

# **DATON GROUP AUSTRALIA LTD AND ITS SUBSIDIARIES**

ABN 74 142 976 065

**CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR  
ENDED 31 DECEMBER 2010**

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## Directors' Report

The directors of Daton Group Australia Limited present their report on the consolidated entity (Group), consisting of Daton Group Australia Limited and the entities it controlled at the end of, and during, the financial year ended 31 December 2010.

### Directors

The following persons were directors of Daton Group Australia Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

#### Names

Mr. Zeng Li	(Appointed 05/10/2010)
Mr. Yinan Zhang	(Appointed 03/05/2010)
Mr. Stephen Streeter	(Appointed 05/10/2010)
Ms. Yan Zhu	(Appointed 05/10/2010)
Ms. Yan Zhang	(Appointed 05/10/2010)

### Principal Activities

The principal activities of the Group are the manufacture and sale of urea, ammonium bicarbonate, methanol and carbon dioxide used as food additive.

There have been no significant changes in the nature of the Group's principal activities during the financial year.

### Financial Performance

The Profit after Tax dropped from \$2,173,300 in 2009 to \$1,943,035 in 2010.

The main reasons are as below:

- Impact of strengthening of Australian dollar vs Chinese RMB, with average exchange rate moving by 15%
- Increases in raw material prices
- Administration and IPO costs incurred in Australia

### Dividends

No final dividend was proposed for the current financial year.

## Review of Operations

Information on the operations and financial position of the Group and its business strategies and prospects for the future financial years is set out below.

### *Operations*

During the financial year to 31 December 2010, Daton continued its strategy of maintaining its production system. Progress has been made in the following areas:

- The total fertilizer production of the Group in 2010 was 151,054 tons (2009: 149,993 tons). The production of specific fertilizer is shown as follow:
  - Urea 131,851 tons (2009: 119,743 tons)
  - Ammonium bicarbonate 8,190 tons (2009: 12,508 tons)
  - Methanol 5,267 tons (2009: 5,656 tons)
  - Carbon Dioxide 5,746 tons (2009: 12,086 tons)
- The Group completed the maintenance and update of its production facilities, which enabled its equipment to work more steadily and smoothly, and kept production to a high standard.
- The Group has adjusted the mix of its products according to demand and changes in the market.

### *Commentary of results*

- The Group generated the revenue of \$40,613,382 in 2010, which decreased by 2.59% compared with 2009. However, the revenue in the PRC subsidiaries in RMB terms increased by 12% (refer detail in the table below). This is due to the strengthening of the Australian dollar vs Chinese RMB.
- The sales price of fertilizer increased from 2009 to 2010 by 20%. The main reason for this increase was the increase in the market price of coal. The production cost and gross margin in 2010 were basically the same as 2009.
- Operational expenses were in line with budgeted amounts.
- Consolidated net profit after tax in 2010 is \$1,943,035 which was decreased by 10.59% compared with 2009. The decline in net profit was mainly due to the IPO and the administration costs incurred in Australia throughout the group restructure process. The change of the foreign exchange rate is also a reason for the decrease. Net profit after tax from continuing operations in the PRC subsidiaries in 2010 was RMB 14.5 million which increased by 22.88% compared with 2009, as detailed in the table below.

	Trading Subsidiaries in PRC			
	2010 (AUD)	2009 (AUD)	2010 (RMB)	2009 (RMB)
Revenue	40,613,382	41,694,498	253,152,550	226,000,023
NPAT	2,323,057	2,177,099	14,480,144	11,800,694

### Prospects

The Group's objectives for the 2011 financial year are shown as below:

- To maintain production capacity and market share at current levels. The production output of main products, such as urea, ammonium bicarbonate, methanol and carbon dioxide will be adjusted according to the market demand to maximize the profitability of the products.
- The Group will commence construction of the Compound Fertilizer Project in April 2011 which will be expected to have an annual output of 400 thousand tons. The Group plans to start the 200 thousand tons compound fertilizer producing system in December 2011.
- We will positively develop the products of the Group. We intend to invest in coal and cooperate with other companies. We are looking for the opportunity of investing and developing a coal mine in Australia to ensure the supply of our main raw material is sufficient. It will reduce our production cost enhance our competitiveness and our market share.

### Significant Changes in State of Affairs

Daton Group Australia Ltd allotted its ordinary shares on 29 December, 2010 and was admitted to the official list of ASX Limited on Wednesday, 5 January, 2011. Proceeds of \$6,308,000 from the new share offering of 22,232,000 fully paid ordinary shares were received in January 2011.

There have been no other significant changes in the Group's state of affairs during the financial year.

### Matter Subsequent to the End of the Financial Year

On 11th January 2011, The parent entity pledged a total cash deposit of \$5,000,000 to Bank of China Zhengzhou Branch as a security deposit as a guarantee for applying a bank loan to fund the compound fertiliser capital project as detailed in the company's prospectus.

The directors are not aware of any other matter of circumstance that has arisen that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations or the state of affairs of the Group in the financial years subsequent to 31 December 2010.

### Likely Developments

Other than information disclosed elsewhere in this annual report, information on likely developments in the operations of the Group and the expected results of those operations in future financial years has not been included in this directors' report because the directors believe, on reasonable grounds, that to include such information would be likely to result in unreasonable prejudice to the Group.

### Environmental Regulation

The Group's production and production operations are based in China. The operations of the Group have passed the regular testing and inspection by the local environmental authorities. It has gained the certifications of ISO9001 quality control system and ISO14001 environmental management system. The Group has also obtained a production permit from the local environmental and safety department. Moreover, the construction of the new compound fertilizer project will be implemented with best practice standards carefully monitored by the local authorities. After the compound fertilizer project is completed, the Group will comply with the national environmental legislations set out by local authorities.

To the best of the directors' knowledge, the Group has adequate systems in place to ensure compliance with the requirements of all environmental legislation described above and are not aware of any breach of those requirements during the financial year and up to the date of the directors' report.

## Director Information

### Mr. Zeng Li

### Chairman (Executive)

#### Experience

- Mr. Li co-founded Henan Datong in 2000. He has more than a decade of experience in the chemical fertilizer industry. He has a solid foundation of financial and management expertise, with extensive experience in finance, investing, and business. His contributions have enabled Daton to achieve its position as a market leader in the Henan fertilizer industry.

#### Interest in Shares

8,639,999 Ordinary Shares

#### Special Responsibilities

Mr. Li is in charge of the overall business strategies and planning for the Group.

#### Directorships held in other listed entities

Mr. Li is not currently a Director of any other listed company.

### Mr. Yinan Zhang

### Managing Director (Executive)

#### Experience

- Mr. Zhang invested in Henan Datong in 2007 and he has more than ten years of experience in the chemical fertilizer industry. He previously held the role of an Executive Director of Henan Datong. His contributions have built a strong corporate image and are highly reputable in the Chinese fertilizer industry.
- He is experienced in business, foreign investment, banking, finance and securities. He has founded a number of industrial companies in the PRC and Australia.
- Mr. Zhang has lived in Australia for near to ten years, during which time he gained insight into corporate operations in Australia and familiarity with the Australian business environment.

#### Interest in Shares

12,346,001 Ordinary Shares \*

#### Special Responsibilities

Mr. Zhang is also the Chief Operations Officer of Henan Datong and a member of the Audit Committee.

#### Directorships held in other listed entities

Mr. Zhang is not currently a Director of any other listed company.

\* There are 6,000 Ordinary shares directly held by Yinan Zhang's wife, Beibei Zhu and beneficial to his children.

**Mr. Stephen Streeter****(Non-Executive)****Experience**

- Mr. Streeter is an institutional stockbroker with twenty-three years of experience. He has been appointed as a non-executive Director of Daton.
- He has been the director and Head of Sales for a number of broking firms including James Capel Australia, E L & C Baillieu, CBIC World Markets and ABN Amro Australia.
- Mr. Streeter has had extensive exposure to equity capital markets and has built a very strong client base in this area.

**Special Responsibilities**

Mr. Streeter is a member of the Remuneration & Nomination Committee

**Directorships held in other listed entities**

Mr. Streeter holds the position of Executive Director of Equities in Novus Capital Limited. He is also a non-executive director of Australia Biofund Investment Limited (Hong Kong) and Australian Technology Innovation Fund Limited. He is also a director of CBIO Limited which has been listed on the ASX since January, 2010. He has also been appointed as a non-executive director of Rongtai International Group Holdings Limited.

**Ms. Julia Yan Zhu****(Non-Executive)****Qualifications**

- Master of Business Administration-University of Southern Queensland
- Bachelor and Master of Arts (English) from Shanghai Fudan University

**Experience**

- Ms Zhu has more than 15 years of experience in the Australian public and private sectors. Her experience includes facilitating two-way investment and trade between North/South East Asia and Australia in resources, clean energy, financial services and advanced manufacturing. She is particularly well-versed in the business cultures of both the PRC and Australia.
- She is now a Senior Business Manager for Minter Ellison Lawyers. Prior to her current role at Minter Ellison, Ms Zhu was a Senior Industry Advisor for Clean Energy at the Australian Trade Commission (Austrade).
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**Special Responsibilities**

- Ms Zhu is the Chair Person of the Audit & Risk Committee and the Nomination and Remuneration Committee.

**Directorships held in other listed entities**

Ms Zhu is not currently a Director of any other listed company.

**Ms Zoe Yan Zhang**

**Company Secretary & Non-Executive Director**

**Qualifications**

- Bachelor of Commerce, major in accounting and finance – Griffith University

**Experience**

- She is a Chartered Accountant and principal in her own firm based in Brisbane. She has extensive accounting and administrative experience.
- Ms Zhang founded and became principal of ZYZ & Co Chartered Accountants in 2002 after working in Australian Chartered Accounting firms for more than nine years.
- With more than 17 years of accounting and administrative experience in Australia Accounting firms, she has built a solid foundation of accounting expertise and has gained detailed insight into the operations of Australian businesses.

