kang Di, aged 60, the vice president of the Group and responsible person of phase II of the Group's new urea plant in Dazhou city. Mr. Jiao is responsible for managing and coordinating the Group's large-scale chemical engineering projects. He graduated from Sichuan University of Science and Engineering (四川輕化工業院) in 1980, and further studied Economics at Sichuan Professional College of Finance & Economics (四川財經學院) in 1983. Mr. Jiao was given the name "Excellent Entrepreneur" (優秀企業家) by the People's Government of Zigong City (自貢市人民政府); he became a Senior Engineer in 1993; he was given the name "Labour Model" (勞動模範) by the Human Resources Department of the National Light Industry Department (國家輕工部人事部). Mr. Jiao joined the Koyo Group in 2005, before joining the Group, he was the Chief Executive Officer of Zigong Tongming Lighting Appliances Company Limited (自貢通明照具有限公司), and has outstanding ability in cost control and corporate management experiences.

Mr. Li Ciping, aged 47, is the vice president of the Group and the general manager of Sichuan Ko Yo Agruchem Co., Ltd. He is principally responsible for the marketing and trading of the Group's products. He graduated from Fuzhou University in 1985, majoring in Chemistry and Chemical Engineering. Mr. Li joined Koyo Group in 2008. Before joining Koyo Group, he was the director and general manager of Max Giant International Group Limited in Hong Kong. He had an extensive experience in corporate management.

Mr. Chang Chongde, aged 48, is the vice president of the Group. He is principally responsible for the production and operation of the Group. He graduated from Southwestern University of Finance and Economics in 1984, majoring in Industrial Organization. Mr. Chang joined Koyo Group in 1999. Before joining Koyo Group, he was the officer of Planning and Construction Office of Chemical Industrial Company under Sichuan Province Chemical Industrial Hall.

Mr. Chung Tin Ming, aged 41, is the company secretary and qualified accountant of the Group and is responsible for financial management of the Group. He graduated from Chinese University of Hong Kong with a bachelor degree in science and City University of Hong Kong with a master degree each of in financial engineering and electronic engineering. He also obtained a master degree of law in international corporate and financial law from University of Wolverhampton. He is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellowship member of Association of Chartered Certified Accountants. Prior to joining the Group in January 2006, he was a director of Keen Ocean Industrial Limited in Hong Kong.

Report of the Directors

The Directors have the pleasure of presenting their report together with the audited financial statements of the Company and its subsidiaries for the year ended 31st December 2011.

GENERAL INFORMATION

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

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

PRINCIPAL ACTIVITIES

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

RESULTS AND APPROPRIATIONS

Details of the Group's profits for the year ended 31st December 2011 are set out in the consolidated statement of comprehensive income.

The Directors do not recommend the payment of any final dividend for the year ended 31st December 2011 (2010: Nil).

SHARE CAPITAL

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

RESERVES

Movements in the reserves of the Group and of the Company during the year are set out in Note 16 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31st December 2011 amounted to approximately RMB597,060,000 (2010: RMB549,874,000).

RIGHTS OF DIRECTORS AND EMPLOYEES TO ACQUIRE SHARES OR DEBENTURES

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

PRE-EMPTIVE RIGHTS

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

Report of the Directors

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out in page 94.

PROPERTY, PLANT AND EQUIPMENT

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

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The Directors who held office during the year ended 31st December 2011 and up to the date of this report are:

Executive Directors

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

Independent Non-Executive Directors

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

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

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

The Independent Non-Executive Directors of the Company are appointed with specific terms inside the letter of appointment for initial fixed terms of two years. Pursuant to A.4.3 of the Corporate Governance Code (the "Corporate Governance Code") set out in Appendix 14 of the Listing Rules, any further appointment of an Independent Non-Executive Director in excess of nine years should subject to a separate resolution to be approved by shareholders. Mr. Hu Xiaoping and Mr. Woo Che-wor, Alex were appointed as Independent Non-Executive Directors in June 2003 and will severe on the Board for nine years in June 2012. Therefore, Mr. Hu Xiaoping and Mr. Woo Che-wor, Alex should retire and re-election at the forthcoming annual general meeting.

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

Report of the Directors

SHARE OPTIONS

On 10th June 2003, the Company adopted a share option scheme and amended at an extraordinary general meeting on 28th July 2004 (the "GEM Share Option Scheme"). The GEM Share Option Scheme was terminated on 25th August 2008. A new share option scheme (the "Existing Share Option Scheme") was adopted on 18th September 2008. A summary of the principle terms and conditions of the GEM Share Option Scheme is set out under the section headed "Share Option Scheme" in Appendix IV of the prospectus of the Company dated 30th June 2003. The amendments of the GEM Share Option Scheme are explained in the announcement and circular of the Company dated 12th July 2004. The details of the Existing Share Option Scheme can be found in the circular of the Company dated 29th August 2008. Details of the share option schemes of the Company are set out in Note 15 to the consolidated financial statement.

During the year ended 31st December 2011, the details of option outstanding and movements are disclosed in the following table:

Number of share options

	Held at 1 January 2011 ('000)	Grant during period ('000)	Exercised during period ('000)	Forfeited during period ('000)	Held at 31 December 2011 ('000)	*Share Options A ('000)	*Share Options B ('000)	*Share Options C ('000)	*Share Options D ('000)	*Share Options E ('000)	*Share Options F ('000)
Directors											
Li Weiruo	6,500	—	—	—	**6,500**	—	—	2,100	—	4,400	—
Yuan Bai	6,000	—	—	—	**6,000**	—	—	2,000	—	4,000	—
Chi Chuan	23,000	—	—	—	**23,000**	21,000	—	—	—	2,000	—
Man Au Vivian	23,000	—	—	—	**23,000**	19,000	—	—	—	4,000	—
Li Shengdi	25,000	—	—	—	**25,000**	21,000	—	—	—	4,000	—
Hu Xiaoping	6,000	—	—	—	**6,000**	2,000	—	—	—	—	4,000
Woo Che-wor Alex	6,000	—	—	—	**6,000**	2,000	—	—	—	—	4,000
Qian Laizhong	6,100	—	—	—	**6,100**	—	—	2,100	—	—	4,000
Employees	166,500	—	—	(4,000)	**162,500**	57,000	42,000	—	25,000	38,500	—
Total	268,100	—	—	(4,000)	**264,100**	122,000	42,000	6,200	25,000	56,900	12,000

* Share Options A: Grant at 23rd September 2003, exercisable from grant date until 22nd September 2013 with exercise price HK$0.124.
Share Options B: Grant at 11th April 2006, exercisable from grant date until 10th April 2016 with exercise price HK$0.150.
Share Options C: Grant at 16th May 2006, exercisable from grant date until 10th April 2016 with exercise price HK$0.150.
Share Options D: Grant at 10th September 2007, exercisable from grant date until 9th September 2017 with exercise price HK$0.116.
Share Options E: Grant at 14th January 2010, exercisable from grant date until 13rd January 2020 with exercise price HK$0.230.
Share Options F: Grant at 23rd November 2010, exercisable from grant date until 22nd November 2020 with exercise price HK$0.220.
4,000,000 of Share Options D were forfeited during the year of 2011.

DIRECTORS' INTERESTS IN SHARES

As at 31st December 2011, the interests and short positions of the Directors and Chief Executives in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) to be recorded in the register required to be kept under section 352 of the SFO; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in Listing Rules were as follows:

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

Directors	Personal long position in shares (beneficial owner)	Personal long position in share options (beneficial owner)	Aggregate long position in shares and underlying shares	Total interests in the issued share capital
Li Weiruo	2,924,440,000	6,500,000	2,930,940,000	40.73%
Yuan Bai	366,464,000	6,000,000	372,464,000	5.18%
Chi Chuan	62,640,000	23,000,000	85,640,000	1.19%
Man Au Vivian	31,320,000	23,000,000	54,320,000	0.75%
Li Shengdi	—	25,000,000	25,000,000	0.35%
Hu Xiaoping	—	6,000,000	6,000,000	0.08%
Woo Che-wor, Alex	—	6,000,000	6,000,000	0.08%
Qian Laizhong	—	6,100,000	6,100,000	0.08%

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

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

Note: a wholly-owned subsidiary of the Company

DIRECTORS' INTERESTS IN SHARES *(Continued)*

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

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

SUBSTANTIAL SHAREHOLDERS

As at 31st December 2011, so far as is known to any Director or Chief Executive of the Company, the following person (not being a director or a Chief Executive of the Company) had an interest or short positions in the shares or underlying shares of the Company which are required to be notified to the Company and the Stock Exchange under Divisions 2 and 3 of Part XV of the SFO and recorded in the register required to be kept under section 336 of the SFO, and who were directly or indirectly deemed to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company.

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

Name	Capacity	Number of shares	Approximate shareholding percentage
International Finance Corporation	Beneficial Owner	799,884,615	11.12%

Long positions in warrant shares of the Company *(Note)*

Name	Capacity	Number of warrant shares	Approximate shareholding percentage
International Finance Corporation	Beneficial Owner	350,115,385	4.87%

Note: Details is set out in Note 18 to the consolidated financial statements.

INTEREST OF OTHER PERSONS IN THE COMPANY

(i) Interest in the shares or underlying shares of the Company

As at 31st December 2011, so far as is known to any Director or Chief Executive of the Company and save as disclosed above, no person had an interest or short positions in the shares or underlying shares of the Company which are required to be notified to the Company and the Stock Exchange under Divisions 2 and 3 of Part XV of the SFO and recorded in the register required to be kept under section 336 of the SFO, and who were directly or indirectly deemed to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company.

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

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

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

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

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

SUFFICIENCY OF PUBLIC FLOAT

Based on the public information available to and within the knowledge of the Directors, it is confirmed that there is sufficient public float of more than 25% of the Company's issued shares at 27th March 2012.

DIRECTORS' INTEREST IN COMPETING BUSINESS

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

DIRECTORS' INTERESTS IN CONTRACTS

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

MANAGEMENT CONTRACTS

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

AUDIT COMMITTEE

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

The audit committee has reviewed with management the accounting principles and practices adopted by the Company and the Group and discussed internal controls and financial reporting matters including a review of the audited financial statements of the Company and the Group for the year ended 31st December 2011.

