# 玖 源 生 態 農 業 科 技 （ 集 團 ） 有 限 公 司
# Ko Yo Ecological Agrotech (Group) Limited

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 0827)**

# ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2009

## HIGHLIGHTS

— For the year ended 31st December 2009, the loss attributable to shareholders was approximately RMB7.2 million, which represents a drop of RMB67.8 million as compared to year 2008.

— Basic loss per share was approximately RMB0.11 cents for the year ended 31st December 2009.

— For the year ended 31st December 2009, sale turnover was approximately RMB602 million, which represents a decrease of 8.0% as compared to year 2008.

— The sale amount and quantities of BB Fertilizers and compound fertilizers of the Group was approximately RMB159 million and 87,696 tonnes respectively, which represents a drop of 19.7% and 3.2% respectively as compared with year 2008.

— The Directors do not recommend the payment of any final dividend for the year ended 31st December 2009.

The board of directors (the "Board") is pleased to present the audited annual results of Ko Yo Ecological Agrotech (Group) Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31st December 2009.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Note | Year ended 31 December 2009 RMB'000 | 2008 RMB'000 |
|---|---|---|---|
| Turnover | 4 | **602,468** | 654,920 |
| Cost of sales | | **(532,951)** | (498,318) |
| **Gross profit** | | **69,517** | 156,602 |
| Distribution costs | | **(19,670)** | (18,106) |
| Administrative expenses | | **(43,892)** | (56,771) |
| Other (expenses)/income - net | 5 | **(703)** | 2,199 |
| **Operating profit** | | **5,252** | 83,924 |
| Finance costs - net | 6 | **(12,061)** | (16,207) |
| **(Loss)/profit before income tax** | | **(6,809)** | 67,717 |
| Income tax expense | 7 | **(375)** | (7,060) |
| **(Loss)/profit for the year** | | **(7,184)** | 60,657 |
| **Other comprehensive income** | | **—** | — |
| **Total comprehensive (loss)/income for the year** | | **(7,184)** | 60,657 |
| **(Loss)/profit and total comprehensive (loss)/ income attributable to equity holders of the Company** | | **(7,184)** | 60,657 |
| **(Loss)/earnings per share for (loss)/profit attributable to the equity holders of the Company during the year** (expressed in RMB per share) | | | |
| – Basic | 8 | **(0.0011)** | 0.0100 |
| – Diluted | 8 | **(0.0011)** | 0.0100 |
| **Dividend** | 9 | **—** | 1,703 |

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

## CONSOLIDATED BALANCE SHEET

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

| | Note | As at 31 December 2009 RMB'000 | 2008 RMB'000 |
|---|---|---|---|
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Long-term borrowings, secured | | **331,575** | 104,070 |
| Derivative financial liabilities | | **41,029** | — |
| Deferred subsidy income | | **7,404** | 5,534 |
| Deferred income tax liabilities | | **80,867** | 80,867 |
| | | **460,875** | 190,471 |
| **Current liabilities** | | | |
| Trade and other payables | 11 | **220,020** | 173,059 |
| Short-term borrowings, secured | | **252,030** | 171,000 |
| Current portion of long-term borrowings, secured | | **128,141** | 42,601 |
| | | **600,191** | 386,660 |
| **Total liabilities** | | **1,061,066** | 577,131 |
| **Total equity and liabilities** | | **1,972,869** | 1,429,538 |
| **Net current liabilities** | | **(131,498)** | (101,759) |
| **Total assets less current liabilities** | | **1,372,678** | 1,042,878 |

Notes:

## 1 GENERAL INFORMATION

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

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

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

These consolidated financial statements are presented in Renminbi ("RMB"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 30 April 2010.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### 2.1 Basis of preparation

As at 31 December 2009, the Group reported net current liabilities of approximately RMB131,498,000 (2008: RMB101,759,000) and capital commitments of RMB26,850,000 (2008: RMB212,549,000) (see Note 12(a)). The directors of the Company have given due consideration to the liquidity of the Group and have adopted the going concern basis in preparing the consolidated financial statements based on the following assessment:

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

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.1 Basis of preparation *(Continued)*

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

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

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

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

**2.1 Basis of preparation** *(Continued)*

**Changes in accounting policy and disclosures**

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

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

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

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

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

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.1 Basis of preparation *(Continued)*

**Changes in accounting policy and disclosures** *(Continued)*

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

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

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

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

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

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.1 Basis of preparation *(Continued)*

**Changes in accounting policy and disclosures** *(Continued)*

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

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

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

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.1 Basis of preparation *(Continued)*

**Changes in accounting policy and disclosures** *(Continued)*

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

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

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

### 2.2 Consolidation

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

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.2 Consolidation *(Continued)*

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

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

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

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

### 2.3 Segment reporting

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.4 Foreign currency translation

*(a) Functional and presentation currency*

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

*(b) Transactions and balances*

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

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

*(c) Group companies*

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

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

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

– all resulting exchange differences are recognised as a separate component of equity.