**Interest in Shares**

24,000 Ordinary Shares

**Special Responsibilities**

Ms Zhang is a member of the Audit & Risk Committee and the Nomination and Remuneration Committee. She has been appointed as Company Secretary of Daton Group on 5 October 2010 and resigned on 9 February 2011.

**Directorships held in other listed entities**

Ms Zhang is not currently a Director of any other listed company.

## Meetings of Directors

During the financial year, eight meetings of directors (excluding committees of directors) were held. Attendances by each director at directors' meeting, audit and risk committee and remuneration and nominating committee meetings during the year were as follows:

	Directors' Meetings		Committee Meetings			
			Audit & Risk Committee		Remuneration & Nomination Committee	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended
Mr. Zeng Li	8	8	-	-	-	-
Mr. Yinan Zhang	8	8	-	-	-	-
Mr. Stephen Streeter	8	7	-	-	-	-
Ms. Julia Yan Zhu	8	8	-	-	-	-
Ms. Zoe Yan Zhang	8	8	-	-	-	-

## Share Options

No options over issued shares or interests in the Group or a controlled entity were granted during or since the end of the financial year and there were no options outstanding at the date of this report.

## Remuneration Report - Audited

### 1. Policy for determining the nature and amount of Key Management Personnel remuneration

Daton Group Australia Ltd allotted its ordinary shares on 29 December, 2010 and was admitted to the official list of ASX Limited on Wednesday, 5 January, 2011. The Group is still formulating its formal remuneration policy. This remuneration report is based on the principles in the Nomination and Remuneration Charter approved by the board and to be further adopted by the Nomination and Remuneration Committee.

Daton's remuneration components include share options and bonus elements. In order to maintain the high performance of the board and executives, as well as attract and retain the best team to run and manage the Group, the remuneration and bonus of the directors and senior executives is linked to both the Group's financial results and the performance of individual.

The remuneration for the executives is set according to the standard rate from industry sectors. All executives receive a market related base salary and other statutory benefits. The remuneration is based on factors such as length of service, experience and performance.

The Group's profits and shareholders' value depend on the performance of executives. The objective is to attract the highest performance of its executives and reward them for performance which results in long term growth in shareholder wealth.

The share option plan is set by the Nomination and Remuneration Committee. At the discretion of the Committee, shares are issued to executives to reflect their achievements. The exercise price in respect of an option is as determined by the committee.

The remuneration for directors is designed by the remuneration committee and the directors do not receive any other retirement benefits. Key management personnel and executives receive the relevant local benefits such as different types of social insurances. Some of them choose to not receive any welfare due to sacrificing them to increase payments towards salary based on the common practice in China.

The aim of the remuneration plan is to remunerate non-executive directors at market rates for time, commitment and responsibilities. The remuneration committee determines the amount paid to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Fees for non-executive directors are not linked to the performance of the Group. However, to align director's interests with shareholder interests, the directors and executives are encouraged to hold shares in the Group.

#### *Performance based remuneration*

As part of each company executives remuneration package there will be a discretionary bonus element. The bonus given to executives is based on the performance of the Group and individual. The intention of this program is to align directors and executives interests with business and shareholders' interests.

In determining the amount of each executive director and executive's bonus, the remuneration committee bases the assessment on audited figures and independent reports where appropriate.

#### *Company performance, shareholder wealth and directors and executives remuneration*

The remuneration plan is designed to increase the common interests between shareholders and directors and executives. This will be achieved by awarding discretionary bonuses to encourage the alignment of personal and shareholder interests and increase shareholder wealth and the Group's consolidated statement of financial position.

The following table shows the gross revenue and the profits for the last two years for the listed entity. There was no bonus paid to the key management personnel in both 2009 and 2010 due to the fact that the company only became listed at the end of the 2010 financial year. The bonus will be determined by the Nomination and Remuneration committee in future years.

	2009	2010
	\$	\$
Revenue	41,694,498	40,613,382
Net Profit	2,173,300	1,943,035

## 2. Key Management Personnel

The following persons were key management personnel of Daton Group Australia Ltd during the financial year:

<u>Name</u>	<u>Position Held</u>	<u>Appointment / Resignation Date</u>
Directors		
Mr. Zeng Li (1)	Director - Chairman	Appointed 05/10/2010
Mr. Yinan Zhang (1)	Managing Director	Appointed 03/05/2010
Mr. Stephen Streeter	Director - Non-executive	Appointed 05/10/2010
Ms Julia Yan Zhu	Director - Non-executive	Appointed 05/10/2010
Ms Zoe Yan Zhang	Director - Non-executive (2)	Appointed 05/10/2010
Other Key Management Personnel		
Mr. Baohua Fu	Chief Financial Officer	
Mr. Xinwu Fan	General Manager and Technology Manager	
Mr. Jun Zhu	Vice-General Manager	
Mr. Zhong Xue	Vice-General Manager	Resigned 05/09/2010
Mr. Moqing Chen	Vice-General Manager	
Mr. Hongen Chen	Assistant General Manager	
Mr. Xuejie Li	Assistant General Manager	Appointed 01/01/2010
Mr. Longjia Tian	Assistant General Manager	
Mr. Hecheng Su	Assistant General Manager	Resigned 07/03/2011

- (1) Mr. Zeng Li and Mr. Yinan Zhang were directors of the PRC subsidiaries in 2009 and their remuneration is disclosed as KMP in 2009.
- (2) Ms Zoe Yan Zhang has been appointed as Company Secretary on 05/10/2010 and resigned on 09/02/2011. Ms Yi Yang has been appointed as Company Secretary on 9/02/2011.

There are no additional persons not disclosed above that are among the five highest remunerated Group and company executives.

### 3. Details of Remuneration

Details of compensation by key management personnel and other executives of Daton Group Australia Ltd are set out below:

Year ended 31 December 2010

	Short term benefits		Post employment benefits	
	Cash salary, & Commissions \$	Non cash Benefits/Other \$	Super- annuation \$	Total \$
<b>Directors</b>				
Mr. Zeng Li	19,975	-	-	19,975
Mr. Yinan Zhang	12,500	-	-	12,500
Mr. Stephen Streeter	12,500	-	-	12,500
Ms Julia Yan Zhu	12,500	-	-	12,500
Ms Zoe Yan Zhang	42,500 (1)	-	-	42,500
<b>Key management personnel</b>				
Mr. Baohua Fu	6,353	-	-	6,353
Mr. Xinwu Fan	6,321	-	-	6,321
Mr. Jun Zhu	5,349	-	347	5,696
Mr. Zhong Xue	3,660	-	193	3,853
Mr. Moqing Chen	5,611	-	-	5,611
Mr. Hongen Chen	4,862	-	-	4,862
Mr. Xuejie Li	5,064	-	-	5,064
Mr. Longjia Tian	5,286	-	347	5,633
Mr. Hecheng Su	4,728	-	162	4,890
<b>Total</b>	<b>147,209</b>	<b>-</b>	<b>1,049</b>	<b>148,258</b>

There are no Group or company executives other than set out above.

No other payments including share based payments were paid to the above employees during the year.

Compared with the remuneration in 2009, the key management personnel's remuneration in 2010 decreased. This was due to the fact that the foreign exchange rate of Chinese RMB and Australian dollars changed.

Note:

(1) This amount includes the amount of \$12,500 (excluding GST) in exchange for services rendered as a non-executive director and the amount of \$30,000 (excluding GST) for accounting services and tax return preparation services.

Year ended 31 December 2009

	Short term benefits		Post employment benefits	
	Cash salary & commissions \$	Non-cash Benefits \$	Super- annuation \$	Total \$
<hr/>				
Key Management Personnel				
Mr. Zeng Li	9,224	-	-	9,224
Mr. Yinan Zhang	-	-	-	-
Mr. Baohua Fu (1)	1,531	-	-	1,531
Mr. Xinwu Fan	11,947	-	-	11,947
Mr. Jun Zhu	11,540	-	1,727	13,267
Mr. Zhong Xue	11,425	-	1,594	13,019
Mr. Moqing Chen	11,673	-	-	11,673
Mr. Hongen Chen (2)	961	-	-	961
Mr. Longjia Tian	11,673	-	1,771	13,444
Mr. Hecheng Su (3)	2,076	-	199	2,275
Total	72,050	-	5,291	77,341

There are no Group or company executives other than set out above.

No other payments including share based payments were paid to the above employees during the year.

Note:

- (1) Appointed 1/10/2009
- (2) Appointed 1/11/2009
- (3) Appointed 1/08/2009

#### 4. Cash Bonuses

No cash bonuses were paid during the year ended 31 December 2010 or 31 December 2009.

#### 5. Share Based Payment Bonuses

No share based payment bonuses were paid during the year ended 31 December 2010 or 31 December 2009.

#### 6. Options and Rights granted as remuneration

No options or rights were granted to key management personnel and executives as compensation during the year ended 31 December 2010 or the year ended 31 December 2009.

#### 7. Equity issued on exercise of remuneration options

No equity instruments were issued during the year ended 31 December 2010 or 31 December 2009 to key management personnel and executives as a result of options exercised that had previously been granted as compensation.

## 8. Service Contracts

The Managing Director of Daton Group Australia Ltd, Mr. Yinan Zhang, has a five-year contract agreement with the Company which commences with effect from the Listing date and expires on the date calculated five years from the Listing date. The executive may terminate the agreement and his employment with the Company without cause during the initial term and any additional term on the giving of 90 days written notice to the Company. However, there is no termination pay in the contract.

Non-executive Directors have no service contract with Daton Group Australia Ltd, however, there is an oral agreement between the directors and the Group that Daton has to pay each director annually based on market rates as consideration for agreeing to hold the position. There is also no agreement by Daton Group Australia Ltd to pay non-executive directors any pre-determined amounts in the event of their termination.