PURCHASE, SALE OR REDEMPTION OF SHARES

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

CUSTOMERS AND SUPPLIERS

For the year ended 31st December 2011, the five largest customers accounted for approximately 33.12% of the Group's total turnover and the five largest suppliers of the Group accounted for approximately 70.72% of the Group's total purchases. The largest customer of the Group accounted for approximately 13.33% of the Group's total turnover and the largest supplier accounted for approximately 61.74% of the Group's total purchases.

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

SUBSEQUENT EVENTS

Details of subsequent events of the Company are set out in Note 36 to the consolidated financial statements.

CORPORATE GOVERNANCE

A report on the corporate governance practices adopted by the Company is set out on pages 22 to 26 of the annual report.

Report of the Directors

AUDITORS

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

On behalf of the Board,

Li Weiruo
Chairman

28th March 2012

Corporate Governance Practices

CORPORATE GOVERNANCE PRACTICES

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

THE BOARD OF DIRECTORS

Board composition

The Board of directors currently comprises eight directors of which five are Executive Directors and three are Independent Non-Executive Directors. The detail is as follow:

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

Independent Non-Executive Directors
Mr. Hu Xiaoping
Mr. Woo Che-wor, Alex
Mr. Qian Laizhong

The Independent Non-Executive Directors represent over one-third of the Board. Among the three Independent Non-Executive Directors, at least one has appropriate professional qualifications or accounting or related financial management expertise which satisfies the requirement under the rule 3.10(1) and (2) of the Listing Rules. An annual confirmation of the independence of each Independent Non-Executive Director had been received in accordance with each and every guideline set out in rule 3.13 of the Listing Rules. Mr. Hu Xiaoping and Mr. Woo Che-wor, Alex were appointed as Independent Non-Executive Directors in June 2003 and will severe on the Board for nine years in June 2012. Pursuant to A.4.3 of the Corporate Governance Code, any further appointment of an Independent Non-Executive Director in excess of nine years should subject to a separate resolution to be approved by shareholders. Therefore, Mr. Hu Xiaoping and Mr. Woo Che-wor, Alex should retire and re-election at the forthcoming annual general meeting. All Independent Non-Executive Directors are identified as such in all corporate communications that disclose the names of the directors. There is no family or other material relationship among members of the Board.

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

THE BOARD OF DIRECTORS *(Continued)*

Board meeting

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

In the financial year ended 31st December 2011, 11 board meetings were held and the attendance record for the meetings by each director is as follow:

Attendants	**Number of meetings attended/Total**	**Attendance percentage**
Executive Directors		
Mr. Li Weiruo	11/11	100%
Mr. Yuan Bai	11/11	100%
Ms. Chi Chuan	11/11	100%
Ms. Man Au Vivian	11/11	100%
Mr. Li Shengdi	11/11	100%
Independent Non-Executive Directors		
Mr. Hu Xiaoping	4/11	36.4%
Mr. Woo Che-wor, Alex	4/11	36.4%
Mr. Qian Laizhong	4/11	36.4%

Chairman and Chief Executive Officer

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

Corporate Governance Practices

DIRECTORS' SECURITIES TRANSACTION

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

REMUNERATION OF DIRECTORS

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

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

The majority of the members of the remuneration committee are Independent Non-Executive Directors.

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

NOMINATION OF DIRECTORS

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

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

NOMINATION OF DIRECTORS *(Continued)*

The majority of the members of the Nomination Committee are Independent Non-Executive Directors.

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

TERM OF APPOINTMENT AND RE-ELECTION

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

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

Pursuant to A.4.3 of the Corporate Governance Code, any further appointment of an Independent Non-Executive Director in excess of nine years should subject to a separate resolution to be approved by shareholders. Mr. Hu Xiaoping and Mr. Woo Che-wor, Alex were appointed as Independent Non-Executive Directors in June 2003 and will severe on the Board for nine years in June 2012. Therefore, Mr. Hu Xiaoping and Mr. Woo Che-wor, Alex should retire and re-election at the forthcoming annual general meeting.

AUDIT COMMITTEE

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

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

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

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

Corporate Governance Practices

AUDIT COMMITTEE *(Continued)*

The Audit Committee is responsible for reviewing the accounting principles and practices adopted by the Group, recommending the Board on the Group's internal control and risk management system, and ensuring the Group's financial statements present a true and fair view of the Group's financial position. The Audit Committee had reviewed with management the accounting principles and practices and discussed internal controls and financial reporting matters including a review of the audited financial statements of the Company and Group for the year ended 31st December 2011.

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

INTERNAL CONTROL

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

Independent Auditor's Report

羅兵咸永道

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

We have audited the consolidated financial statements of Ko Yo Chemical (Group) Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 29 to 93, which comprise the consolidated and company balance sheets as at 31 December 2011, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

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

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Independent Auditor's Report

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 28 March 2012

Consolidated Balance Sheet

		As at 31 December	
	Note	**2011**	2010
		RMB'000	RMB'000
ASSETS			
Non-current assets			
Land use rights	*5*	**55,401**	88,105
Property, plant and equipment	*6*	**1,521,150**	1,318,214
Mining right	*7*	**334,306**	334,306
Intangible assets	*8*	**11,438**	8,900
Deferred income tax assets	*20*	**2,163**	7,583
		1,924,458	1,757,108
Current assets			
Inventories	*10*	**43,220**	65,827
Trade and other receivables	*11*	**155,194**	148,913
Prepaid income tax, net		**6,357**	1,848
Pledged bank deposits	*12*	**789,009**	389,712
Cash and cash equivalents	*13*	**132,094**	71,966
Non-current assets held for sale	*14*	**198,784**	—
		1,324,658	678,266
Total assets		**3,249,116**	2,435,374
EQUITY			
Capital and reserves attributable to the equity holders of the Company			
Share capital	*15*	**138,618**	136,100
Reserves	*16*	**881,442**	758,877
Total equity		**1,020,060**	894,977

Consolidated Balance Sheet

	Note	As at 31 December 2011 RMB'000	2010 RMB'000
LIABILITIES			
Non-current liabilities			
Long-term borrowings, secured	*17*	**284,655**	332,918
Derivative financial liabilities	*18*	**5,072**	41,786
Deferred subsidy income	*19*	**7,476**	8,329
Deferred income tax liabilities	*20*	**82,555**	80,867
		379,758	463,900
Current liabilities			
Trade and other payables	*21*	**307,123**	176,981
Short-term borrowings, secured	*22*	**1,448,846**	810,360
Current portion of long-term borrowings, secured	*17*	**93,329**	89,156
		1,849,298	1,076,497
Total liabilities		**2,229,056**	1,540,397
Total equity and liabilities		**3,249,116**	2,435,374
Net current liabilities		**(524,640)**	(398,231)
Total assets less current liabilities		**1,399,818**	1,358,877

Li Weiruo
Director

Yuan Bai
Director

The notes on pages 35 to 93 are an integral part of these consolidated financial statements.

Balance Sheet

	Note	As at 31 December 2011 RMB'000	2010 RMB'000
ASSETS			
Non-current assets			
Interests in subsidiaries	*9*	**744,902**	730,644
Current assets			
Other receivables	*11*	**476**	—
Cash and cash equivalents	*13*	**15**	28
		491	28
Total assets		**745,393**	730,672
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	*15*	**138,618**	136,100
Reserves	*16*	**597,060**	549,874
Total equity		**735,678**	685,974
LIABILITIES			
Non-current liabilities			
Derivative financial liabilities	*18*	**5,072**	41,786
		5,072	41,786
Current liabilities			
Accruals and other payables	*21*	**4,643**	2,912
		4,643	2,912
Total liabilities		**9,715**	44,698
Total equity and liabilities		**745,393**	730,672
Net current liabilities		**(4,152)**	(2,884)
Total assets less current liabilities		**740,750**	727,760

Li Weiruo
Director

Yuan Bai
Director

The notes on pages 35 to 93 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

	Note	Year ended 31 December 2011 RMB'000	2010 RMB'000
Turnover	23	**1,426,888**	872,582
Cost of sales	24	**(1,144,540)**	(778,764)
Gross profit		**282,348**	93,818
Distribution costs	24	**(44,304)**	(33,181)
Administrative expenses	24	**(89,910)**	(59,294)
Other income — net	27	**33,580**	713
Operating profit		**181,714**	2,056
Finance costs — net	28	**(75,931)**	(26,007)
Profit/(Loss) before income tax		**105,783**	(23,951)
Income tax expense	29	**(5,629)**	(1,654)
Profit/(Loss) for the year	30	**100,154**	(25,605)
Other comprehensive income		**—**	—
Total comprehensive income/(loss) for the year		**100,154**	(25,605)
Profit/(Loss) and total comprehensive income/(loss) attributable to equity holders of the Company		**100,154**	(25,605)
Profit/(Loss) per share for profit/(loss) attributable to the equity holders of the Company during the year (expressed in RMB per share)			
— Basic	31	**0.0140**	(0.0036)
— Diluted	31	**0.0138**	(0.0036)
Dividend	32	**—**	—

The notes on pages 35 to 93 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes In Equity

	Note	Share capital RMB'000	Reserves RMB'000	Total RMB'000
Balance at 1 January 2010		136,082	775,721	911,803
Comprehensive income:				
Loss for the year		—	(25,605)	(25,605)
Total comprehensive loss		—	(25,605)	(25,605)
Transactions with owners:				
Employee share option scheme:				
— Proceeds from shares issued	*15*	18	85	103
— Value of employee services	*15*	—	8,676	8,676
		18	8,761	8,779
Balance at 31 December 2010		136,100	758,877	894,977
Balance at 1 January 2011		**136,100**	**758,877**	**894,977**
Comprehensive income:				
Profit for the year		**—**	**100,154**	**100,154**
Total comprehensive income		**—**	**100,154**	**100,154**
Transactions with owners:				
Issue of ordinary shares upon the exercise of warrants	*15*	**2,518**	**22,411**	**24,929**
		2,518	**22,411**	**24,929**
Balance at 31 December 2011		**138,618**	**881,442**	**1,020,060**

