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 2010

HIGHLIGHTS

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

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

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

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

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

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 2010.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December 2010 RMB'000	2009 RMB'000
Turnover	4	**872,582**	602,468
Cost of sales		**(778,764)**	(532,951)
Gross profit		**93,818**	69,517
Distribution costs		**(33,181)**	(19,670)
Administrative expenses		**(59,294)**	(43,892)
Other income/(expenses) – net	5	**713**	(703)
Operating profit		**2,056**	5,252
Finance costs – net	6	**(26,007)**	(12,061)
Loss before income tax		**(23,951)**	(6,809)
Income tax expense	7	**(1,654)**	(375)
Loss for the year		**(25,605)**	(7,184)
Other comprehensive income		**—**	—
Total comprehensive loss for the year		**(25,605)**	(7,184)
Loss and total comprehensive loss attributable to equity holders of the Company		**(25,605)**	(7,184)
Loss per share for loss attributable to the equity holders of the Company during the year (expressed in RMB per share)			
– Basic	8	**(0.0036)**	(0.0011)
– Diluted	8	**(0.0036)**	(0.0011)
Dividend	9	**—**	—

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Share capital	Reserves	Total
		RMB'000	RMB'000	RMB'000
Balance at 1 January 2009		124,642	727,765	852,407
Comprehensive income:				
Loss for the year		—	(7,184)	(7,184)
Total comprehensive loss		—	(7,184)	(7,184)
Transactions with owners:				
Issue of ordinary shares		11,440	55,140	66,580
Balance at 31 December 2009		136,082	775,721	911,803
Balance at 1 January 2010		**136,082**	**775,721**	**911,803**
Comprehensive income:				
Loss for the year		**—**	**(25,605)**	**(25,605)**
Total comprehensive loss		**—**	**(25,605)**	**(25,605)**
Transactions with owners:				
Employee share option scheme:				
– Proceeds from shares issued		18	85	103
– Value of employee services		—	8,676	8,676
Balance at 31 December 2010		**136,100**	**758,877**	**894,977**

CONSOLIDATED BALANCE SHEET

	Note	As at 31 December	
		2010	2009
		RMB'000	RMB'000
ASSETS			
Non-current assets			
Land use rights		**88,105**	90,128
Property, plant and equipment		**1,318,214**	1,069,949
Mining right		**334,306**	—
Exploration and evaluation assets		**—**	332,613
Goodwill		**8,900**	8,900
Deferred income tax assets		**7,583**	2,586
		1,757,108	1,504,176
Current assets			
Inventories		**65,827**	100,263
Trade and other receivables	10	**148,913**	134,490
Prepaid income tax, net		**1,848**	6,117
Pledged bank deposits		**389,712**	83,325
Cash and cash equivalents		**71,966**	144,498
		678,266	468,693
Total assets		**2,435,374**	1,972,869
EQUITY			
Capital and reserves attributable to the equity holders of the Company			
Share capital		**136,100**	136,082
Reserves		**758,877**	775,721
Total equity		**894,977**	911,803

	Note	As at 31 December	
		2010	2009
		RMB'000	RMB'000
LIABILITIES			
Non-current liabilities			
Long-term borrowings, secured		**332,918**	331,575
Derivative financial liabilities		**41,786**	41,029
Deferred subsidy income		**8,329**	7,404
Deferred income tax liabilities		**80,867**	80,867
		463,900	460,875
Current liabilities			
Trade and other payables	11	**176,981**	220,020
Short-term borrowings, secured		**810,360**	252,030
Current portion of long-term borrowings, secured		**89,156**	128,141
		1,076,497	600,191
Total liabilities		**1,540,397**	1,061,066
Total equity and liabilities		**2,435,374**	1,972,869
Net current liabilities		**(398,231)**	(131,498)
Total assets less current liabilities		**1,358,877**	1,372,678

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

— The Group has not experienced any difficulties in renewing its short-term borrowings upon their maturities and there is no evidence indicating that the banks will not renew the existing short-term borrowings if the Group applies for the renewal. Subsequent to the balance sheet date and up to the date of approval of the financial statements, short-term borrowings of approximately RMB83 million have been rolled over for a further year. In addition, certain banks have advised their intention in writing, though not legally binding, to renew or to extend the loans for a further year when they fall due in 2011;

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") in 2010 which started to generate operating cash inflow from October 2010. With the full year operation in 2011, the New Dazhou Project is expected to generate more operating cash inflow than 2010.

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

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

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 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 2010:

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

  The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with HKFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the statement of comprehensive income. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs are expensed.