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.5 Property, plant and equipment

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

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

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

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

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

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).

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

### 2.6 Land use rights

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

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.7 Exploration and evaluation assets

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

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

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

### 2.8 Intangible assets

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

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

### 2.9 Impairment of investments in subsidiaries and non-financial assets

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.10 Impairment of exploration and evaluation assets

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

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

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

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

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

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

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.11 Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date. During 2008 and 2009, other than loans and receivables, the Group did not hold any financial assets in other categories.

*Loans and receivables*

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

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

### 2.12 Inventories

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

### 2.13 Trade and other receivables

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.14 Cash and cash equivalents

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

### 2.15 Share capital

Ordinary shares are classified as equity.

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

### 2.16 Derivative financial liabilities

The derivative financial liabilities represent the warrant liabilities. Warrants issued by the Company that will be settled by the exchange of a fixed amount of cash denominated in a currency other than the functional currency of the Company for a fixed number of the Company's own equity instruments are classified as derivative financial liability (warrant liability) and are initially and subsequently measured at fair value. The changes of fair value of warrant liability are recognised in the statement of comprehensive income. The warrant liability will be transferred to share capital and share premium upon exercise of the warrants.

### 2.17 Trade payables

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

### 2.18 Borrowings

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

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

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.19 Current and deferred income tax

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

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

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

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

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

### 2.20 Employee benefits

*(a) Employee leave entitlements*

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.20 Employee benefits *(Continued)*

*(b) Pension obligations*

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

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

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

*(c) Share-based compensation*

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

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.20 Employee benefits *(Continued)*

*(d) Termination benefits*

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

### 2.21 Provisions

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

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

### 2.22 Contingent liabilities

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

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

### 2.23 Revenue recognition

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.23 Revenue recognition *(Continued)*

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

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

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

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

### 2.24 Government grants

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

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

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

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

### 2.25 Leases

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

### 2.26 Dividend distribution

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

## 3 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.

### 3.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

*(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.

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

## 3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

### 3.2 Critical judgements in applying the entity's accounting policies

*(a) Impairment of exploration and evaluation assets*

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

*(b) Impairment of goodwill*

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

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

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

*(d) Recognition of derivative financial liabilities*

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

## 3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

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

*(e) Income taxes*

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

Pursuant to the Corporate Income Tax Law and its implementation rules, effective from 1 January 2008, certain non-resident enterprises (for instance, those without an establishment or place of business in Mainland China or which have an establishment or place of business in Mainland China but whose relevant income is not effectively connected with the establishment or a place of business in the Mainland China) are subject to withholding tax at the rate of 5% or 10% on various types of passive income such as dividends derived from sources within the Mainland China. In addition, according to the notice Caishui 2008 No.1 released by Ministry of Finance and the State Administration of Taxation, distributions of the retained profits prior to 1 January 2008 of a foreign-invested enterprise to a foreign investor in 2008 or after are exempt from corporate income tax. Management have no current intention to distribute the retained profits of the Company's subsidiaries in the Mainland China earned in 2008 and 2009 to the subsidiaries incorporated outside the Mainland China. Accordingly, no provision for withholding tax has been made in this respect.

## 4 TURNOVER

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

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

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

## 5 OTHER (EXPENSES)/INCOME - NET

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

## 6 FINANCE COSTS - NET

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

## 7 INCOME TAX EXPENSE

No provision for profits tax in the Cayman Islands, British Virgin Islands or Hong Kong has been made, as the Group had no assessable profit arising in or derived from those jurisdictions during the years ended 31 December 2008 and 2009.

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

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

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

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

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

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

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

### (a) Effects of income tax exemption

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

## 8 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.

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

### (b) Diluted

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

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

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

## 9 DIVIDEND

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

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

## 10 TRADE AND OTHER RECEIVABLES

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

## 10 TRADE AND OTHER RECEIVABLES *(Continued)*

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

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

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| | **RMB'000** | RMB'000 |
| Less than 3 months | **23,491** | 6,667 |
| More than 3 months but not exceeding 1 year | **603** | 733 |
| More than 1 year but not exceeding 2 years | **2** | 352 |
| More than 2 years but not exceeding 3 years | **255** | 4,541 |
| More than 3 years | **4,769** | 259 |
| | **29,120** | 12,552 |
| Less: provision for doubtful receivables | **(5,026)** | (5,176) |
| | **24,094** | 7,376 |

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

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

**10 TRADE AND OTHER RECEIVABLES** *(Continued)*

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

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

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

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

## 10 TRADE AND OTHER RECEIVABLES *(Continued)*

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

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

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

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.