The notes on pages 35 to 93 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

	Note	Year ended 31 December 2011 RMB'000	2010 RMB'000
Cash generated from operating activities	*33(a)*	**252,712**	85,592
Interest paid		**(88,107)**	(26,266)
Income tax paid		**(18,939)**	(2,382)
Net cash inflow from operating activities		**145,666**	56,944
Cash flows from investing activities			
Purchases of property, plant and equipment and payments for construction-in-progress		**(447,123)**	(339,014)
Payment for intangible assets		**(2,700)**	—
Payments for exploration and evaluation assets		**—**	(1,693)
Receipt in advance from planned disposal of non-current assets held for sale		**131,100**	—
Proceeds from disposal of property, plant and equipment	*33 (b)*	**9,380**	5
Interest income received		**15,116**	2,978
Net cash used in investing activities		**(294,227)**	(337,724)
Cash flows from financing activities			
Increase in pledged bank deposits		**(399,297)**	(306,387)
Issue of ordinary shares		**19,606**	103
Proceeds from borrowings		**1,097,756**	833,673
Repayment of borrowings		**(509,376)**	(319,141)
Net cash inflow from financing activities		**208,689**	208,248
Net increase/(decrease) in cash and cash equivalents		**60,128**	(72,532)
Cash and cash equivalents at beginning of the year		**71,966**	144,498
Cash and cash equivalents at end of the year	*13*	**132,094**	71,966

The notes on pages 35 to 93 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1 GENERAL INFORMATION

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

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

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

These consolidated financial statements are presented in Renminbi ("RMB"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 28 March 2012.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

The Group reported net current liabilities of approximately RMB524,640,000 as at 31 December 2011 (2010: RMB398,231,000), in addition, the Group has capital commitments of RMB78,316,000 as at 31 December 2011 (2010: RMB61,769,000) (see Note 34(a)). The directors of the Company have given due consideration to the liquidity of the Group and have adopted the going concern basis in preparing the consolidated financial statements based on the following assessment:

— The Group has profitable operations and stable cash inflow from operating activities;

— In February and March 2012, new short-term borrowings of RMB80 million with a term of one year; new short-term borrowings of RMB49 million with a term of six months and new long-term borrowings of RMB50 million with a term of 5 years have been granted and drawn down;

— The Group has not experienced any difficulties in renewing its short-term borrowings upon their maturities and there is no evidence indicating that the banks will not renew the existing short-term borrowings if the Group applies for the renewal. Subsequent to the balance sheet date and up to the date of approval of the financial statements, short-term borrowings of approximately RMB40 million have been rolled over for a further year. In addition, certain banks have advised their intention in writing, though not legally binding, to renew or to extend the loans of approximately RMB455 million for a further year when they fall due in 2012;

— As of 31 December 2011, the capital expenditure committed by the Group amounted to approximately RMB78 million. These commitments are mainly related to the construction of a new production line in GuangAn, Sichuan province ("GuangAn Project"). The capital commitments will be financed by the above new long-term borrowings of RMB50 million and cash inflows from operating activities. The directors of the Company will undertake close monitoring process to control the magnitude and timing of the expected cash outlays associated with the GuangAn Project.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

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

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

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

Changes in accounting policy and disclosures

(a) *New and amended standards, interpretations mandatory for the first time for the financial year beginning 1 January 2011 but not currently relevant to the Group (although they may affect the accounting for future transactions and events)*

- HKAS 32 (Amendment), 'Classification of rights issues', effective for annual periods beginning on or after 1 February 2010.

- HK(IFRIC) – Int 19, 'Extinguishing financial liabilities with equity instruments,, effective for annual periods beginning on or after 1 July 2010.

- Amendment to HKFRS 1, 'Limited exemption from comparative HKFRS 7 disclosures for first-time adopters', effective for annual periods beginning on or after 1 July 2010.

- HKAS 24 (Revised), 'Related party disclosures', effective for annual periods beginning on or after 1 January 2011.

- Amendment to HK(IFRIC) – Int 14, 'Prepayments of a minimum funding requirement', effective for annual periods beginning on or after 1 January 2011.

- Other amendment made under "Improvements to HKFRS" published in May 2010.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

Changes in accounting policy and disclosures *(Continued)*

(b) New standards, amendments and interpretations have been issued but are not effective for the financial year beginning 1 January 2011 and have not been early adopted by the Group

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

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

  The group is yet to assess HKFRS 9's full impact and intends to adopt HKFRS 9 upon its effective date, which is for the accounting period beginning on or after 1 January 2015.

- HKFRS 10 'Consolidated financial statements' builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess.

  The group is yet to assess HKFRS 10's full impact and intends to adopt HKFRS 10 no later than the accounting period beginning on or after 1 January 2013.

- HKFRS 12 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The group is yet to assess HKFRS 12's full impact and intends to adopt HKFRS 12 no later than the accounting period beginning on or after 1 January 2013.

- HKFRS 13 'Fair value measurement' aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within HKFRSs. The group is yet to assess HKFRS 13's full impact and intends to adopt HKFRS 13 no later than the accounting period beginning on or after 1 January 2013.

There are no other HKFRS or HK(IFRIC) interpretations that are not yet effective that would be expected to have a material impact on the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity. The group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise from circumstances such as enhanced minority rights or contractual terms between shareholders, etc.

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

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

(a) Business combinations

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

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

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

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Subsidiaries *(Continued)*

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

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

(c) Disposal of subsidiaries

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

2.3 Segment reporting

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

2.4 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Foreign currency translation *(Continued)*

(c) Group companies

The results and financial position of all the group entities (none of which has hyperinflation currency) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

— assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

— income and expenses for each consolidated statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

— all resulting exchange differences are recognised as a separate component of other comprehensive income.

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

2.5 Property, plant and equipment

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

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.5 Property, plant and equipment *(Continued)*

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

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

2.6 Mining right

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

2.7 Land use rights

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

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

2.8 Non-current assets held-for-sale

Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

2.9 Intangible assets

(a) Goodwill

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.9 Intangible assets *(Continued)*

(b) Construction permits

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

2.10 Impairment of investment in subsidiaries and non-financial assets

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

2.11 Financial assets

(a) Classification

The Group classifies its financial assets in the following category: loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. During 2010 and 2011, other than loans and receivables, the Group did not hold any financial assets in other categories.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise `trade and other receivables' and `cash and cash equivalents' in the balance sheet (notes 2.15 and 2.16).

(b) Recognition and measurement

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

2.12 Offsetting financial instruments

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.13 Impairment of financial assets carried at amortised cost

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

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

The Group first assesses whether objective evidence of impairment exists.

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

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

2.14 Inventories

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

2.15 Trade and other receivables

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.16 Cash and cash equivalents

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

2.17 Share capital

Ordinary shares are classified as equity.

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

2.18 Derivative financial liabilities

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

2.19 Trade payables

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

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

2.20 Borrowings

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.21 Borrowings Costs

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

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

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

2.22 Current and deferred income tax

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

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.23 Employee benefits

(a) Employee leave entitlements

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

(b) Pension obligations

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

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

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

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

(c) Termination benefits

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.24 Share-based compensation

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

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

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

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

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

2.25 Provisions

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.26 Contingent liabilities

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

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

2.27 Revenue recognition

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

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

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

Interest income is recognised using the effective interest method.

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

2.28 Government grants

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

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

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred subsidy income and are recognised in the consolidated statement of comprehensive income on a straight-line basis over the expected lives of the related assets, except for the refund of value-added tax ("VAT") which is deducted in arriving at the carrying amount of property, plant and equipment.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.29 Leases

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

2.30 Dividend distribution

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

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

(a) Foreign exchange risk

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

As at 31 December 2011, if RMB had weakened/strengthened by 5% against the USD with all other variables held constant, post-tax profit for the year would have been decreased/increased by RMB3,554,000 (2010: post-tax loss for the year would have been increased/decreased by RMB4,429,000), mainly as a result of foreign exchange losses/gains on translation of the USD-denominated long-term borrowings.

(b) Cash flow and fair value interest rate risk

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

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

As at 31 December 2011, if interest rates on long-term borrowings had been increased/decreased by 20 basis points with all other variables held constant, post-tax profit for the year would have been decreased/increased by RMB643,000 (2010: post-tax loss for the year would have been increased/decreased by RMB718,000), mainly as a result of higher/lower interest expense on floating rate borrowings.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(c) Credit risk

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

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

For trade and other receivables, the credit quality of the counterparties is assessed by taking into account their financial position, credit history and other factors. Individual credit limits are set based on the assessment of the credit quality. Given the constant repayment history, the directors are of the opinion that the risk of default by these counterparties is low. The Group has no significant concentrations of credit risk, with exposure spread over a large number of counterparties and customers.

(d) Liquidity risk

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

The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the end of each reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant. No maturity analysis of the derivative financial liabilities of the Group (Note 18) is presented as the derivative financial liabilities requires no cash outflow in the future.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(d) Liquidity risk *(Continued)*

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000
Group				
At 31 December 2011				
Trade and other payables	**231,996**	**—**	**—**	**—**
Current portion of long-term borrowings, secured	**93,329**	**—**	**—**	**—**
Short-term borrowings, secured	**1,448,846**	**—**	**—**	**—**
Long-term borrowings, secured	**—**	**103,710**	**154,675**	**26,270**
Interest payment on borrowings	**38,643**	**10,768**	**15,388**	**1,919**
At 31 December 2010				
Trade and other payables	130,304	—	—	—
Current portion of long-term borrowings, secured	89,156	—	—	—
Short-term borrowings, secured	810,360	—	—	—
Long-term borrowings, secured	—	86,916	212,138	33,864
Interest payment on borrowings	35,124	20,528	25,282	2,713
Company				
At 31 December 2011				
Accruals and other payables	**4,643**	**—**	**—**	**—**
At 31 December 2010				
Accruals and other payables	2,912	—	—	—

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

The Group has been investing in the construction of new production lines and a significant amount of the financing was obtained from short-term borrowings. As a result, the Group had net current liabilities of approximately RMB524,640,000 as at 31 December 2011 (2010: RMB398,231,000). Nevertheless, the Group has not experienced any difficulties in renewing its short-term borrowings upon their maturities.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(d) Liquidity risk *(Continued)*

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

— The Group has profitable operations and stable cash inflow from operating activities;

— In February and March 2012, new short-term borrowings of RMB80 million with a term of one year; new short-term borrowings of RMB49 million with a term of six months and new long-term borrowings of RMB50 million with a term of 5 years have been granted and drawn down;

— The Group has not experienced any difficulties in renewing its short-term borrowings upon their maturities and there is no evidence indicating that the banks will not renew the existing short-term borrowings if the Group applies for the renewal. Subsequent to the balance sheet date and up to the date of approval of the financial statements, short-term borrowings of approximately RMB40 million have been rolled over for a further year. In addition, certain banks have advised their intention in writing, though not legally binding, to renew or to extend the loans of approximately RMB455 million for a further year when they fall due in 2012;

— As of 31 December 2011, the capital expenditure committed by the Group amounted to approximately RMB78 million. These commitments are mainly related to the construction of the GuangAn Project. The capital commitments will be financed by the above new long-term borrowings of RMB50 million and cash inflows from operating activities. The directors of the Company will undertake close monitoring process to control the magnitude and timing of the expected cash outlays associated with the GuangAn Project.