  HKAS 27 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. HKAS 27 (revised) has had no impact on the current period, as none of the non-controlling interests have a deficit balance; there have been no transactions whereby an interest in an entity is retained after the loss of control of that entity, and there have been no transactions with non-controlling interests.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

Changes in accounting policy and disclosures *(Continued)*

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

Changes in accounting policy and disclosures *(Continued)*

(b) New standards, amendments and interpretations have been issued but are not effective for the financial year beginning 1 January 2010 and have not been early adopted by the Group

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

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

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

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

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

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

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

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

Changes in accounting policy and disclosures *(Continued)*

(b) New standards, amendments and interpretations have been issued but are not effective for the financial year beginning 1 January 2010 and have not been early adopted by the Group (Continued)

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Consolidation

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

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

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

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

2.3 Segment reporting

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

(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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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).

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

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

2.6 Mining right

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

2.7 Land use rights

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.8 Exploration and evaluation assets

Exploration and evaluation assets are recognised at cost on initial recognition. Subsequent to initial recognition, exploration and evaluation assets are stated at cost less any accumulated impairment losses. No amortisation is charged during the exploration and evaluation phase.

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

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

2.9 Goodwill

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

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

2.10 Impairment of investment in subsidiaries and non-financial assets

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.11 Impairment of exploration and evaluation assets

Exploration and evaluation assets are tested for impairment when reclassified to development tangible or intangible assets, or whenever facts and circumstances indicate impairment. In the following cases, or similar cases, the Group shall test exploration and evaluation assets for impairment.

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

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.12 Financial assets

2.12.1 Classification

The Group classifies its financial assets in the following categories: loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. During 2009 and 2010, other than loans and receivables, the Group did not hold any financial assets in other categories.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the balance sheet (Notes 2.16 and 2.17).

2.12.2 Recognition and measurement

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

2.13 Offsetting financial instruments

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.14 Impairment of financial assets carried at amortised cost

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

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

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

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

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

The Group first assesses whether objective evidence of impairment exists.

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.15 Inventories

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

2.16 Trade and other receivables

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

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

2.17 Cash and cash equivalents

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

2.18 Share capital

Ordinary shares are classified as equity.

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

2.19 Derivative financial liabilities

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.20 Trade payables

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

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

2.21 Borrowings

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

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

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

2.22 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.22 Current and deferred income tax *(Continued)*

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.

2.23 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.23 Employee benefits *(Continued)*

(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.

2.24 Share-based compensation

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

2.26 Contingent liabilities

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

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

2.27 Revenue recognition

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

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

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

Interest income is recognised using the effective interest method.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.28 Government grants

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

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

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

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

2.29 Leases

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

2.30 Dividend distribution

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

3 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.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(b) Provision for impairment of trade receivables

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

(c) Fair value of derivative financial liabilities

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

(d) Impairment of goodwill

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

(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.

3 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 2010, retained profits of RMB33,560,000 of the Company's certain subsidiaries in the Mainland China were distributed to a subsidiary in Hong Kong with withholding income tax paid (Note 7). Management considered that the above profit distribution was due to an unexpected financing requirement and management has no current intention to distribute the distributable retained profits of the Company's subsidiaries in the Mainland China. Accordingly, no provision for withholding tax has been made in this respect as at 31 December 2010 (2009: nil).

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

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

5 OTHER INCOME/(EXPENSES) - NET

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

6 FINANCE COSTS - NET

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

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 2009 and 2010.

Chengdu Ko Yo Chemical, Chengdu Ko Yo Compound and Dazhou Ko Yo Chemical qualify as foreign investment production enterprises and were established in the western regions in Mainland China. As approved by local tax bureaus, they are subject to the preferential tax policies for the development of western regions with Enterprise Income Tax ("EIT") at the rate of 15% in 2010 (2009:15%).

Dazhou Ko Yo Chemical is entitled to full exemption from EIT in the first two profitable years and a 50% reduction for the next three years thereafter. 2010 is the fifth profit-making year of Dazhou KoYo Chemical and thus the preferential EIT rate applicable to Dazhou Ko Yo Chemical for the year ended 31 December 2010 is 7.5% (2009: 7.5%).

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

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

7 INCOME TAX EXPENSE *(Continued)*

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

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

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

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

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.

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

(b) Diluted

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

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

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

9 DIVIDEND

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

10 TRADE AND OTHER RECEIVABLES

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

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

10 TRADE AND OTHER RECEIVABLES *(Continued)*

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

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

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

As of 31 December 2010, trade receivables of RMB94,000 (2009: RMB603,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	Group	
	2010	2009
	RMB'000	RMB'000
More than 3 months but not exceeding 1 year	**7**	603
More than 1 year but not exceeding 2 years	**87**	—
	94	603

10 TRADE AND OTHER RECEIVABLES *(Continued)*

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

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

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

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

10 TRADE AND OTHER RECEIVABLES *(Continued)*

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

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

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

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.

11 TRADE AND OTHER PAYABLES

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

11 TRADE AND OTHER PAYABLES *(Continued)*

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

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

(a) Trade payables

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

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

(b) Notes payable

Notes payable represented bank acceptance notes issued by the Group and were interest-free and with maturity dates of less than one year. As at 31 December 2010, notes payable of approximately RMB40,170,000 (2009: RMB22,000,000) were pledged by bank deposits of RMB40,170,000 (2009: RMB12,900,000).