Most other key management personnel have three-year service contracts which describe the components and amounts of remuneration applicable on their initial appointment, including terms with the Group. These contracts do not fix the amount of remuneration increases from year to year. Remuneration levels are generally reviewed each year by the Remuneration Committee to align with changes in performance and market salary expectations. According to the Labour Contract Law of the People's Republic of China, there are no non-standard termination clauses in any of these contracts.

### End of audited remuneration report

### Indemnifying Officers or Auditors

#### *Insurance premiums paid for directors*

During the year Daton Group Australia Ltd paid a premium of \$16,464 (2009: N/A) in respect of a contract insuring directors and its controlled entities against a liability incurred as director and to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability.

The Company has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the company or any of its controlled entities against a liability incurred as such an officer or auditor.

### Non-audit services

During the financial year, the following fees for non-audit services were paid or payable to the auditor, BDO, or their related practices:

	2010 \$ (excl GST)	2009 \$
Non-audit Services		-
- Taxation services	21,200	-
- Investigating accountant services	158,959	-
Total	180,159	-

During the year, the directors are satisfied that the provision of non-audit services by the auditor is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

On the advice of the audit committee, the directors are satisfied that the provision of non-audit services by the auditor did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed by the audit committee to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the non-audit services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants.

### Auditor's Independence Declaration


The lead auditor's independence declaration for the year ended 31 December 2010 has been received and can be found on page 16 of the financial report.

### Proceedings on Behalf of Company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the company, or to intervene in any proceedings to which the company is a party, for the purpose of taking responsibility on behalf of the company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the company with leave of the Court under section 237 of the Corporations Act 2001.

Signed in accordance with a resolution of Directors:



Mr. Yanan Zhang

Dated this 31<sup>st</sup> day of March 2011

**DECLARATION OF INDEPENDENCE BY WAYNE BASFORD  
TO THE DIRECTORS OF DATON GROUP AUSTRALIA LIMITED**

As lead auditor of Daton Group Australia Limited for the year ended 31 December 2010, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Daton Group Australia Limited and the entities it controlled during the period.



**WAYNE BASFORD**

Director

**BDO Audit (NSW-VIC) Pty Ltd**

Sydney, dated this 31<sup>st</sup> of March 2011

DATON GROUP AUSTRALIA LTD AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2010

<b>CONSOLIDATED</b>			
	<b>Note</b>	<b>2010 \$</b>	<b>2009 \$</b>
Revenue	3	40,613,382	41,694,498
Cost of sales		(34,681,844)	(35,191,409)
<b>Gross profit</b>		5,931,538	6,503,089
Other income	4	95,338	68,272
Distribution expenses		(2,674)	(23,238)
Marketing expenses		(136,200)	(203,137)
Administration expenses		(1,453,804)	(1,337,395)
Occupancy expenses	5	(20,177)	(12,419)
Finance costs	5	(945,615)	(1,364,881)
Other expenses		(217,725)	(531,596)
<b>Profit before income tax expense</b>		3,250,681	3,098,695
Income tax expense	6	(1,307,646)	(925,395)
<b>Profit for the year</b>		1,943,035	2,173,300
<b>Other comprehensive income</b>			
Foreign currency translation differences		(2,785,135)	(8,109,659)
Income Tax expense		-	-
<b>Other comprehensive income for the year, net of tax</b>		(2,785,135)	(8,109,659)
<b>Total comprehensive income for the year</b>		(842,100)	(5,936,359)
<b>Profit is attributable to</b>			
Owners of Daton Group Australia Ltd		1,943,035	2,173,300
Non-controlling interest		-	-
<b>Total comprehensive income for the year is attributable to</b>			
Owners of Daton Group Australia Ltd		(842,100)	(5,936,359)
Non-controlling interest		-	-
<b>Earnings per share for profit for the year</b>		<b>Cents</b>	<b>Cents</b>
Basic earnings per share	7	5.4	6.0
Diluted earnings per share	7	5.4	6.0

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

DATON GROUP AUSTRALIA LTD AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2010

		CONSOLIDATED	
	Note	2010 \$	2009 \$
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	10	1,888,000	2,506,113
Guarantee deposits with maturity over three months	11	2,549,259	1,965,151
Trade and other receivables	12	18,587,936	9,831,096
Inventories	13	4,481,062	9,293,287
Other assets	14	6,253,816	4,053,257
<b>Total current assets</b>		33,760,073	27,648,904
<b>Non-current assets</b>			
Property, plant and equipment	15	26,638,720	31,362,931
Lease prepayments	16	642,218	727,305
Receivables	12	19,353	-
Deferred tax assets	18	318,791	820,293
<b>Total non-current assets</b>		27,619,082	32,910,529
<b>Total assets</b>		61,379,155	60,559,433
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	19	6,645,015	8,452,519
Borrowings	20	17,262,932	17,850,124
Current tax liabilities	6	848,666	725,738
Other liabilities	21	3,257,854	4,678,488
<b>Total current liabilities</b>		28,014,467	31,706,869
<b>Total liabilities</b>		28,014,467	31,706,869
<b>Net assets</b>		33,364,688	28,852,564
<b>EQUITY</b>			
Contributed equity	22	28,115,244	22,502,203
Reserves	23	(1,065,802)	1,487,027
Retained earnings		6,315,246	4,863,334
<b>Total equity</b>		33,364,688	28,852,564

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

DATON GROUP AUSTRALIA LTD AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2010

	Contributed Equity	Retained Earnings	Surplus Reserves	Foreign Currency Translation Reserve	Total
	\$	\$	\$	\$	\$
<b>CONSOLIDATED</b>					
<b>At 1 January 2009</b>	22,502,203	2,908,633	329,144	9,048,943	34,788,923
<b>Total comprehensive income for the year</b>					
Profit for the year	-	2,173,300	-	-	2,173,300
<i>Other comprehensive income</i>					
Foreign currency translation reserve differences	-	-	-	(8,109,659)	(8,109,659)
<b>Total comprehensive income for the year</b>	-	2,173,300	-	(8,109,659)	(5,936,359)
<b>Transactions with owners in their capacity as owners</b>					
Appropriation to surplus reserves	-	(218,599)	218,599	-	-
	-	(218,599)	218,599	-	-
<b>At 31 December 2009</b>	22,502,203	4,863,334	547,743	939,284	28,852,564
<b>Total comprehensive income for the year</b>					
Profit for the period	-	1,943,035	-	-	1,943,035
<i>Other comprehensive income</i>					
Foreign currency translation reserve differences	-	-	-	(2,785,135)	(2,785,135)
<b>Total comprehensive income for the year</b>	-	1,943,035	-	(2,785,135)	(842,100)
<b>Transactions with owners in their capacity as owners</b>					
Contributions of equity, net of transaction costs	5,613,041	-	-	-	5,613,041
Transaction with owners	-	(258,817)	-	-	(258,817)
Appropriation to surplus reserves	-	(232,306)	232,306	-	-
	5,613,041	(491,123)	232,306	-	5,354,224
<b>At 31 December 2010</b>	28,115,244	6,315,246	780,049	(1,845,851)	33,364,688

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

DATON GROUP AUSTRALIA LTD AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	CONSOLIDATED	
		2010	2009
		\$	\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers		37,328,790	45,266,328
Payments to suppliers and employees		(34,832,133)	(35,130,635)
Interest received		28,350	24,244
Interest paid		(945,615)	(1,363,087)
Income tax paid		(643,794)	(221,962)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	27	<u>935,598</u>	<u>8,574,888</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property, plant & equipment		(800,410)	(2,570,113)
Proceeds from disposal of property, plant & equipment		8,579	-
Increase in term deposits with maturity over three months		(823,008)	(2,213,867)
Advances to other related parties		-	(4,304,453)
Repayment of advances to other related parties		584,827	3,689,778
Loan to third party		(1,604,305)	-
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		<u>(2,634,317)</u>	<u>(5,398,655)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from borrowings		12,353,146	15,681,557
Repayment of borrowings		(11,230,133)	(21,216,225)
Payment for cost of issuing new shares		(455,729)	-
Loan from related parties		2,623,275	-
Repayment of loan from related parties		(1,616,885)	-
Loans from third party		533,668	798,837
Repayment of loans to third party		(930,497)	-
<b>NET CASH PROVIDED BY/(USED IN) FINANCING ACTIVITIES</b>		<u>1,276,845</u>	<u>(4,735,831)</u>
<b>NET DECREASE IN CASH HELD</b>		(421,874)	(1,559,598)
Effects of exchange rate changes on the balance of cash held in foreign currency		(196,239)	(952,224)
Cash and cash equivalents at beginning of the year		2,506,113	5,017,935
<b>CASH AT END OF YEAR</b>	10	<u>1,888,000</u>	<u>2,506,113</u>

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

## Notes to the Consolidated Financial Statements For The Year Ended 31 December 2010

The consolidated financial statements of Daton Group Australia Limited for the year ended 31 December 2010 were authorised for issue in accordance with a resolution of the directors on 31 March 2011, which covers Daton Group Australia Limited as a consolidated entity consisting of Daton Group Australia Limited (“the parent company”) and its subsidiaries (“the group”) as required by the Corporations Act 2001. Separate financial statements for Daton Group Australia Limited as an individual entity are no longer presented as a consequence of a change to the Corporations Act 2001. However, limited financial information for Daton Group Australia Limited as an individual entity is included in note 31.

The financial statements are presented in Australian dollars.

Daton Group Australia Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange.

The principal activities of the group are the manufacture and sale of urea, ammonium bicarbonate, methanol and liquid carbon dioxide used as food additive.

### Note 1: Summary of significant accounting policies

#### a) Basis of Preparation

The financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The financial statements also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

The financial statements have also been prepared on a historical cost basis.