3.2 Capital risk management

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

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

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Capital risk management *(Continued)*

The gearing ratio as at 31 December 2011 was as follows:

	2011 **RMB'000**	2010 RMB'000
Total liabilities	**2,229,056**	1,540,397
Total equity	**1,020,060**	894,977
Gearing ratio	**219%**	172%

The increase in the gearing ratio from 172% in 2010 to 219% in 2011 is mainly due to the increase of short-term borrowings.

3.3 Fair value estimation

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

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

The following table presents the Group's liabilities that are measured at fair value at 31 December 2011.

	Level 1 **RMB'000**	**Level 2** **RMB'000**	**Level 3** **RMB'000**	**Total** **RMB'000**
Liabilities				
Financial liabilities at fair value through profit or loss				
— Derivative financial liabilities (Note 18)	**—**	**—**	**5,072**	**5,072**

The following table presents the Group's liabilities that are measured at fair value at 31 December 2010.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Liabilities				
Financial liabilities at fair value through profit or loss				
— Derivative financial liabilities (Note 18)	—	—	41,786	41,786

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Fair value estimation *(Continued)*

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

The following table presents the changes in level 3 instruments for the year ended 31 December 2011.

	Derivative financial liabilities RMB'000	**Total RMB'000**
Opening balance	**41,786**	**41,786**
Gains recognised in profit or loss	**(31,391)**	**(31,391)**
Exercise of warrants	**(5,323)**	**(5,323)**
Closing balance	**5,072**	**5,072**
Total gains for the period included in profit or loss for liabilities held at the end of the reporting period	**(24,187)**	**(24,187)**

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

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

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

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

(a) Useful lives of property, plant and equipment

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

(b) Provision for impairment of trade receivables

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

(c) Fair value of derivative financial liabilities

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

(d) Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in Note 2.9(a). The recoverable amounts of cash-generating units have been determined based on fair value less costs to sell calculations. These calculations require the use of estimates (Note 8).

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

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(f) Income taxes

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

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

Pursuant to the Corporate Income Tax Law and its implementation rules, effective from 1 January 2008, certain non-resident enterprises (for instance, those without an establishment or place of business in Mainland China or which have an establishment or place of business in Mainland China but whose relevant income is not effectively connected with the establishment or a place of business in the Mainland China) are subject to withholding tax at the rate of 5% or 10% on various types of passive income such as dividends derived from sources within the Mainland China. During the year ended 31 December 2011, retained profits of RMB24,430,000 of the Company's certain subsidiaries in the Mainland China were distributed to a subsidiary in Hong Kong with withholding income tax paid (Note 29). As at 31 December 2011, the Group recognised relevant deferred tax liabilities of RMB1,688,000 (2010:Nil), on the earnings of approximately RMB33,763,000 (2010: Nil) anticipated to be remitted by a PRC subsidiary in the foreseeable future. No withholding tax has been provided for the earnings of approximately RMB5,441,000 (2010: RMB23,405,000) which are expected to be retained by the PRC subsidiaries and not to be remitted out of the PRC in the foreseeable future.

5 LAND USE RIGHTS — GROUP

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

	2011 RMB'000	2010 RMB'000
At 1 January		
Cost	**100,378**	100,378
Accumulated amortisation	**(12,273)**	(10,250)
Net book amount	**88,105**	90,128
Opening net book amount	**88,105**	90,128
Reclassified as non-current assets held for sale (Note 14)	**(31,030)**	—
Amortisation charge for the year	**(1,674)**	(2,023)
	55,401	88,105
At 31 December		
Cost	**59,289**	100,378
Accumulated amortisation	**(3,888)**	(12,273)
	55,401	88,105

All the Group's land use rights are located in Mainland China. The remaining lease periods of the land use rights are between 5 to 47 years (2010: 6 to 48 years).

As at 31 December 2011, certain land use rights with a total net book value of approximately RMB6,904,000 (2010: RMB27,617,000) and RMB46,890,000 (2010: RMB49,371,000) were pledged as collateral for the Group's short-term borrowings (Note 22) and long-term borrowings (Note 17).

Amortisation charge of RMB1,674,000 (2010: RMB1,279,000) had been charged in administrative expenses (2010: amortisation charge of RMB744,000 had been capitalised into construction-in progress).

Notes to the Consolidated Financial Statements

6 PROPERTY, PLANT AND EQUIPMENT — GROUP

	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Office equipment and others RMB'000	Construction-in-progress RMB'000	Total RMB'000
At 1 January 2010						
Cost	75,992	177,319	10,278	18,280	887,898	1,169,767
Accumulated depreciation	(15,305)	(71,938)	(3,177)	(9,398)	—	(99,818)
Net book amount	60,687	105,381	7,101	8,882	887,898	1,069,949
Year ended 31 December 2010						
Opening net book amount	60,687	105,381	7,101	8,882	887,898	1,069,949
Additions	1,907	1,491	615	238	278,158	282,409
Transfers	283,354	800,655	—	708	(1,084,717)	—
Disposals (Note 24)	—	(316)	—	(65)	—	(381)
Depreciation	(3,523)	(27,316)	(941)	(1,983)	—	(33,763)
Closing net book amount	342,425	879,895	6,775	7,780	81,339	1,318,214
At 31 December 2010						
Cost	361,253	978,912	10,892	18,963	81,339	1,451,359
Accumulated depreciation	(18,828)	(99,017)	(4,117)	(11,183)	—	(133,145)
Net book amount	342,425	879,895	6,775	7,780	81,339	1,318,214
Year ended 31 December 2011						
Opening net book amount	342,425	879,895	6,775	7,780	81,339	1,318,214
Additions	—	713	—	169	440,013	440,895
Reclassified as non-current assets held for sale (Note 14)	(35,051)	(53,030)	—	(2,271)	(61,519)	(151,871)
Transfers	105	175	—	—	(280)	—
Disposals (Note 24)	—	(7,143)	(122)	(160)	—	(7,425)
Depreciation	(7,423)	(69,806)	(952)	(482)	—	(78,663)
Closing net book amount	300,056	750,804	5,701	5,036	459,553	1,521,150
At 31 December 2011						
Cost	311,047	847,100	10,085	9,888	459,553	1,637,673
Accumulated depreciation	(10,991)	(96,296)	(4,384)	(4,852)	—	(116,523)
Net book amount	300,056	750,804	5,701	5,036	459,553	1,521,150

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

Depreciation expense of RMB67,955,000 (2010: RMB30,052,000) had been charged in cost of sales and RMB10,708,000 (2010: RMB3,711,000) in administrative and selling expenses.

All the Group's buildings are located in Mainland China. As at 31 December 2011, property, plant and equipment with a total net book value of approximately RMB27,167,000 (2010: RMB33,553,000) were pledged as collateral for the Group's short-term borrowings (Note 22); property, plant and equipment with a total net book value of approximately RMB891,105,000 (2010: RMB529,756,000) were pledged as collateral for the Group's long-term borrowings (Note 17).

Borrowing costs of RMB9,412,000 (2010:RMB31,310,000) have been capitalised in the construction-in-progress at average capitalisation rate of 7.81% (2010: 6.10%).

7 MINING RIGHT — GROUP

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

	Total
At 1 January 2010 & At 31 December 2010	334,306
Year ended 31 December 2011	
Opening net book amount	334,306
Additions	—
Closing net book amount	334,306
At 31 December 2011	
Cost	334,306
Accumulated amortisation and impairment	—
Net book amount	334,306

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

8 INTANGIBLE ASSETS — GROUP

	Goodwill	Construction permits	Total
At 1 January 2010 and 31 December 2010	8,900	—	8,900
Year ended 31 December 2011			
Opening net book amount	8,900	—	8,900
Acquisition	—	2,700	2,700
Amortisation charge	—	(162)	(162)
Closing net book amount	8,900	2,538	11,438

Construction permits represent the permission granted by the government for the construction of GuangAn Project.

Amortisation charge of RMB162,000 (2010: Nil) is included in administrative expenses.