12 COMMITMENTS - GROUP

(a) Capital commitments for property, plant and equipment

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

(b) Commitments under operating leases

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

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

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

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

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

CHARIMAN'S STATEMENT

TO SHAREHOLDERS

It's my honour to report the results of Ko Yo Ecological Agrotech (Group) Limited (the "Company") together with its subsidiaries (collectively, the "Group") for the year ended 31st December 2010 to you. I wish to express appreciation on behalf of the Board of Directors to all shareholders and our friends from all sectors of the society who concern for the development of the Group.

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

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

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

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

PROSPECT

Industry Review

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

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

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

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

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

Upward moving trend for the price of chemical fertilizers in general

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

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

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

OBJECTIVES AND STRATEGIES

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

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

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

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

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

Preparation for the relocation of production equipment at Xindu

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

Successfully obtained the exploitation licence for a phosphorous mine

The application for the exploitation licence of a phosphorous mine of Sichuan Chengyuan Chemical Industry Company Limited ("Sichuan Cuyo"), a wholly-owned subsidiary of the Group, located at Qingping Township, Mianzhu City, Sichuan Province has passed by the examination conducted by Bureau of Land and Resource of the State in 2010. Having been granted the approval, the Group is then able to secure the phosphorous mine as our reserve of strategic resource, and in the meantime allows the Company's industry chain to expand both upstream and downstream and lay a foundation for further improvement of economic benefits and the sustainable development of the Group.

APPRECIATION

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

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

Li Weiruo
Chairman

25 March 2011

BUSINESS REVIEW

FINANCIAL PERFORMANCE

Results

For the year ended 31st December 2010, the Group remained focused on manufacture and distribution of chemical fertilizers and chemical products, including BB Fertilizers and complex fertilizers, sodium carbonate, urea, ammonium chloride, ammonium bicarbonate and ammonia.

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

Cost and Profit Margin

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

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

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

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

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

Dividends

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

PRODUCTS

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

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

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

Recognitions and Awards

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

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

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31st December 2010, the Group had net current liabilities of approximately RMB398,231,000. Current assets as at 31st December 2010 comprised cash and bank deposits of approximately RMB71,966,000, pledged bank deposits of approximately RMB389,712,000, inventories of approximately RMB65,827,000, trade receivables of approximately RMB20,110,000 and prepayments and other current assets of approximately RMB130,651,000. Current liabilities as at 31st December 2010 comprised short-term borrowings of approximately RMB810,360,000, short-term portion for long-term borrowings of approximately RMB89,156,000, trade and notes payables of approximately RMB66,512,000, advances from customers of approximately RMB40,377,000 and accrued charges and other payables of approximately RMB70,092,000. Details of the Group's adoption of going concern basis in preparing the consolidated financial statements is set out in Note 2.1 to the consolidated financial statements.

CAPITAL COMMITMENTS

As at 31st December 2010, the Group had outstanding capital commitments of approximately RMB61.8 million. Details of the Group's capital commitments are set out in Note 12 to the consolidated financial statements.

FINANCIAL RESOURCES

As at 31st December 2010, the Group had cash and bank deposits of approximately RMB71,966,000 and pledged bank deposits of approximately RMB389,712,000. The Company intends to finance the Group's future operations, capital expenditure and other capital requirements with the existing bank balances and the capital market.

As at 31st December 2010, the total borrowings and notes payable balances of the Group amounted to RMB1,272,604,000.

GEARING RATIO

The Group's gearing ratios were approximately 172% and 116% as at 31st December 2010 and 31st December 2009 respectively. The gearing ratios were calculated based on total liabilities over total equity as at the respective balance sheet dates.

CONTINGENT LIABILITIES

The Group had no significant contingent liabilities as at 31st December 2010.

MATERIAL ACQUISITION/DISPOSAL

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

SEGMENTAL INFORMATION

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

DETAILS OF FUTURE PLANS FOR MATERIAL INVESTMENT OR CAPITAL ASSETS

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

CHARGES ON THE GROUP'S ASSETS

As at 31st December 2010, certain land use rights and buildings with a total net book value of approximately RMB76,988,000 (2009: RMB71,287,000), plant and machinery, construction in progress with a total net book value of approximately RMB443,469,000 (2009: RMB478,170,000) and bank deposits approximately RMB389,712,000 (2009: RMB83,325,000) were pledged as collateral for the Group's borrowings and notes payable.

DIVIDEND

After considering of the heavy capital expenditure of the new urea plant, the Directors do not recommend the payment of any final dividend for the year ended 31st December 2010.

NUMBER OF EMPLOYEES AND THEIR REMUNERATION

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

AUDIT COMMITTEE

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

The audit committee has reviewed with management the accounting principles and practices adopted by the Company and the Group and discussed internal controls and financial reporting matters including a review of the audited financial statements of the Company and the Group for the year ended 31st December 2010.

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 2010 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 25 March 2011

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