The following is a summary of the material accounting policies adopted in the preparation of the financial statements. The accounting policies have been consistently applied, unless otherwise stated.

#### b) Basis of Consolidation

##### Group Reorganisation

The group was restructured during the year as part of its IPO. This involved the merger of certain entities which are under common control of a group of substantial shareholders by transferring their respective equity interests in those entities to the parent company by a share swap. The details of the group reorganisation are as follows:

- (a) On 23 February 2010, pursuant to a share purchase agreement, Australia Golden Star International Pty Ltd (“Golden Star”), a 50% equity holder of Zhengzhou Jinyitong Scientific and Technological Development Co., Ltd (“Jinyitong”), acquired the remaining 50% equity interests in Jinyitong. After the share purchase, Jinyitong became a wholly owned subsidiary of Golden Star.
- (b) On 8 March 2010, pursuant to the share transfer agreements, the shareholders of Henan Datong Chemical Co., Ltd (“Datong Chemical”) transferred all their equity interests to Jinyitong. After the share transfer, Datong Chemical became a wholly owned subsidiary of Jinyitong.
- (c) The parent company, Daton Group Australia Ltd, was incorporated on 3 May 2010. Pursuant to the share transfer agreements, the parent company acquired 100% equity interest in Golden Star through a share swap immediately before the completion of the public share offering on 29 December 2010 and became the holding company of the entities now comprising the group.

Following the completion of the public share offering, the company's shares were listed on the ASX on 5 January 2011.

### **Note 1: Summary of significant accounting policies (continued)**

#### **b) Basis of Consolidation (continued)**

The transactions have been reflected as business combinations involving entities under common control as the ultimate control of these subsidiaries had not changed prior to and post the combination. As such the results of these entities for the year ended 31 December 2010 and 2009 are included in the consolidated financial statements as if the current group structure had been in existence throughout the reporting periods. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the Group controlling shareholder's consolidated financial statements. The components of equity of the acquired entities are added to the same components within the Group equity and any gain/loss arising is recognised directly in equity.

#### **Subsidiaries**

The consolidated financial statements comprise the financial statements of Daton Group Australia Limited and its subsidiaries at 31 December 2010 and 31 December 2009 ("the group"). Subsidiaries are 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. Potential voting rights that are currently exercisable or convertible are considered when assessing control. Consolidated financial statements include all the subsidiaries other than those acquired in business combinations involving entities under common control from the date that control commences until the date that control ceases. The financial statements of subsidiaries are prepared for the same reporting period as the parent, using consistent accounting policies.

Subsidiaries acquired in a business combination involving entities under common control are included in the consolidated financial statements as if the acquisition had occurred from the earliest period reported. Consequently, comparative figures have been prepared to reflect that the current structure had been in existence from the opening of the earliest period reported.

All intercompany balances and transactions, including unrealised profits arising from intragroup transactions have been eliminated. Unrealised losses are also eliminated unless costs cannot be recovered unless the transaction provides evidence of the impairment of the asset transferred.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income and statement of financial position respectively. Total comprehensive income is attributable to owners of Daton Group Australia Limited and non-controlling interests even if this results in the non-controlling interests having a debit balance.

Investments in subsidiaries are accounted for in the parent entity financial statements at cost.

#### **Changes in ownership interest**

Transactions with non-controlling interests that increase or decrease the group's ownership interest in a subsidiary, but which do not result in a change of control, are accounted for as transactions with equity owners of the group. An adjustment is made between the carrying amount of the group's controlling interest and the carrying amount of the non-controlling interests to reflect their relative values in the subsidiary. Any difference between the amount of the adjustment to the non-controlling interest and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of Daton Group Australia Limited.

Where the group loses control of a subsidiary but retains significant influence, joint control, or an available-for-sale investment, the retained interest is remeasured to fair value at the date that control is lost and the difference between fair value and the carrying amount is recognised in profit or loss. This fair value is the initial carrying amount for the retained investment in associate, jointly controlled entity or available-for-sale financial asset. If no ownership interest is retained, or if any remaining investment is classified as available-for-sale, any amounts previously recognised in other comprehensive income in respect of the entity are accounted for as if the group had directly disposed of the related assets or liabilities and may be recognised in profit or loss. To the extent that the group retains significant influence or joint control, balances of other comprehensive income relating to the associate or jointly controlled entity will only be reclassified from other comprehensive income to profit or loss to the extent of the reduced ownership interest so that the balance of other comprehensive represents the group's proportionate share of other comprehensive income of the associate/jointly controlled entity.

**Note 1: Summary of significant accounting policies (continued)**

**c) Going Concern**

The financial report of the group has been prepared on a going concern basis, which contemplates continuity of normal trading activities and realisation of assets and settlement of liabilities in the normal course of business. The group has RMB 94,000,000 (\$13,988,928) in short term borrowings due for renewal between August 2011 and November 2011. The group does not have sufficient cash flows to repay these loans on renewal, therefore the ongoing viability of the group is dependent upon the continued support of its bankers. Management believes that the group will receive continued support of its bankers to renew these borrowings and continue the group's normal trading activities.

**d) Foreign Currency Translation**

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 Australian dollars, which is Daton Group Australia Limited's presentation currency.

**Translation of foreign currency transactions**

Foreign currency transactions are translated into the functional currency using the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the end of the reporting period. Foreign exchange gains and losses resulting from settling foreign currency transactions, as well as from restating foreign currency denominated monetary assets and liabilities, are recognised in profit or loss, except when they are deferred in other comprehensive income as qualifying cash flow hedges or where they relate to differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when fair value was determined.

**Translation of foreign operations**

At the end of the reporting period, the assets and liabilities of the overseas subsidiaries are translated into the presentation currency of the group at the closing rate at the end of the reporting period and income and expenses are translated at the weighted average exchange rates for the year. All resulting exchange differences are recognised in other comprehensive income as a separate component of equity (foreign currency translation reserve). On disposal of a foreign entity, the cumulative exchange differences recognised in foreign currency translation reserves relating to that particular foreign operation is recognised in profit or loss.

**e) Revenue recognition**

Revenue is recognised at the fair value of consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and duties and taxes paid. The following specific recognition criteria must also be met before revenue is recognised:

**Sale of goods**

Revenue from sale of goods is recognised when the significant risks and rewards of ownership have passed to the buyer and can be reliably measured. Risks and rewards are considered passed to buyer when goods have been delivered to the customer. Revenue excludes value added tax or other sales taxes.

**Interest**

Revenue is recognised as interest accrues using the effective interest method. The effective interest method uses the effective interest rate which is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial asset.

**Government grants**

Grants from the government are recognised at their fair value where there is reasonable assurance that the grant will be received and the group will comply with all the attached conditions. Government grants relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

**Note 1: Summary of significant accounting policies (continued)**

**f) Leases**

Leases of property, plant and equipment whether the group, as lessor, retains a significant portion of the risks and rewards of ownership are classified as operating leases. Lease income from operating leases is recognised in income on a straight-line basis over the lease term. The aggregate cost of incentives is recognised as a reduction in rental income over the lease term on a straight-line basis.

The respective leased assets are included in the balance sheet based on their nature.

**g) Income tax**

The income tax expense for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax base of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for all temporary differences, between carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases, at the tax rates expected to apply when the assets are recovered or liabilities settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. Exceptions are made for certain temporary differences arising on initial recognition of an asset or a liability if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit.

Deferred tax assets are only recognised for deductible temporary differences and unused tax losses if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are not recognised for temporary differences between the carrying amount and tax bases of investments in subsidiaries where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Current and deferred tax balances relating to amounts recognised directly in other comprehensive income or equity are also recognised directly in other comprehensive income or equity.

**h) Impairment of assets**

At the end of each reporting period the group assesses whether there is any indication that individual assets are impaired. Where impairment indicators exist, recoverable amount is determined and impairment losses are recognised in profit or loss where the asset's carrying value exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Where it is not possible to estimate recoverable amount for an individual asset, recoverable amount is determined for the cash-generating unit to which the asset belongs.

**i) Cash and cash equivalents**

For the purposes of the Statement of Cash Flows, cash and cash equivalents includes cash on hand and at bank, deposits held at call with financial institutions, other short term, highly liquid investments with maturities of three months or less, that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value and bank overdrafts.

**j) Guarantee deposits with maturity over three months**

Short-term deposits with maturity over three months pledged as collateral for bank acceptance notes issued are restricted from use until the collateral is revoked. They are excluded from cash and cash equivalents and carried at amortised cost using the effective interest rate method.

**k) Trade receivables**

Trade receivables are recognised at original invoice amounts less an allowance for uncollectible amounts and have repayment terms between 60 and 90 days.

**Note 1: Summary of significant accounting policies (continued)**

**k) Trade receivables (continued)**

Collectability of trade receivables is assessed on an ongoing basis. Debts which are known to be uncollectible are written off. An allowance is made for doubtful debts where there is objective evidence that the group will not be able to collect all amounts due according to the original terms. Objective evidence of impairment include financial difficulties of the debtor, default payments or debts overdue for a long time. On confirmation that the trade receivable will not be collectible the gross carrying value of the asset is written off against the associated provision.

The amount of the impairment loss is recognised in profit or loss. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in profit or loss.

**l) Inventories**

Inventories consist of raw materials, finished goods and auxiliary materials.

Inventories are measured at the lower of cost and net realisable value. Costs are determined using the weighted average method and include direct materials, direct labour, other direct costs and an appropriate proportion of variable and fixed overhead expenses. Fixed overheads are allocated on the basis of normal capacity. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated selling cost of completion and selling expenses.

**m) Financial instruments**

**Financial assets**

***Recognition and de-recognition***

Regular 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 carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in profit or loss. Financial assets are derecognised when rights to receive cash flows from the financial assets have expired or have been transferred and the group has transferred substantially all the risks and rewards of ownership.