Impairment tests for goodwill

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

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

	2011
Gross margin	**32%**
Growth rate	**3%**
Discount rate (post-tax discount rate applied to the cash flow projections)	**18%**
Years of cash flows projection (expected mining period of the phosphate mine)	**30 years**

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

9 INTERESTS IN SUBSIDIARIES — COMPANY

	2011 RMB'000	2010 RMB'000
Unlisted investments, at cost	**332,113**	332,113
Investment arising from share-based compensation (Note i)	**5,510**	5,510
Amounts due from subsidiaries (Note ii)	**407,279**	393,021
	744,902	730,644

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

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

The following is a list of the subsidiaries as at 31 December 2011:

Name	Place of incorporation/ establishment and kind of legal entity	Principal activities and place of operation	Particulars of issued, registered and fully paid up capital	Interest held
Ko Yo Ecological Agrotech (BVI) Limited ("Ko Yo BVI") (Note a)	British Virgin Islands ("BVI"), limited liability company	Investment holding in BVI	100 ordinary shares of USD1 each	100%
Bright Bridge Investments Limited (Note a)	BVI, limited liability company	Investment holding in BVI	1 ordinary share of USD1 each	100%
Ko Yo Development Company Limited ("Ko Yo Hong Kong")	Hong Kong, limited liability company	Investment holding in Hong Kong	3,000,000 non-voting deferred shares and 100 ordinary shares of HKD1 each	100%
Chengdu Ko Yo Chemical Industry Co., Ltd. ("Chengdu Ko Yo Chemical")	Mainland China, wholly foreign owned enterprise	Manufacture and sale of chemical products including sodium carbonate, ammonia, and chemical fertilisers including urea and ammonium chloridein Mainland China	RMB27,000,000	60%

9 INTERESTS IN SUBSIDIARIES — COMPANY *(Continued)*

Name	Place of incorporation/ establishment and kind of legal entity	Principal activities and place of operation	Particulars of issued, registered and fully paid up capital	Interest held
Chengdu Ko Yo Compound Fertilisers Co., Ltd. ("Chengdu Ko Yo Compound")	Mainland China, wholly foreign owned enterprise	Manufacture, research, development and sale of bulk blended fertilisers in Mainland China	RMB15,000,000	100%
Dazhou Ko Yo Chemical Industry Co., Ltd ("Dazhou Ko Yo Chemical") (Note b)	Mainland China, wholly foreign owned enterprise	Manufacture and sale of chemical products including ammonia, ammonia carbonate and urea in Mainland China	RMB350,000,000	100%
Qingdao Ko Yo Chemical Industry Co., Ltd. ("Qingdao Ko Yo Chemical")	Mainland China, wholly foreign owned enterprise	Manufacture, research, development and sale of bulk blended fertilisers in Mainland China	USD2,100,000	100%
Hong Kong Cuyo Investment Limited ("Hong Kong Cuyo")	Hong Kong, limited liability company	Investment holding in Hong Kong	4,720,000 ordinary shares of HKD1 each	100%
Sichuan Chengyuan Chemical Industry Co., Ltd. ("Sichuan Cuyo")	Mainland China, wholly foreign-owned enterprise	Exploration and exploitation of a phosphorous mine in Mainland China	RMB5,000,000	100%
Sichuan Ko Yo Agrochem Co., Ltd ("Ko Yo Agrochem")	Mainland China, wholly foreign owned enterprise	Sale of chemical products including sodium carbonate, ammonia, and chemical fertilisers including urea and ammonium chloride in Mainland China	RMB24,000,000	100%
Guangan Ko Yo Chemical Industry Co., Ltd ("Ko Yo GuangAn")	Mainland China, wholly foreign-owned enterprise	Manufacture and sale of chemical products including sodium carbonate and ammonia in Mainland China	RMB160,000,000	100%
Chengdu Dayuan Chemical Industry Co., Ltd ("Ko Yo Dayuan")	Mainland China, wholly foreign-owned enterprise	Investment holding in Mainland China	RMB100,000	100%

9 INTERESTS IN SUBSIDIARIES — COMPANY *(Continued)*

Name	Place of incorporation/ establishment and kind of legal entity	Principal activities and place of operation	Particulars of issued, registered and fully paid up capital	Interest held
Chengdu Meiyuan Chemical Industry Co., Ltd ("Ko Yo Meiyuan")	Mainland China, wholly foreign-owned enterprise	Investment holding in Mainland China	RMB100,000	100%
Guangan Lotusan Natural Gas Chemicals Co., Ltd ("Ko Yo Lotusan")	Mainland China, wholly domestic-owned enterprise	Manufacture and sale of chemical products including methanol and ammonia in Mainland China	RMB43,000,000	100%

Notes:

(a) Shares held directly by the Company.

(b) 100% equity interest of Ko Yo Hong Kong and Dazhou Ko Yo Chemical were pledged as collateral for the Company's long-term borrowings (Note 17).

10 INVENTORIES — GROUP

	2011 RMB'000	2010 RMB'000
Raw materials	**38,158**	48,469
Work in progress	**179**	282
Finished goods	**4,883**	17,076
	43,220	65,827

The cost of inventories recognised as expense and included in "cost of sales" amounted to RMB391,886,000 (2010: RMB412,530,000).

As at 31 December 2011, a batch of materials with cost of RMB1,987,000 was considered as obsolete. A provision of RMB1,537,000 (Note 24) was made as at 31 December 2011. Fair value less costs to sell of this batch of raw materials was RMB450,000.

11 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade receivables	**23,584**	25,266	**—**	—
Less: provision for impairment of trade receivables	**(5,241)**	(5,156)	**—**	—
Trade receivables — net	**18,343**	20,110	**—**	—
Prepayments	**101,859**	94,849	**476**	—
Prepaid input VAT	**8,287**	—	**—**	—
Notes receivable	**4,100**	20,253	**—**	—
Due from employees	**5,085**	5,826	**—**	—
Others	**17,520**	7,875	**—**	—
	155,194	148,913	**476**	—

As at 31 December 2011 and 2010, the fair value of trade and other receivables of the Group approximated to their carrying amounts.

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

	Group	
	2011	2010
	RMB'000	RMB'000
Less than 3 months	**17,664**	20,016
More than 3 months but not exceeding 1 year	**79**	137
More than 1 year but not exceeding 2 years	**733**	88
More than 2 years but not exceeding 3 years	**83**	1
More than 3 years	**5,025**	5,024
	23,584	25,266
Less: provision for doubtful receivables	**(5,241)**	(5,156)
	18,343	20,110

As of 31 December 2011, trade receivables of RMB17,664,000 (2010: RMB20,016,000) that are under credit term were fully performing.

11 TRADE AND OTHER RECEIVABLES *(Continued)*

As of 31 December 2011, trade receivables of RMB679,000 (2010: RMB94,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	Group	
	2011	2010
	RMB'000	RMB'000
More than 3 months but not exceeding 1 year	**79**	7
More than 1 year but not exceeding 2 years	**600**	87
	679	94

As at 31 December 2011, trade receivables of RMB5,241,000 (2010: RMB5,156,000) were impaired and full provision of RMB5,241,000 (2010: RMB5,156,000) was provided for. The individually impaired receivables mainly relate to wholesalers, which are in unexpected difficult economic situations. The ageing of these receivables is as follows:

	Group	
	2011	2010
	RMB'000	RMB'000
More than 3 months but not exceeding 1 year	**—**	130
More than 1 year but not exceeding 2 years	**133**	1
More than 2 years but not exceeding 3 years	**83**	1
More than 3 years	**5,025**	5,024
	5,241	5,156

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

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
RMB	**150,546**	145,834	**—**	—
HKD	**4,648**	3,079	**476**	—
	155,194	148,913	**476**	—

11 TRADE AND OTHER RECEIVABLES *(Continued)*

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

	Group	
	2011	2010
	RMB'000	RMB'000
At 1 January	**5,156**	5,026
Provision for receivables	**85**	131
Unused amounts reversed	**—**	(1)
At 31 December	**5,241**	5,156

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

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

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

12 PLEDGED BANK DEPOSITS — GROUP

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

	Group	
	2011	2010
	RMB'000	RMB'000
RMB	**789,009**	389,712

The deposits are pledged for short-term borrowings and notes payable issued by the Group. The effective interest rates on pledged bank deposits are ranging from 3.25% to 3.50% (2010: 0.36% to 5.40%).

13 CASH AND CASH EQUIVALENTS

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash at bank	**131,780**	70,552	**15**	28
Cash in hand	**314**	1,414	**—**	—
	132,094	71,966	**15**	28
Maximum exposure to credit risk	**131,780**	70,552	**15**	28

The weighting average effective interest rate on cash at bank at 31 December 2011 is 0.44% (2010: 0.36%).

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

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
RMB	**130,558**	71,963	**—**	—
USD	**1,142**	2	**2**	—
HKD	**394**	1	**13**	28
	132,094	71,966	**15**	28

14 NON-CURRENT ASSETS HELD FOR SALE

Due to municipal planning arrangement, at the request of the People's Government of Chengdu, the original manufacturing business of Ko Yo Chemical (a directly wholly-owned subsidiary of Ko Yo Hong Kong) which is located at Xindu, Sichuan Province is required to be discontinued. The Group therefore has applied for the change of the usage of Ko Yo Chemical's land use rights from industrial usage to commercial usage and is arranging the disposal of the non-current assets of Ko Yo Chemical to other parties. In accordance with the overall development strategy as planned by the Group, the proceeds from the sale of the non-current assets of Ko Yo Chemical will be invested in the GuangAn Project.

On 16 June 2011, Ko Yo Hong Kong and Chengdu Hexin Real Estate Co, Ltd (the "Purchaser") entered into the Equity Transfer Agreement and the Supplemental Agreement pursuant to which Ko Yo Hong Kong has agreed to sell, and the Purchaser has agreed to purchase the 40% equity interest in Ko Yo Chemical, at a cash consideration of RMB20 million, and the settlement of certain debts of Ko Yo Chemical amounting to RMB49.44 million. The aggregate consideration of approximately RMB69.44 million was received and the registration of transfer of 40% equity interest in Ko Yo Chemical has been completed during the year. Ko Yo Chemical ceased its business operation before the end of December 2011.

14 NON-CURRENT ASSETS HELD FOR SALE *(Continued)*

As the Purchaser intends to further acquire the remaining 60% equity interest in Ko Yo Chemical, a deposit of RMB30.66 million has also been received from the Purchaser during the year.

Moreover, pursuant to the Supplemental Agreement the Group is required to settle all liabilities of Ko Yo Chemical and is entitled to dispose of certain machinery being dismantled from Ko Yo Chemical. The Group received the consideration of RMB31 million for such disposal from another independent third party during the year.

As of 31 December 2011, the completion of the sale of 100% equity interest in Ko Yo Chemical and the disposal of machinery is subject to the fulfilment of certain terms and conditions, and thus all the amounts received in relation to the disposal of Ko Yo Chemical and the assets totalling RMB131.1 million are classified as advances from purchasers (Note 21). As a result, the Group reclassified the non-current assets of Ko Yo Chemical to current assets which are held for sale.