## 11 TRADE AND OTHER PAYABLES

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

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

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

### (a) Trade payables

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

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

### (b) Notes payable

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

## 12 COMMITMENTS - GROUP

### (a) Capital commitments for property, plant and equipment

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

### (b) Commitments under operating leases

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

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

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

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

## 13 EVENT AFTER THE BALANCE SHEET DATE

Subsequent to the balance sheet date and up to the date of approval of the financial statements, short-term borrowings of approximately RMB88.3 million have been rolled over for a further year; new short-term borrowings of RMB110 million have been granted and drawn down with a term of one year; and, a committed one year credit facility of RMB80 million has been obtained from a domestic bank in Mainland China.

## BUSINESS REVIEW

## FINANCIAL PERFORMANCE

### Results

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

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

### Dividends

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

### Cost and Profit Margin

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

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

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

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

Starting from the year under review, the Group prepaid income tax in 2009 of Enterprise Income Tax amounting to approximately RMB0.9 million.

## PRODUCTS

### BB Fertilizers and Compound Fertilizers

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

### Sodium Carbonate and Ammonium Chloride

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

### Urea

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

### Ammonia and Ammonium Bicarbonate

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

### Others

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

### Awards & Recognitions

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

## LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31st December 2009, the Group had net current liabilities of approximately RMB131,498,000. Current assets as at 31st December 2009 comprised cash and bank deposits of approximately RMB144,498,000, pledged bank deposits of approximately RMB83,325,000, inventories of approximately RMB100,263,000, trade receivables of approximately RMB24,094,000 and prepayments and other current assets of approximately RMB116,513,000. Current liabilities as at 31st December 2009 comprised short-term borrowings of approximately RMB252,030,000, short-term portion for long-term borrowings of approximately RMB128,141,000, trade and notes payables of approximately RMB119,405,000, deposits from customers of approximately RMB72,865,000 and accrued charges and other payables of approximately RMB27,750,000. Details of the Group's adoption of going concern basis in preparing the consolidated financial statements is set out in Note 2.1 to the consolidated financial statements.

## CAPITAL COMMITMENTS

As at 31st December 2009, the Group had outstanding capital commitments of approximately RMB26.9 million. Details of the Group's capital commitments are set out in Note 12 to the consolidated financial statements.

## FINANCIAL RESOURCES

As at 31st December 2009, the Group had cash and bank deposits of approximately RMB144,498,000 and pledged bank deposits of approximately RMB83,325,000. The Company intends to finance the Group's future operations, capital expenditure and other capital requirements with the existing bank balances and the capital market.

As at 31st December 2009, the total borrowings and notes payable balances of the Group amounted to RMB733,746,000.

## GEARING RATIO

The Group's gearing ratios were approximately 116% and 68% as at 31st December 2009 and 31st December 2008 respectively. The gearing ratios were calculated based on total liabilities over total equity as at the respective balance sheet dates.

## CONTINGENT LIABILITIES

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

## MATERIAL ACQUISITION/DISPOSAL

There was no material acquisition or disposal in the year 2009 which would have been required to be disclosed under the Rules Governing the Listing of Securities ("Listing Rules") on Stock Exchange.

## SEGMENTAL INFORMATION

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

## DETAILS OF FUTURE PLANS FOR MATERIAL INVESTMENT OR CAPITAL ASSETS

Other than the investment of new urea plant with an annual capacity of 400,000 tonnes of ammonia in and 450,000 tonnes of urea as per announcement dated 5th October 2006, the Directors do not have any future plans for material investment or capital assets.

## CHARGES ON THE GROUP'S ASSETS

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

## DIVIDEND

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

## NUMBER OF EMPLOYEES

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

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

## AUDIT COMMITTEE

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

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

## AUDITORS' PROCEDURES PERFORMED ON THIS RESULTS ANNOUNCEMENT

The figures in respect of the announcement of the Group's results for the year ended 31 December 2009 have been agreed by the Auditors, PricewaterhouseCoopers,to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an audit, review or other assurance engagement, and consequently no assurance has been expressed by PricewaterhouseCoopers on this announcement.

## 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.

## 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.

By Order of the Board
**Ko Yo Ecological Agrotech (Group) Limited**
**Li Weiruo**
*Chairman*

Hong Kong 30 April 2010

*As at the date of this announcement, the executive Directors are Mr. Li Weiruo, Mr. Yuan Bai, Ms. Chi Chuan, Ms. Man Au Vivian and Mr. Li Shengdi; the independent non-executive Directors are Mr. Hu Xiaoping, Mr. Woo Che-wor, Alex and Mr. Qian Laizhong.*