***Classification***

Financial assets in the scope of AASB 139 *Financial Instruments: Recognition and Measurement* are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale investments, as appropriate. The group determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at the end of each reporting period.

Financial assets of the group are classified in one category as following:

**Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method, less any impairment.

Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired. These are included in current assets, except for those with maturities greater than 12 months after the end of the reporting period, which are classified as non-current.

***Impairment of financial assets***

At the end of each reporting period, the group assesses whether there is objective evidence that a financial instrument has been impaired. Impairment losses are recognised in profit or loss.

**Financial liabilities**

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

**Note 1: Summary of significant accounting policies (continued)**

**n) Fair value**

Fair values may be used for financial asset and liability measurement and well as for sundry disclosures.

Fair values for financial instruments traded in active markets are based on quoted market prices at the end of the reporting period. The quoted market price for financial assets is the current bid price and the quoted market price.

The fair values of financial instruments that are not traded in an active market are determined using valuation techniques. Assumptions used are based on observable market prices and rates at the end of the reporting period. The fair value of long-term debt instruments is determined using quoted market prices for similar instruments. Estimated discounted cash flows are used to determine fair value of the remaining financial instruments.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the group for similar financial instruments.

**o) Property, plant and equipment**

Property, plant and equipment is stated at historical cost, including costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, less depreciation and any impairments.

The depreciable amounts of all fixed assets including buildings and capitalised leased assets, but excluding freehold land, are depreciated on a straight line basis over their estimated useful lives to the economic entity commencing from the time the assets are held ready for use.

Assets are depreciated over their useful lives as follows:

Buildings	20-30 years
Machinery and vehicles	8-14 years
Furniture, fittings and equipment	6 years

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

Gains and losses on disposals are calculated as the difference between the net disposal proceeds and the asset's carrying amount and are included in profit or loss in the year that the item is derecognised.

**p) Land use rights**

Leases where the lessor retains substantially all the risks and rewards of ownership of the net asset are classified as operating leases. Payments made under operating leases (net of incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

The upfront prepayment made for land use rights are expensed in profit or loss on a straight line basis over the period of the lease or, when there is impairment, it is recognised immediately. The lease period is 50 years.

**q) Trade and other payables**

Trade and other payables represent liabilities for goods and services provided to the group prior to the year end and which are unpaid. These amounts are unsecured and have 60 days to 2 years payment terms.

**r) Borrowings**

All loans and borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the loans and borrowings using the effective interest method.

All 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 the reporting period.

### Note 1: Summary of significant accounting policies (continued)

#### s) Borrowings costs

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

#### t) Employee benefit provisions

##### Wages and Salaries, Annual Leave and Sick Leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the end of the reporting period are recognised in other liabilities in respect of employees' services rendered up to the end of the reporting period and are measured at amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when leave is taken and measured at the actual rates paid or payable.

##### Long Service Leave

Liabilities for long service leave are recognised as part of the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees to the end of the reporting period using the projected unit credit method. Consideration is given to expected future salaries and wages levels, experience of employee departures and periods of service. Expected future payments are discounted using national government bond rates at the end of the reporting period with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

##### Bonus

The group recognises an expense and a liability for bonuses when the entity is contractually obliged to make such payments or where there is past practice that has created a constructive obligation.

##### Retirement Benefit Obligations

The employees of Australian entities participate those entities' defined contribution superannuation fund. Contributions are recognised as expenses as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

The permanent Chinese employees of the group participate in employee social security plans, including pension, medical insurance, unemployment insurance, maternity insurance and work related injury insurance, organized and administered by the governmental authorities. The relevant government agencies are responsible for the pension liability to the retired employees. The group has no other substantial commitments to employees. Contributions are made by the group to an employee welfare funds and are charged as expenses when incurred.

#### u) Contributed equity

Contributions by shareholders are classified as equity. Costs directly attributable to capital raising are shown as a deduction from the equity proceeds.

#### v) Dividends

Provision is made for dividends declared and no longer at the discretion of the group, on or before the end of the reporting period but not distributed at the end of the reporting period.

#### w) Taxation

##### Value added tax (VAT)

The majority of the Chinese subsidiary's sales of self-manufactured products are subject to Value Added Tax (VAT). The applicable tax rate for domestic sales is 17%. Sales of certain products are eligible to VAT exemption in accordance with the normal VAT regulation in China.

An input credit is available whereby input VAT previously paid on purchases of raw materials or semi-finished products can be used to offset the output VAT to determine the net VAT payable. The Chinese subsidiaries are also subject to city construction tax ("CCT") and Education Surcharge ("ES") based on 7% and 4% of net VAT payable, respectively.

Revenues, cost of sales are recognised net of VAT except where VAT incurred on a purchase of goods is not recoverable from the taxation authority, in which case the VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item.

**Note 1: Summary of significant accounting policies (continued)**

**w) Taxation (continued)**

Receivables and payables are stated with the amount of VAT included. The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position. Cash flows are presented in the statements of cash flows on a gross basis, except for the VAT components of investing and financing activities, which are classified as operating cash flows. Commitments and contingencies are disclosed net of the amount of VAT recoverable from, or payable to, the Chinese Taxation Bureau.

**Goods and services tax (GST)**

Revenues, expenses of Australian entities are recognised net of GST except where GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority, are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

**x) Earnings per Share**

**Basic earnings per share**

Basic earnings per share is calculated by dividing the profit attributable to owners of Daton Group Australia Limited, adjusted for the after-tax effect of preference dividends on preference shares classified as equity, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares during the year. The weighted average number of issued shares outstanding during the financial year does not include shares issued as part of the Employee Share Loan Plan that are treated as in-substance options.

**Diluted earnings per share**

Earnings used to calculate diluted earnings per share are calculated by adjusting the basic earnings by the after-tax effect of dividends and interest associated with dilutive potential ordinary shares. The weighted average number of shares used is adjusted for the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

**y) Critical accounting estimates & judgements**

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related 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.

**Estimated impairment of tangible and other non-current assets**

The group considers annually whether any impairment indicators exist which suggest tangibles and other non-current assets have suffered an impairment, in accordance with the accounting policy stated in note 1 (h).

No impairment of tangibles or other non-current assets was necessary during the year based on management's assessment. Any unfavourable variances in actual results may require an impairment write-down of tangibles and other non-current assets in future periods.

**Critical judgement of accounting for Group's restructure**

Management have made the following judgement when applying the Group's restructure accounting policy:

The entities comprising the group had been controlled by the same group of shareholders both before and after the group restructure (note 1(b)). The shareholders collectively determined these entities' financial and operating policies throughout the periods reported. Therefore it is determined that these entities are under common control and the combination of those entities is accounted for on a continuous basis accordance with the accounting policy in note 1(b).

**Note 1: Summary of significant accounting policies (continued)**

**z) Accounting standards issued, not yet effective**

The following new/amended accounting standards have been issued, but are not mandatory for the year ended 31 December 2010. They have not been adopted in preparing the financial statements for the year ended 31 December 2010 and are expected to impact the group in the period of initial application. In all cases the group intends to apply these standards from the mandatory application date as indicated in the table below.

*Standards likely to have a financial impact*

<b>AASB reference</b>	<b>Title and Affected Standard(s):</b>	<b>Nature of Change</b>	<b>Application date:</b>	<b>Impact on Initial Application</b>
AASB 9 (issued December 2009)	Financial Instruments	Amends the requirements for classification and measurement of financial assets	Periods beginning on or after 1 January 2013	Due to the recent release of these amendments and that adoption is only mandatory for the 31 December 2013 year end, the group has not yet made an assessment of the impact of these amendments.
AASB 2010-7 (issued December 2010)	Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023 & 1038 and Interpretations 2, 5, 10, 12, 19 & 127]	The following requirements have generally been carried forward unchanged from AASB 139 Financial Instruments: Recognition and Measurement into AASB 9. These include the requirements relating to: Classification and measurement of financial liabilities; and De-recognition requirements for financial assets and liabilities. However, AASB 9 requires that gains or losses on financial liabilities measured at fair value are recognised in profit or loss, except that the effects of changes in the liability's credit risk are recognised in other comprehensive income.	Periods commencing on or after 1 January 2013	Due to the recent release of these amendments and that adoption is only mandatory for the 31 December 2013 year end, the group has not yet made an assessment of the impact of these amendments.

All other pending standards have no application to the group.

**Note 2: Segment Information**

**(a) Description of segment**

The group segment information is presented using a 'management approach', i.e. segment information is provided on the same basis as information used for internal reporting purposes by the chief operating decision maker (the board of directors that make strategic decisions). The board considers the group have only one segment, being the manufacturing and sale of fertiliser and its by-products to domestic customers in P. R. China.

Operating segments have been determined on the basis of reports reviewed by the board of directors that make strategic decisions. The board of directors monitor the segment performance based on the net profit after tax of the period.

**(b) Segment information provided to the board of directors**

Segment information provided to the board of directors is as follows:

	2010			2009		
	Chemical	Head Office	Total	Chemical	Head Office	Total
Sales revenue	40,304,598	-	40,304,598	41,391,791	-	41,391,791
Total segment revenue from external customers	40,304,598	-	40,304,598	41,391,791	-	41,391,791
Depreciation	(2,800,515)	(880)	(2,801,395)	(3,031,610)	(2,184)	(3,033,794)
Interest income	28,350	-	28,350	24,244	-	24,244
Interest expense	(939,410)	-	(939,410)	(1,344,741)	-	(1,344,741)
Income tax expense	(1,307,646)	-	(1,307,646)	(925,395)	-	(925,395)
Net profit after tax	2,323,057	(380,022)(i)	1,943,035	2,177,097	(3,797)	2,173,300
Total segment assets	55,002,547	6,376,608(ii)	61,379,155	60,549,747	9,686	60,559,433
Includes: addition to non-current assets	776,111	24,298	800,409	2,132,444	-	2,132,444
Total segment liabilities	26,432,562	1,581,905	28,014,467	31,482,092	224,777	31,706,869

(i) The major expense of the head office was \$278,229 IPO project related audit and accounting fees, refer note 8 for more information;

(ii) The major asset of the head office was a \$6,308,000 receivable relating to the funds due from the new share offering, refer note 12b(i) for more information.