The details of the non-current assets held for sale are as follows:

	2011 RMB'000
Non-current assets held for sale	
Property, plant and equipment (Note 6)	**151,871**
Land use rights (Note 5)	**31,030**
Deferred tax assets (Note 20)	**15,883**
	198,784

15 SHARE CAPITAL

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

	Number of shares of HKD0.02 each		Share capital	
	2011	2010	**2011**	2010
	’000	’000	**HKD’000**	HKD’000
Authorised:				
Ordinary shares at beginning and end of year	**10,000,000**	10,000,000	**200,000**	200,000

	Notes	Number of shares of HKD0.02 each		Share capital	
		2011	2010	**2011**	2010
		’000	’000	**RMB’000**	RMB’000
Issued and fully paid:					
Ordinary shares at beginning of year		**7,045,400**	7,044,400	**136,100**	136,082
Issue of ordinary shares upon the exercise of:					
— Warrants	*(a)*	**149,885**	—	**2,518**	—
— Options	*(b)*	**—**	1,000	**—**	18
Ordinary shares at end of year		**7,195,285**	7,045,400	**138,618**	136,100

The total authorised number of ordinary share is 10,000 million shares (2010: 10,000 million shares) with a par value of HKD0.02 per share (2010: HKD0.02 per share). All issued shares are fully paid.

(a) Issue of ordinary shares

On 31 March 2011, IFC exercised a portion of the warrants to subscribe 149,885,000 new ordinary shares of HKD0.02 each in cash at an exercise price of HKD0.156 (equivalent to RMB0.131) per share. The weighted average share price at the date of exercise of warrants was HKD0.198 per share (equivalent to RMB0.166). Share premium of RMB22,411,000, representing the difference between the cash proceeds and par value of issued shares amounting to RMB17,088,000 plus the fair value of the exercised warrants at the exercise date amounting to RMB5,323,000, is recognised.

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

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

15 SHARE CAPITAL *(Continued)*

(c) Share options

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

(1) GEM Share Option Scheme

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

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

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

15 SHARE CAPITAL *(Continued)*

(c) Share options *(Continued)*

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

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

Date of grant	**23 September 2003**	**11 April 2006**	**16 May 2006**	**10 September 2007**	
Exercise price (HKD per option, on post-subdivision basis)	0.12	0.15	0.15	0.12	
Granted to	2 Executive Directors, 2 Independent Directors and 6 employees	18 employees	2 Executive Directors and 1 Independent Director	7 employees	
Exercisable period	**10 years from the date of grant** (Note i)	**10 years from the date of grant**	**10 years from the date of grant** (Note ii)	**10 years from the date of grant**	**Total**
At 1 January 2010 and 31 December 2010	122,000,000	42,000,000	6,200,000	29,000,000	199,200,000
Forfeited	—	—	—	(4,000,000)	(4,000,000)
At 31 December 2011	122,000,000	42,000,000	6,200,000	25,000,000	195,200,000

15 SHARE CAPITAL *(Continued)*

(c) Share options *(Continued)*

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

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

Exercisable period	Directors	Number of options 2011
23 September 2003 to 22 September 2013	Ms. Chi Chuan	**21,000,000**
23 September 2003 to 22 September 2013	Mr. Li Shengdi	**21,000,000**
23 September 2003 to 22 September 2013	Ms. Man Au, Vivian	**19,000,000**
23 September 2003 to 22 September 2013	Mr. Hu Xiaoping	**2,000,000**
23 September 2003 to 22 September 2013	Mr. Woo Che-wor, Alex	**2,000,000**
		65,000,000
23 September 2003 to 22 September 2013	Other employees	**57,000,000**
		122,000,000

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

Exercisable period	Directors	Number of options 2011
16 May 2006 to 10 April 2016	Mr. Li Weiruo	**2,100,000**
16 May 2006 to 10 April 2016	Mr. Yuan Bai	**2,000,000**
16 May 2006 to 10 April 2016	Mr. Qian Laizhong	**2,100,000**
		6,200,000

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

15 SHARE CAPITAL *(Continued)*

(c) Share options *(Continued)*

(2) New Share Option Scheme

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

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

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

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

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

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

Exercisable period	Directors	Number of options 2011
14 January 2010 to 13 January 2020	Mr. Li Wei Ruo	**4,400,000**
14 January 2010 to 13 January 2020	Mr. Yuan Bai	**4,000,000**
14 January 2010 to 13 January 2020	Ms. Chi Chuan	**2,000,000**
14 January 2010 to 13 January 2020	Ms. Man Au Vivian	**4,000,000**
14 January 2010 to 13 January 2020	Mr. Li Shengdi	**4,000,000**
		18,400,000

15 SHARE CAPITAL *(Continued)*

(c) Share options *(Continued)*

(2) New Share Option Scheme *(Continued)*

(i) *(Continued)*

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

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

Exercisable period	Directors	Number of options 2011
23 November 2010 to 22 November 2020	Mr. Hu Xiaoping	**4,000,000**
23 November 2010 to 22 November 2020	Mr. Woo Che-wor, Alex	**4,000,000**
23 November 2010 to 22 November 2020	Mr. Qian Laizhong	**4,000,000**
		12,000,000

The fair value of options granted during 2010, determined using the Black-Scholes valuation model, was HKD1,617,000 (approximately RMB1,391,000). The significant inputs into the model were weighted average share price of HKD0.22 at the grant date, the exercise price shown above, volatility of 49.00%, dividend yield of 0.00%, an expected option life of ten years and an annual risk-free interest rate of 2.37%. The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of daily share prices over the last ten years of comparable companies.

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

16 RESERVES

Movements of the Group's reserves are as follows:

	Share premium RMB'000	Merger reserve RMB'000 (Note a)	Share-based compensation reserve RMB'000	Reserve fund RMB'000 (Note b)	Enterprise expansion fund RMB'000 (Note b)	Retained earnings RMB'000	Total RMB'000
At 1 January 2010	527,637	(22,041)	5,510	18,688	1,131	244,796	775,721
Comprehensive income:							
Loss for the year	—	—	—	—	—	(25,605)	(25,605)
Transactions with owners:							
Employee share option scheme:							
— Share issued for the exercised options (Note 15(a))	85	—	—	—	—	—	85
— Value of employee services (Note 15(c))	—	—	8,676	—	—	—	8,676
Appropriation (Note b)	—	—	—	3,142	—	(3,142)	—
	85	—	8,676	3,142	—	(3,142)	8,761
At 31 December 2010	527,722	(22,041)	14,186	21,830	1,131	216,049	758,877
At 1 January 2011	527,722	(22,041)	14,186	21,830	1,131	216,049	758,877
Comprehensive income:							
Profit for the year	—	—	—	—	—	100,154	100,154
Transactions with owners:							
Issue of ordinary shares upon the exercise of warrants (Note 15(a))	22,411	—	—	—	—	—	22,411
Appropriation (Note b)	—	—	—	11,474	—	(11,474)	—
	22,411	—	—	11,474	—	(11,474)	22,411
At 31 December 2011	550,133	(22,041)	14,186	33,304	1,131	304,729	881,442

16 RESERVES *(Continued)*

Movements of the Company's reserves are as follows:

	Share remium RMB'000	Contributed surplus RMB'000 (Note c)	Share-based compensation reserve RMB'000	Accumulated loss RMB'000	Total RMB'000
At 1 January 2010	527,637	37,162	5,510	(12,979)	557,330
Comprehensive income:					
Loss attributable to the equity holders of the Company	—	—	—	(16,217)	(16,217)
Transactions with owners:					
Employee share option scheme:					
— Share issued for the exercised options (Note 15(a))	85	—	—	—	85
— Value of employee services (Note 15(c))	—	—	8,676	—	8,676
	85	—	8,676	—	8,761
At 31 December 2010	527,722	37,162	14,186	(29,196)	549,874
At 1 January 2011	527,722	37,162	14,186	(29,196)	549,874
Comprehensive income:					
Profit attributable to the equity holders of the Company (Note 30)	—	—	—	24,775	24,775
Transactions with owners:					
Issue of ordinary shares upon the exercise of warrants (Note15(a))	22,411	—	—	—	22,411
At 31 December 2011	550,133	37,162	14,186	(4,421)	597,060

(a) Merger reserve

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

16 RESERVES *(Continued)*

(b) Statutory reserves

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

(c) Contributed surplus

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

17 LONG-TERM BORROWINGS, SECURED

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Bank borrowings (a)	**294,349**	317,856	**—**	—
Borrowing from IFC (b)	**83,635**	104,218	**—**	—
	377,984	422,074	**—**	—

(a) Bank borrowings

The long-term bank borrowings are secured by bank deposits of RMB16,012,000 (2010: RMB15,937,000), certain land use rights with a total net book value of approximately RMB33,974,000 (2010: RMB33,891,000), property, plant and equipment with a total net book value of RMB775,421,000 (2010: RMB383,783,000), 100% equity interest in Ko Yo Hong Kong and Dazhou Ko Yo Chemical (Note 9), which were effectively owned by the Company, and guaranteed by Mr. Li Weiruo, a shareholder and director of the Company.

The average effective interest rate of bank borrowings as at 31 December 2011 is 7.9% (2010: 5.63%).

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

(b) Borrowing from IFC

On 16 April 2009, the Group entered into a long-term borrowing agreement and a warrant subscription agreement with IFC, pursuant to which, IFC granted a long-term borrowing of USD20 million (equivalent to RMB132,454,000) to the Group at the coupon interest rate of LIBOR plus 4.5% per annum and the Company issued warrants at nil consideration to IFC to subscribe 500,000,000 ordinary shares of HKD0.02 each from the Company at an exercise price of HKD0.156 per share (Note 18). The Group has drawn down the long-term borrowings of USD17 million (equivalent to RMB116,147,000) in 2009 and USD3 million (equivalent to RMB19,869,000) in 2010.