**(c) Entity-wide disclosures**

**Product and services**

The board considers that the group only has one product type being sold which is fertiliser.

**Geographic information**

Revenues and non-current assets by geographical location is as follows:

Geographic location	Revenues from		Non-current assets	
	2010	2009	2010	2009
	\$	\$	\$	\$
Australia	-	-	24,298	9,458
China	40,304,598	41,391,791	27,594,781	32,901,071
	40,304,598	41,391,791	27,619,079	32,910,529

Segment revenues are allocated based on the country in which the customer is located.

**Note 2: Segment Information (continued)**

**Major customers**

Revenues from major customers for the sale of fertiliser and its by-products are as follows:

	2010		2009	
	\$	% of total revenue	\$	% of total revenue
Largest customer	7,404,881	18%	5,451,236	13%
Second largest customer	4,446,417	11%	3,938,805	10%
Third largest customer	4,080,766	10%	-	-

**Note 3: Revenue**

	CONSOLIDATED	
	2010 \$	2009 \$
Sales	40,304,598	41,391,791
Rental income	280,434	278,463
Interest	28,350	24,244
	<u>40,613,382</u>	<u>41,694,498</u>

**Note 4: Other Income**

Government grant	30,858	35,429
Sundry income	64,530	32,843
	<u>95,388</u>	<u>68,272</u>

Government grant income of \$30,858 was recognised by the group in the current year (2009: \$35,429). The grant is the Government's compensation in respect of the group's spending on equipment in order to achieve energy saving targets set up by the China State Treasury. There are no unfulfilled conditions or other contingencies attaching to this grant. Refer to note 21(i) for more information.

	CONSOLIDATED	
	2010	2009
	\$	\$
<b>Note 5: Expenses</b>		
<b>Profit before income tax includes the following specific expenses:</b>		
Finance costs		
Interest expenses	939,410	1,344,741
Bank fees	6,205	20,140
	945,615	1,364,881
Depreciation expense		
Buildings	385,488	432,343
Machinery and vehicles	2,376,165	2,550,597
Furniture, fittings and equipment	39,742	50,854
	2,801,395	3,033,794
Amortisation of operating lease prepayment		
Land use rights	20,177	12,419
	20,177	12,419
Employee benefits expense		
Wages and salaries	2,076,678	2,303,628
Superannuation costs	281,785	282,748
Other welfare expense	207,879	156,753
	2,566,342	2,743,129
Bad and doubtful debts - current receivables	46,315	77,263
	46,315	77,263
Net loss on disposal of property, plant and equipment	-	250,957
	-	250,957
Research expenses	-	11,992
	-	11,992
Operating lease expenses	47,634	36,898
	47,634	36,898

	CONSOLIDATED	
	2010	2009
	\$	\$
<b>Note 6: Income Tax Expense</b>		
Major components of income tax expense are:		
<b>Current tax expense</b>		
Adjustment for current tax of prior periods	379,511	-
Current tax expense	1,388,071	992,269
	<u>1,767,582</u>	<u>992,269</u>
<b>Deferred tax expense</b>		
Origination and reversal of temporary differences	(459,936)	(66,874)
	<u>1,307,646</u>	<u>925,395</u>

**Reconciliation of the effective tax rate**

Accounting profit before income tax	3,250,681	3,098,695
Tax at the Australian tax rate of 30% (2009: 30%)	975,204	929,608
Non-deductible expenses:		
- entertainment	2,879	11,011
- loss on disposal of property, plant and equipment	-	75,287
- donation to unqualified party	-	1,549
- fines and penalties	102	47
- other non-deductible expenses	97,472	91,832
Adjustment for current tax of prior periods	379,511	-
Tax losses not recognised	114,007	1,140
Difference in overseas tax rate	(261,529)	(185,079)
Income tax expense at effective rate of 40% (2009: 30%)	<u>1,307,646</u>	<u>925,395</u>
Income tax payable	<u>848,666</u>	<u>725,738</u>

**Tax losses**

Unused tax losses for which no deferred tax asset has been recognised	453,161	73,808
Potential tax benefit @ 30% (2009: 30%)	<u>135,948</u>	<u>22,142</u>

All unused tax losses were incurred by Australian entities. There is no expiry date on the future deductibility of unused tax losses.

**Unrecognised temporary differences**

The PRC subsidiaries have undistributed earnings of \$ 6,678,959 (2009: \$ 4,588,208) which, if paid out, would be subject to an withholding tax of 10%. An assessable temporary difference exists, however, no deferred tax liability has been recognised as the parent entity is able to control the timing of distributions from this subsidiary.



**Note 9: Dividends**

No dividend for the full year ended 31 December 2010 has been declared or paid to shareholders by the group (2009: nil).

	<b>CONSOLIDATED</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
<b>Note 10: Cash and Cash Equivalents</b>		
Cash on hand	5,809	52,014
Cash at bank	1,882,191	2,454,099
	<u>1,888,000</u>	<u>2,506,113</u>
Cash and cash equivalents	<u>1,888,000</u>	<u>2,506,113</u>

Cash on hand is non-interest bearing. Cash at bank bears a floating interest rate at 0.36% (2009: 0.36%).

**Note 11: Guarantee Deposits with Maturity Over Three Months**

Guarantee deposits with maturity over three months	<u>2,549,259</u>	<u>1,965,151</u>
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As at 31 December 2010, short-term deposits maturity over three months of \$2,549,259 (2009: 1,965,151) are pledged as collateral for a bank acceptance notes issued by the group. These pledged short-term deposits bear fixed interest rates of 2.00% (2009: 3.6%) and have an average maturity of 6 months.

**Note 12: Trade and other receivables**

**Current**

Notes receivable	7,441	-
Trade receivables (a)	10,275,838	9,035,657
Allowance for doubtful debts	<u>(308,275)</u>	<u>(261,919)</u>
	9,967,563	8,773,738
Other receivables (b)	8,174,246	615,829
Allowance for doubtful debts	<u>(67,296)</u>	<u>(104,090)</u>
	8,106,950	511,739
Related party receivables	26 <u>505,982</u>	<u>545,619</u>
Total trade and other receivables	<u>18,587,936</u>	<u>9,831,096</u>

**Non Current**

Other receivables	19,353	-
Allowance for doubtful debts	<u>-</u>	<u>-</u>
Total trade and other receivables	<u>19,353</u>	<u>-</u>

**Note 12: Trade and other receivables (continued)**

**(a) Trade receivables**

Credit terms granted to customers are between 60 and 90 days. Age analysis of trade receivables that are past due but not impaired at the end of the reporting period is as follows:

<b>Consolidated 2010</b>	<b>Total</b>	<b>Amount Impaired</b>	<b>Amount not impaired</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Not past Due	8,502,770	-	8,502,770
Past due within 90 days	1,570,309	105,516	1,464,793
Past due 90- 180 days	193,980	193,980	-
Past due over 180days	8,779	8,779	-
	<hr/>	<hr/>	<hr/>
Total trade receivables	10,275,838	308,275	9,967,563

<b>Consolidated 2009</b>	<b>Total</b>	<b>Amount Impaired</b>	<b>Amount not impaired</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Not past Due	6,731,668	-	6,731,668
Past due within 90 days	1,935,296	-	1,935,296
Past due 90- 180 days	304,017	197,243	106,774
Past due over 180days	64,676	64,676	-
	<hr/>	<hr/>	<hr/>
Total trade receivables	9,035,657	261,919	8,773,738

The past due not impaired amounts are with long standing customers who have sound credit histories. Credit terms to these customers have been informally extended to 5 months under the approval of the Chairman. The group assessed the recoverability of the receivables outstanding longer than the extended credit terms and provided impairment for 100% of the receivables that may not be recovered. The remaining balances are expected to be received in the future.

Trade receivables that are neither past due nor impaired relates to long standing customers with good credit history.

The group does not hold any collateral in relation to the receivables (2009: nil).

**(b) Other receivables**

Other receivables comprise the following items:

- (i) \$6 million receivable from the new share offering which was held in a trust account at the balance date over which the company does not have control. The proceeds were received in the company's bank account subsequent to the balance date after the company officially listed on the ASX.
- (ii) Rmb 10 million, (equivalent to AUD \$1.6 million) advanced to an investment guarantee corporation as security deposit for its future guarantee for the company. The amount of security deposit will be recovered when the guarantee is revoked.

The remaining amounts generally arise from transactions outside the usual operating activities of the group. No specific credit term granted to other debtors and collateral is not normally obtained. A provision of \$67,296 (2009: \$104,090) is provided based on the assessment of individual receivables collectability.

**Note 12: Trade and other receivables (continued)**

**Analysis of allowance accounts**

As at 31 December 2010, all trade and finance receivables were reviewed for impairment on a collective basis. Allowances for individually impaired finance receivables were provided in the current year and in the prior year based on an aging analysis of the amounts past due. Movements in the allowance for impairment of receivables are as follows:

*Allowance for doubtful debts of trade receivables*

	<b>CONSOLIDATED</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
Opening Balance	(261,919)	(346,803)
Provisions for doubtful receivables	(75,740)	-
Reversal of amounts provided	-	7,832
Effect of movement in foreign exchange	29,384	77,052
	<hr/>	<hr/>
Closing balance	<u>(308,275)</u>	<u>(261,919)</u>

*Allowance for doubtful debts of other receivables*

Opening Balance	(104,090)	(36,831)
Provisions for doubtful receivables	-	(85,095)
Reversal of amounts provided	29,425	-
Effect of movement in foreign exchange	7,369	17,836
	<hr/>	<hr/>
Closing balance	<u>(67,296)</u>	<u>(104,090)</u>

**Fair value and credit risk**

Due to the short term nature of these receivables, their carrying value is assumed to approximate their fair value. The maximum exposure to credit risk is the fair value of receivables. Refer to note 24 for more information relating to the risk management policy of the group.

**Note 13: Inventories**

At cost		
Raw materials	3,222,386	7,608,415
Finished goods	152,152	365,535
Other inventories	1,106,524	1,319,337
	<hr/>	<hr/>
	<u>4,481,062</u>	<u>9,293,287</u>

**Note 14: Other Assets**

<i>Current</i>		
Prepayment to suppliers	6,253,816	3,496,464
Prepayments to related parties	-	556,793
	<hr/>	<hr/>
	<u>6,253,816</u>	<u>4,053,257</u>

**DATON GROUP AUSTRALIA LTD AND ITS SUBSIDIARIES**

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	<b>CONSOLIDATED</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
<b>Note 15: Property, Plant and Equipment</b>		
Buildings		
At cost	10,888,319	11,767,555
Accumulated depreciation	(1,837,641)	(1,628,680)
	<u>9,050,678</u>	<u>10,138,875</u>
Machinery and vehicles		
At cost	30,053,965	32,472,531
Accumulated depreciation	(12,927,397)	(11,825,214)
	<u>17,126,568</u>	<u>20,647,317</u>
Furniture, fittings and equipment		
At cost	280,423	304,188
Accumulated depreciation	(233,008)	(215,839)
	<u>47,415</u>	<u>88,349</u>
Capital works in progress at cost	<u>414,059</u>	<u>488,390</u>
Total property, plant and equipment		
At cost	41,636,766	45,032,664
Accumulated depreciation	(14,998,046)	(13,669,733)
	<u><u>26,638,720</u></u>	<u><u>31,362,931</u></u>

**Note 15: Property, Plant and Equipment (continued)**

***Movement in carrying amounts***

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year is as follows:

	Buildings	Machinery and vehicles	Furniture, fittings and equipment	Capital works in progress	Total
<b>Consolidated</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>		<b>\$</b>
Carrying amount at 1 January 2009	13,217,863	28,069,801	171,080	310,949	41,769,693
Additions	527,278	218,562	963	1,385,641	2,132,444
Transfers	33,525	1,073,497	-	(1,107,022)	-
Disposals	(250,957)	-	-	-	(250,957)
Depreciation expense	(432,343)	(2,550,597)	(50,854)	-	(3,033,794)
Effect of movement in foreign exchange	(2,956,491)	(6,163,946)	(32,840)	(101,178)	(9,254,455)
Carrying amount at 31 December 2009	<u>10,138,875</u>	<u>20,647,317</u>	<u>88,349</u>	<u>488,390</u>	<u>31,362,931</u>
Additions	209,802	586,302	4,305	-	800,409
Transfers	-	32,086	-	(32,086)	-
Disposals	-	(8,579)	-	-	(8,579)
Depreciation expense	(385,488)	(2,376,165)	(39,742)	-	(2,801,395)
Effect of movement in foreign exchange	(912,511)	(1,754,393)	(5,497)	(42,245)	(2,714,646)
Carrying amount at 31 December 2010	<u>9,050,678</u>	<u>17,126,568</u>	<u>47,415</u>	<u>414,059</u>	<u>26,638,720</u>

***Non-current assets pledged as security***

Refer note 20 for information on non-current assets pledged as security by the group.

***Leased properties***

At 31 December 2010 a building with a net book value of \$4,535,159 (2009: \$5,165,201) was under an operating lease contract to a third party. The lease contract was signed on 5 April 2010 and will expire on 4 October 2015. The annual rental income under the contract is RMB2,600,000 (\$417,119) with six months rental free period in 2010. The rental income, after the reduction of the cost of incentive, has been recognised on a straight-line basis over the lease term.

**Minimum lease payments receivable are as follows**

	CONSOLIDATED	
	2010	2009
	\$	\$
Minimum lease payments under non-cancellable operating leases of the building not recognised in the financial statements are receivable as follows:		
Within one year	417,119	-
Later than one year but not later than 5 years	1,390,396	-
Later than 5 years	-	-
	<u>1,807,515</u>	<u>-</u>

## DATON GROUP AUSTRALIA LTD AND ITS SUBSIDIARIES

### Note 16: Lease Prepayments

Land in Mainland China is state-owned or collectively-owned and no individual land ownership right exists. The group has acquired the right to use certain land. Land use rights in Mainland China represent the group's interests in land which are held on leases for 50 years.

	CONSOLIDATED	
	2010 \$	2009 \$
At 1 January	727,305	952,332
Amortisation charge	(20,177)	(12,419)
Effect of movement in foreign exchange	(64,910)	(212,608)
	642,218	727,305
At 31 December	642,218	727,305

### Note 17: Subsidiaries

#### (a) Significant investments in subsidiaries

Name of entity	Country of incorporation	Equity holding	
		2010 %	2009 %
Australia Golden Star International Pty Ltd	Australia	100	(i)
Zhengzhou Jinyitong Scientific & Technology Development Co., Limited	PR China	100	(i)
Henan Datong Chemical Co., Limited	PR China	100	(i)
Henan Datong Chemical Trading Co Ltd	PR China	100	(i)

All the entities became the subsidiaries of the parent company following the completion of the group restructure as set out in Note 1(b).

- (i) 2009 comparatives include these entities, comparatives prepared on a continuous basis.

**DATON GROUP AUSTRALIA LTD AND ITS SUBSIDIARIES**

**Note 18: Deferred Tax Assets**

	<b>CONSOLIDATED</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
Deferred tax assets comprise temporary differences attributable to:		
Doubtful debts	93,893	91,503
Accruals	224,898	728,790
<b>Total deferred tax assets</b>	<b>318,791</b>	<b>820,293</b>

**Movements in deferred tax assets**

	<b>Opening balance at 1 January 2009</b>	<b>Origination/ (reversal) of deferred tax assets</b>	<b>Effect of movement in foreign exchange</b>	<b>Closing balance at 31 December 2009</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Amounts recognised in profit or loss				
Doubtful debts	95,909	19,316	(23,722)	91,503
Accruals	1,038,711	(86,190)	(223,731)	728,790
<b>Total</b>	<b>1,134,620</b>	<b>(66,874)</b>	<b>(247,453)</b>	<b>820,293</b>
	<b>Opening balance at 1 January 2010</b>	<b>Origination /(reversal) of deferred tax assets</b>	<b>Effect of movement in foreign exchange</b>	<b>Closing balance at 31 December 2010</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Amounts recognised in profit or loss				
Doubtful debts	91,503	11,579	(9,189)	93,893
Accruals	728,790	(471,515)	(32,377)	224,898
<b>Total</b>	<b>820,293</b>	<b>(459,936)</b>	<b>(41,566)</b>	<b>318,791</b>

	<b>CONSOLIDATED</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
<b>Note 19: Trade and Other Payables</b>		
<b>Current</b>		
Trade payables	3,784,296	5,457,312
Other payables and accruals	2,860,719	2,995,207
	<b>6,645,015</b>	<b>8,452,519</b>

	CONSOLIDATED	
	2010	2009
	\$	\$
<b>Note 20: Borrowings</b>		
<b>Current Secured :</b>		
Bank loans	12,947,199	13,428,534
Credit co-operatives loans	1,041,729	1,146,338
Notes payable	3,274,004	3,275,252
	17,262,932	17,850,124

**Terms and conditions**

***Bank loans and credit co-operatives loans***

Bank loans and credit co-operatives loans are due for settlement within 12 months. The final instalments are due in November 2011. Bank loans and credit co-operatives loans bear interest at fixed rates. The weighted average interest rate is 12.47% (2009: 5.79%).

***Notes payable***

Notes payable represents two bank acceptance notes issued to suppliers by the group. Notes payable were non-interest bearing and issued with a term of 6 months.

***Assets pledged as security***

The bank loans and notes payable are all secured by the group's guarantee deposits and plant and equipment (see further information below).

During 2010 and 2009, the Managing Director, Li, Zeng, provided a personal guarantee for \$7,440,919 (RMB50,000,000) in loans from the Agricultural Development Bank of China. Refer to note 25 for further information.

The carrying amounts of assets pledged as security for current interest-bearing liabilities are:

Current	Note		
Guarantee deposits with maturity over three months	11	2,549,259	1,965,151
<b>Non-current</b>			
Property		4,464,551	-
Plant and equipment		7,292,683	23,826,505
		11,757,234	25,791,656

A loan of RMB 30,000,000 (\$4,464,531) has been guaranteed by a third party guarantee company in 2010 (2009: 0). No assets of the group was or is pledged as security to either the guarantee company or the bank.

**Note 21: Other Liabilities**

<b>Current</b>			
Salary and welfare payable		683,723	820,328
Deferred revenue		1,511,452	2,697,983
Deferred income (i)		512,817	595,762
Other tax related liabilities (ii)		549,862	564,415
		3,257,854	4,678,488

- (i) Government grants were received to acquire assets for energy saving purposes. The cash proceeds were recognised as deferred income initially and are recognised in profit or loss evenly over the useful life of the assets acquired.
- (ii) Other tax related liabilities include VAT payable, stamp duty payable and urban construction tax payable which are required under the relevant Chinese regulations.