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

	Group	
	2011	2010
	RMB'000	RMB'000
Face value of borrowing from IFC	**132,454**	132,454
Fair value of warrants at date of issue	**(37,835)**	(37,835)
Initial recognition value	**94,619**	94,619
Interest expense accrued	**32,113**	19,444
Interest paid	**(16,498)**	(9,845)
Principal paid	**(26,599)**	—
Borrowing from IFC at 31 December	**83,635**	104,218

The effective interest rate of the borrowing from IFC as at 31 December 2011 is 13.17 % (2010: 13.48%). The calculation of the effective interest rate has taken into account the deduction of fair value of warrants from the face value of the borrowing.

The borrowing of IFC is secured by certain land use rights with a total net book value of approximately RMB12,916,000 (2010: RMB15,480,000), and property, plant and equipment with a total net book value of RMB115,684,000 (2010: RMB146,013,000).

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

(b) Borrowing from IFC *(Continued)*

As at 31 December 2011, the Group's long-term borrowings were repayable as follows:

	Group		Company	
	2011 **RMB'000**	2010 RMB'000	**2011** **RMB'000**	2010 RMB'000
Within 1 year	**93,329**	89,156	**—**	—
Between 1 and 2 years	**103,710**	86,916	**—**	—
Between 2 and 3 years	**97,786**	97,281	**—**	—
Between 3 and 5 years	**56,889**	114,857	**—**	—
Over 5 years	**26,270**	33,864	**—**	—
	377,984	422,074	**—**	—
Within 1 year included in current liabilities	**(93,329)**	(89,156)	**—**	—
	284,655	332,918	**—**	—

	Group		Company	
	2011 **RMB'000**	2010 RMB'000	**2011** **RMB'000**	2010 RMB'000
Wholly repayable within 5 years	**351,714**	388,210	**—**	—
Wholly repayable after 5 years	**26,270**	33,864	**—**	—
	377,984	422,074	**—**	—

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

	Group		Company	
	2011 **RMB'000**	2010 RMB'000	**2011** **RMB'000**	2010 RMB'000
At floating rates in USD	**83,635**	104,218	**—**	—
At floating rates in RMB	**294,349**	317,856	**—**	—
	377,984	422,074	**—**	—

The carrying amounts of the long-term borrowings approximate their fair value as the market borrowing interest rate approximates the effective interest rate of the long-term borrowings. The weighted average effective interest rate of the long-term borrowings as at 31 December 2011 is 7.90% (2010: 7.60%).

18 DERIVATIVE FINANCIAL LIABILITIES

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

	Group RMB'000	Company RMB'000
Opening balance at 1 January 2010	41,029	41,029
Fair value change charged to consolidated statement of comprehensive income	757	757
At 31 December 2010	41,786	41,786
Opening balance at 1 January 2011	41,786	41,786
Fair value change credited to consolidated statement of comprehensive income (Note 27)	(31,391)	(31,391)
Exercise of warrants	(5,323)	(5,323)
At 31 December 2011	5,072	5,072

On 16 April 2009, the Company issued warrants to IFC at nil consideration (the "Warrants"), which provided IFC the right to subscribe 500,000,000 ordinary shares of HKD0.02 each from the Company at an exercise price of HKD0.156 per share. The subscription rights attaching to the Warrants may be exercised by IFC at any time and from time to time within a period starting from the 29 April 2009 to 28 April 2014.

As stated in Note15(a), IFC exercised a portion of the Warrants to subscribe for 149,885,000 new shares of the Company on 31 March 2011. The derivative financial liabilities of RMB5,323,000, representing the fair value of the exercised warrants at the exercise date, were transferred to share premium.

Management has used the Black-Scholes valuation model to determine the fair value of the Warrants, which was recognised as financial liabilities. Significant judgement, such as risk free rate, dividend yield and expected volatility, is required to be made by management as the parameters for applying the Black-Scholes valuation model.

18 DERIVATIVE FINANCIAL LIABILITIES *(Continued)*

The fair value of the Warrants as of 31 December 2011, determined using the Black-Scholes valuation model, was HKD0.017 (approximately RMB0.014) per share (2010: HKD0.098, approximately RMB0.084). The significant inputs into the model are as follows:

	31 December 2011	31 December 2010
Share prices at the valuation date (HKD)	**0.110**	0.197
Volatility	**46%**	61%
Dividend yield	**Nil**	Nil
Annual risk-free interest rate	**0.41%**	1.10%

19 DEFERRED SUBSIDY INCOME — GROUP

	Government grant for production facilities RMB'000
At 1 January 2010	7,404
Addition	1,850
Amortisation (Note 27)	(925)
At 31 December 2010	8,329
At 1 January 2011	8,329
Amortisation (Note 27)	(853)
At 31 December 2011	7,476

In 2010, the Group received government grants of approximately RMB1,850,000 from the finance bureau of Dazhu county, Sichuan Province for the energy saving and environment protection projects. These grants were recorded as deferred subsidy income and were credited to the consolidated statement of comprehensive income on the straight-line basis over the expected useful lives of the related equipments.

20 DEFERRED INCOME TAX — GROUP

There were no offsetting of deferred income tax assets and liabilities in 2011 and 2010.

	2011 **RMB'000**	2010 RMB'000
Deferred tax assets:		
— To be recovered after more than 12 months	**2,111**	7,563
— To be recovered within 12 months	**52**	20
	2,163	7,583
Deferred tax liabilities:		
— To be settled after more than 12 months	**(80,867)**	(80,867)
— To be settled within 12 months	**(1,688)**	—
	(82,555)	(80,867)

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

Deferred income tax assets:

	Tax losses RMB'000	**Impairment of assets** RMB'000	**Deferred subsidy income** RMB'000	**Unrealised profit on inter-company sales** RMB'000	**Total** RMB'000
At 1 January 2010	—	754	1,199	633	2,586
(Charged)/credit to statement of comprehensive income	5,228	(97)	(66)	(68)	4,997
At 31 December 2010	5,228	657	1,133	565	7,583
At 1 January 2011	5,228	657	1,133	565	7,583
(Charged)/credit to statement of comprehensive income	10,714	406	(92)	(565)	10,463
Reclassified as non-current assets held for sale (Note 14)	(14,930)	(384)	(569)	—	(15,883)
At 31 December 2011	1,012	679	472	—	2,163

20 DEFERRED INCOME TAX — GROUP *(Continued)*

Deferred income tax liabilities:

	Evaluation and exploration assets RMB'000	Withholding tax of the unremitted earnings of a PRC subsidiary RMB'000	Total RMB'000
31 December 2010 and 1 January 2011	(80,867)	—	(80,867)
Charged to income statement (Note 29)	—	(1,688)	(1,688)
At 31 December 2011	(80,867)	(1,688)	(82,555)

As at 31 December 2011, the Group had total unused tax losses of approximately RMB92,333,000 (2010: RMB71,324,000). No deferred tax asset has been recognized in respect of tax losses of certain subsidiaries of RMB28,566,000 (2010: RMB36,471,000) due to the unpredictability of future profit streams of these subsidiaries. Deferred tax asset of RMB15,942,000 (2010: RMB5,228,000) has been recognised in respect of the tax losses of one subsidiary of RMB63,767,000 (2010: RMB34,853,000) as management considered it is probable that the subsidiary can generate sufficient taxable profit to utilise the above tax loss of RMB63,768,000.

In accordance with the enterprise income tax laws in Mainland China, a 10% withholding tax will be levied on the dividend declared by the companies established in Mainland China to their foreign investors starting from 1 January 2008. A lower withholding tax rate of 5% is applied to Mainland China subsidiaries of the Company, whose direct foreign investors are incorporated in Hong Kong, because of the treaty arrangement between Mainland China and Hong Kong. As at 31 December 2011, the Group recognised relevant deferred tax liabilities of RMB1,688,000 (2010: Nil), on the earnings of approximately RMB33,760,000 (2010: Nil) anticipated to be remitted by a PRC subsidiary in the foreseeable future. No withholding tax has been provided for the earnings of approximately RMB5,441,000 (2010: RMB23,405,000) which are expected to be retained by the PRC subsidiaries and not to be remitted out of the PRC in the foreseeable future (note 4(f)).

21 TRADE AND OTHER PAYABLES

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade payables (Note a)	**34,233**	26,342	**—**	—
Notes payable (Note b)	**8,100**	40,170	**—**	—
Construction payable	**23,215**	29,443	**—**	—
Advances from customers	**74,067**	40,377	**—**	—
Advances from purchasers (Note 14)	**131,100**	—	**—**	—
Accrued expenses	**8,377**	7,425	**4,643**	2,912
Deposits from suppliers	**12,636**	18,587	**—**	—
Other taxes payable	**1,060**	6,300	**—**	—
Others	**14,335**	8,337	**—**	—
	307,123	176,981	**4,643**	2,912

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

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
RMB	**302,480**	174,069	**—**	—
HKD	**4,643**	2,912	**4,643**	2,912
	307,123	176,981	**4,643**	2,912

21 TRADE AND OTHER PAYABLES *(Continued)*

(a) Trade payables

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

	2011	2010
	RMB'000	RMB'000
Aged:		
Less than 1 year	**26,733**	25,353
More than 1 year but not exceeding 2 years	**6,931**	153
More than 2 years but not exceeding 3 years	**11**	836
More than 3 years	**558**	—
	34,233	26,342

(b) Notes payable

Notes payable represented bank acceptance notes issued by the Group and were interest-free and with maturity dates of less than one year. As at 31 December 2011, notes payable of approximately RMB8,100,000 (2010: RMB40,170,000) were pledged by bank deposits of RMB6,100,000 (2010: RMB40,170,000).

22 SHORT-TERM BORROWINGS, SECURED — GROUP

The short-term borrowings are denominated in RMB and were issued at fixed interest rates which range from 5.35% to 6.56% (2010: 4.65% to 6.37%) per annum and are secured by bank deposits of RMB766,897,000 (2010: RMB333,605,000) and certain land use rights with a total net book value of approximately RMB6,904,000 (2010: RMB27,617,000) (Note 5) and property, plant and equipment with a total net book value of approximately RMB27,167,000 (2010: RMB33,553,000) of the Group (Note 6).

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

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

	2011	2010
	RMB'000	RMB'000
6 months or less	**1,175,026**	722,960
Between 6 months to 1 year	**273,820**	87,400
	1,448,846	810,360

23 TURNOVER

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

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

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

The Group has a number of customers and the largest customer is accounting for 13% of the Group's turnover.

24 EXPENSES BY NATURE

	2011 **RMB'000**	2010 RMB'000
Raw materials and consumables used	**379,590**	379,054
Changes in inventories of finished goods and work in progress	**12,296**	33,476
Power and natural gas consumed	**637,154**	292,617
Staff costs (Note 25)	**88,408**	75,316
Depreciation and amortisation charges	**80,499**	35,042
Transportation expenses	**37,406**	22,760
Maintenance expenses	**15,342**	8,400
Legal and professional fees	**1,689**	1,129
Stamp duty and other tax	**6,750**	3,441
Advertisement expenses	**941**	277
Auditors' remuneration	**2,124**	1,839
Operating lease payments	**1,351**	778
(Gain)/loss on disposal of property, plant and equipment (Note 33)	**(1,955)**	376
Write-down of inventory to net realisable value (Note 10)	**1,537**	—
Provision for impairment of receivables (Note 11)	**85**	130
Other expenses	**15,537**	16,604
Total cost of sales, distribution costs and administrative expenses	**1,278,754**	871,239

25 STAFF COSTS

	2011 RMB'000	2010 RMB'000
Wages and salaries	**75,775**	56,287
Pension costs — defined contribution plans	**4,168**	2,706
Social security costs	**8,465**	7,647
Share options granted to directors and employees (Note 15 (c))	**—**	8,676
	88,408	75,316

26 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The remuneration of every director for the year ended 31 December 2011 is set out below:

Name of director	Fees RMB'000	Salaries, allowances, and benefits in kind RMB'000	Contributions to pension schemes RMB'000	Total RMB'000
Executive Directors				
Mr. Li Weiruo	**1,344**	**1,032**	**18**	**2,394**
Mr. Yuan Bai	**252**	**1,110**	**19**	**1,381**
Ms. Chi Chuan	**252**	**810**	**—**	**1,062**
Mr. Li Shengdi	**252**	**810**	**19**	**1,081**
Ms. Man Au, Vivian	**252**	**551**	**10**	**813**
Independent Non-Executive Directors				
Mr. Hu Xiaoping	**101**	**17**	**—**	**118**
Mr. Woo Che-wor, Alex	**101**	**17**	**—**	**118**
Mr. Qian Laizhong	**101**	**17**	**—**	**118**
	2,655	**4,364**	**66**	**7,085**

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

(a) Directors' emoluments *(Continued)*

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

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

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include five (2010: four) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one individual in 2010 are as follows:

	2011 **RMB'000**	2010 RMB'000
Basic salaries, housing allowances, other allowances and benefits in kind	—	686
Contributions to pension schemes	—	11
	—	697

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

27 OTHER INCOME — NET

	2011 RMB'000	2010 RMB'000
Sales of scrap materials,net	**(671)**	290
Amortisation of deferred subsidy income (Note 19)	**853**	925
Subsidy income	**1,636**	192
Fair value change on warrant liability (Note 18)	**31,391**	(757)
Others, net	**371**	63
	33,580	713

28 FINANCE COSTS — NET

	2011 RMB'000	2010 RMB'000
Interest expense of bank borrowings	**90,866**	50,745
Interest expense of borrowing from IFC	**12,669**	12,987
Less: capitalisation in construction-in-progress (Note 6)	**(9,412)**	(31,310)
	94,123	32,422
Interest income	**(15,116)**	(2,978)
Exchange gain, net	**(6,011)**	(4,211)
Others	**2,935**	774
	75,931	26,007

29 INCOME TAX EXPENSE

No provision for profits tax in the Cayman Islands, British Virgin Islands or Hong Kong has been made, as the Group had no assessable profit arising in or derived from those jurisdictions during the years ended 31 December 2010 and 2011.

Dazhou Ko Yo Chemical qualifies as a foreign investment production enterprise and is located in the western region in Mainland China. As approved by local tax bureau, it is subject to the preferential tax policies for the development of western region with Enterprise Income Tax ("EIT") at the rate of 15% in 2011 (2010: 7.5%).

The original preferential tax policies for Chengdu Ko Yo Chemical and Chengdu Ko Yo Compound have been expired in 2011. Starting from 1 January 2011, they are subject to a tax rate of 25% (2010: 15%).

29 INCOME TAX EXPENSE *(Continued)*

The applicable income tax rate of Ko Yo Agrochem in 2011 and 2010 is 25%.

Qingdao Ko Yo Chemical did not have assessable profit for the year ended 31 December 2011 (2010: Nil).

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

	2011 **RMB'000**	2010 RMB'000
Current tax for Mainland China	**14,404**	6,651
Deferred income tax	**(8,775)**	(4,997)
	5,629	1,654

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

	2011 **RMB'000**	2010 RMB'000
Profit/(loss) before income tax	**105,783**	(23,951)
Tax calculated at a taxation rate of 15% (2010:15%)	**15,867**	(3,592)
Tax rate difference	**(2,040)**	748
Expenses not deductible for tax purposes	**581**	119
Utilisation of previously unrecognised tax losses	**(793)**	—
Withholding tax paid on the earnings remitted by subsidiaries	**2,142**	1,678
Withholding tax accrued on the earnings expected to be remitted by subsidiaries (Note 20)	**1,688**	—
Tax losses for which no deferred income tax was recognised	**1,846**	3,229
Income not subject to tax	**(4,709)**	—
Effect of deduction of 40% of purchase cost of energy saving and environmental protection equipment	**(5,467)**	—
Re-measurement of deferred tax-change in tax rate	**(3,486)**	—
Effects on tax holiday available to different companies of the Group	**—**	(528)
Taxation	**5,629**	1,654

30 PROFIT/(LOSS) ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of RMB24,775,000 (2010: RMB16,217,000 loss).

31 EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year (Note 15).

	2011	2010
Profit/(Loss) attributable to equity holders of the Company (RMB'000)	**100,154**	(25,605)
Weighted average number of ordinary shares in issue (thousands)	**7,158,737**	7,044,507
Basic profit/(loss) per share (RMB per share)	**0.0140**	(0.0036)

(b) Diluted

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

	2011	2010
Profit/(Loss) attributable to equity holders of the Company (RMB'000)	**100,154**	(25,605)
Weighted average number of ordinary shares in issue (thousands)	**7,158,737**	7,044,507
Adjustment — warrants and share options (thousands)	**75,218**	—
Weighted average number of ordinary shares for diluted loss per share (thousands)	**7,233,955**	7,044,507
Diluted loss per share (RMB per share)	**0.0138**	(0.0036)

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

32 DIVIDEND

The directors do not recommend the payment of an interim dividend and a final dividend for the six months ended 30 June 2011 (2010: nil) and the year ended 31 December 2011 (2010: nil).

33 CASH GENERATED FROM OPERATIONS

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

	2011 **RMB'000**	2010 RMB'000
Profit/(Loss) before income tax	**105,783**	(23,951)
Depreciation of property, plant and equipment	**78,663**	33,763
Amortisation of land use rights	**1,674**	1,279
Amortisation of intangible assets	**162**	—
Gain/(Loss) on disposal of property, plant and equipment (Note 24)	**(1,955)**	376
Interest income	**(15,116)**	(2,978)
Interest expense	**94,123**	32,422
Fair value change of warrants granted to IFC	**(31,391)**	757
Fair value of share options granted	**—**	8,676
Operating profit before working capital changes	**231,943**	50,344
Decrease in inventories	**22,607**	34,436
Increase in trade and other receivables	**(6,281)**	(14,423)
Increase in trade and other payables	**5,296**	14,310
(Decrease)/Increase in deferred subsidy income	**(853)**	925
Cash generated from operating activities	**252,712**	85,592

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

	2011 **RMB'000**	2010 RMB'000
Net book amount (Note 6)	**7,425**	381
Gain/(Loss) on disposal of property, plant and equipment (Note 24)	**1,955**	(376)
Proceeds from disposal of property, plant and equipment	**9,380**	5

34 COMMITMENTS — GROUP

(a) Capital commitments for property, plant and equipment

	2011 RMB'000	2010 RMB'000
Constructions-in-progress:		
Contracted but not provided for	**78,316**	61,769

(b) Commitments under operating leases

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

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

	2011 RMB'000	2010 RMB'000
Not later than one year	**85**	964

The Company had no capital commitment and no commitments under operating leases as at 31 December 2011 (2010: Nil).

35 RELATED-PARTY TRANSACTIONS

The Group is controlled by Mr. Li Weiruo, who owns approximately 40.7% of the Company's issued shares as at 31 December 2011 (2010: 41.5%). The remaining approximately 60.3% of the issued shares are widely held.

Key management compensation (excluding directors' emoluments)

	2011 RMB'000	2010 RMB'000
Salaries and other short-term employee benefits	**1,921**	1,097

The directors' emoluments are disclosed in Note 26.

36 EVENT AFTER THE BALANCE SHEET DATE

Subsequent to the balance sheet date and up to the date of approval of the financial statements, short-term borrowings of approximately RMB40 million have been rolled over for a further year; new short-term borrowings of RMB80 million have been granted and drawn down with a term of one year; new short-term borrowing of RMB49 million with a term of six months, and new long-term borrowings of RMB50 million with a term of 5 years have been granted and drawn down.

Financial Summary

FIVE YEAR FINANCIAL SUMMARY

The following table summarizes the audited results, assets and liabilities of the Group for the five years ended 31st December 2011.

	2011	2010	2009	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	**1,426,888**	872,582	602,468	654,920	774,919
Profit/(Loss) before taxation	**105,783**	(23,951)	(6,809)	67,717	44,923
Taxation	**(5,629)**	(1,654)	(375)	(7,060)	(3,534)
Profit/(Loss) after taxation	**100,154**	(25,605)	(7,184)	60,657	41,389
Total assets	**3,249,116**	2,435,374	1,972,869	1,429,538	1,032,844
Total liabilities	**(2,229,056)**	(1,540,397)	(1,061,066)	(577,131)	(445,405)
Shareholders' funds	**1,020,060**	894,977	911,803	852,407	587,439