**Note 22: Contributed Equity**

	CONSOLIDATED			
	2010		2009	
	Shares	\$	Shares	\$
<b>a) Share capital</b>				
Ordinary shares Fully paid	61,232,000	28,115,244	-	22,502,203

**b) Movements in ordinary share capital**

Date	Details	Notes	Number of shares	Issue price	\$
31 December 09	Opening Balance		-		-
3 May 2010	Share issued on incorporation		1		1
23 December 10	Shares issued upon group restructure (note (i))		35,999,999	0.63	22,502,203
29 December 10	Shares issued – public offering		25,232,000	0.25	6,308,000
	Less: transaction costs arising on shares issued		-		(694,960)
31 December 10	Closing balance		61,232,000		28,115,244

- (i) On 23 December 2010, the Company acquired the entire equity interests in Golden Star through a share swap, and became the holding company of the companies now comprising the group. As at the date of acquisition 35,999,999 ordinary shares were allotted and issued to shareholders of Golden Star for the purpose of acquiring the subsidiaries.

As the transaction has been reflected as a business combination involving entities under common control, the shares allotted to the shareholders of the subsidiaries were carried at their respective cost of investment in those entities.

**Ordinary shares**

Ordinary shareholders are entitled to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held. This is subject to the prior entitlements of the cumulative redeemable preference shares which are classified as liabilities. Every ordinary shareholder present at a meeting in person or by proxy is entitled to one vote on a show of hands or by poll.

**c) Capital risk management**

The group considers its capital to comprise the equity, as shown in the statement of financial position, plus borrowings net of cash and cash deposits.

In managing its capital, the group's primary objective is to ensure its continued ability to provide a consistent return for its owners through capital growth. In order to achieve this objective, the group seeks to maintain a gearing ratio that balances risks and returns at an acceptable level and also to maintain a sufficient funding base to enable the group to meet its working capital and strategic investment needs. In making decisions to adjust its capital structure to achieve these aims, either through altering its dividend policy or the reduction of debt, the group considers not only its short-term position but also its long-term operational and strategic objectives.

It is the group's policy to maintain a gearing level of 30% - 50% under normal operation conditions. It is management's policy that during periods of expansion the gearing level should remain below 65%. The group's gearing ratio at the end of the reporting period is shown below:

**Note 22: Contributed Equity (continued)**

**c) Capital risk management (continued)**

<b>Gearing ratios</b>	<b>Note</b>		
Total borrowings	20	17,262,932	17,850,124
Less: cash and cash equivalent	10	(1,888,000)	(2,506,113)
guarantee deposits with maturity over three months	11	(2,549,259)	(1,965,151)
Net Debt		12,825,673	13,378,860
Total equity		33,364,688	28,852,564
Total capital		46,190,361	42,231,424
Gearing ratio		<b>28%</b>	<b>32%</b>

There have been no significant changes to the group's capital management objectives, policies and processes in the year nor has there been any change in what the group considers to be its capital.

**Note 23: Reserves**

	<b>CONSOLIDATED</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
Surplus reserve (a)	780,049	547,743
Foreign currency translation reserve (b)	(1,845,851)	939,284
	(1,065,802)	1,487,027

**(a) Surplus reserve**

Surplus reserves comprise the statutory surplus reserve of the Chinese subsidiaries of \$780,049 (2009: \$547,743).

*Statutory surplus reserve*

The Chinese subsidiaries are required to appropriate 10% of its profit after income tax, as determined in accordance with the PRC accounting rules and regulations, to the statutory surplus reserve until the reserve balance reaches 50% of its registered capital. The statutory reserve can be utilised to offset prior year's losses or to issue bonus shares. However, such statutory reserve must be maintained at a minimum of 25% of the entity's share capital after such issuance.

The transfer to this reserve must be made before distribution of a dividend to shareholders and be approved by its board of directors.

**(b) Foreign currency translation reserve**

The foreign currency translation reserve is used to record exchange differences on translation of the aggregated group to the presentation currency. Amounts are reclassified to profit or loss when the investment is disposed of.

**Note 24: Financial Risk Management**

**(a) General objectives, policies and processes**

In common with all other businesses, the group is exposed to risks that arise from its use of financial instruments. This note describes the group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

There have been no substantive changes in the group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note.

Activities undertaken by the group may expose the group to market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Board has overall responsibility for the determination of the group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority to its finance team, for designing and operating processes that ensure the effective implementation of the objectives and policies of the group. The group's risk management policies and objectives are therefore designed to minimise the potential impacts of these risks on the results of the group where such impacts may be material. The Board receives monthly reports from the group Financial Controller through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the group's competitiveness and flexibility.

As at 31 December 2010, the group held the following financial instruments:

	<b>CONSOLIDATED</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
<i>Current</i>		
Cash and cash equivalent	1,888,000	2,506,113
Guarantee deposits with maturity over 3 months	2,549,259	1,965,151
Trade and other receivables	18,587,936	9,831,096
	<u>23,025,195</u>	<u>14,302,360</u>
<i>Current</i>		
Trade and other payables	6,645,015	8,452,519
Borrowings	17,262,932	17,850,124
	<u>23,907,947</u>	<u>26,302,643</u>
Financial liabilities measured at amortised cost		

The fair value of these current financial instruments is assumed to approximate their carrying value.

**(b) Credit risk**

Credit risk is the risk that the other party to a financial instrument will fail to discharge their obligation resulting in the group incurring a financial loss. This usually occurs when debtors or counterparties to derivative contracts fail to settle their obligations owing to the group.

Except for the top three customers (2009: top two customers) to whom the group made 39% (2009: 23%) of total sales there was no concentration of credit risk with respect to current receivables as the group has a large number of other domestic customers. As at 31 December 2010, the top three customers accounted for 54% of trade debtors (2009:44%). The policy of the group is that sales are only made to customers that are credit worthy. Credit terms of less than 3 months are reviewed and approved by the sales manager. The chairman approves credit terms over 3 months and any extension credit terms. Receivable balances are monitored on an ongoing basis.

To mitigate the credit risk associated with cash and cash equivalents and term deposits with maturity over three months, cash and term deposits are only deposited with reputable financial institutions. As at 31 December 2010 99% of total cash and term deposits were with state-owned PRC financial institutions (2009: 100%). Management considers the credit risk in respect of cash and bank deposits with financial institutions is relatively minimal as each counter party either bears a high credit rating or is a large state-owned PRC bank. Management believes the Chinese Government is able to support the large state-owned PRC banks in the event of a crisis.

**Note 24: Financial Risk Management (continued)**

**(b) Credit risk (continued)**

The maximum exposure to credit risk at the end of the reporting period in relation to each class of financial asset is the carrying amount of those assets, which is net of impairment losses. Refer to the summary of financial instruments table above for the total carrying amount of financial assets.

**(c) Liquidity Risk**

Liquidity risk is the risk that the group may encounter difficulties raising funds to meet commitments associated with financial instruments, e.g. borrowing repayments.

Prudent liquidity risk management implies maintaining sufficient cash and ensuring the availability of funding through an adequate amount of committed credit facilities. Flexibility in funding is maintained by keeping committed credit lines available.

**Financing arrangements**

As at 31 December 2010 there was a RMB 30,000,000, equivalent to \$4,464,550 bank facility granted to the group, total unused bank facility was RMB 15,000,000, equivalent to \$2,232,275 (2009: Nil).

The group manages liquidity risk by continuously renewing loans when they fall due. The 12 months rolling of short-term borrowings is common practice in PR China.

**Maturity Analysis**

The table below summarises the maturity profile of the group's financial liabilities based on contractual commitments.

	<b>Carrying Amount</b>	<b>Contractual Cash flows</b>	<b>&lt; 6 months</b>	<b>6- 12 months</b>
	\$	\$	\$	\$
<b>31 December 2010</b>				
<b>Non-derivatives</b>				
Non-interest bearing	6,645,015	6,645,015	6,645,015	-
Interest free borrowings	3,274,004	3,274,004	3,274,004	-
Interest bearing borrowings	13,988,928	14,483,958	6,287,825	8,196,133
	<u>23,907,947</u>	<u>24,402,977</u>	<u>16,206,844</u>	<u>8,196,133</u>
<b>31 December 2009</b>				
<b>Non-derivatives</b>				
Non-interest bearing	8,452,519	8,452,519	8,452,519	-
Interest free borrowings	3,275,252	3,275,252	3,275,252	-
Interest bearing borrowings	14,574,872	15,238,514	418,412	14,820,102
	<u>26,302,643</u>	<u>26,966,285</u>	<u>12,146,183</u>	<u>14,820,102</u>

**Note 24: Financial Risk Management (continued)**

**(d) Market risk**

**(i) Interest rate risk**

Interest risk arises from the use of interest bearing financial instruments. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk).

The group's exposure to cash flow interest relates primarily to cash at bank of the group which bears floating rates. The group does not have significant exposure to fair value interest rate risk as all the group's borrowings are not designated as financial liabilities at fair value through profit and loss.

It is the group's policy to eliminate interest rate risk over the cash flows on its short-term debt finance through the use of fixed rate instruments for 12 months. The group monitors its interest rate exposure continuously. The group also considers, on a continuous basis, alternative financing opportunities and renewal of existing positions.

The group's exposure to interest rate risk and the effective weighted average interest rate, by maturity periods, is set out in the tables below:

	Weighted average interest rate	Floating rates \$	Fixed rates < 1 year \$	Non-interest bearing \$	Total \$
<b>31 December 2010</b>					
<b>Financial Assets</b>					
Cash and cash equivalent	0.36%	1,882,191	-	5,809	1,888,000
Guarantee deposits with maturity over 3 months	2.00%	-	2,549,259	-	2,549,259
Trade and other receivables	-	-	-	18,587,936	18,587,936
<b>Financial Liabilities</b>					
Trade and other payables	-	-	-	(6,645,015)	(6,645,015)
Bank loans and credit co-operatives loans	12.47%	-	(13,988,928)	-	(13,988,928)
Notes payable	-	-	-	(3,274,004)	(3,274,004)
		1,882,191	(11,439,669)	8,674,726	(882,752)
<b>31 December 2009</b>					
<b>Financial Assets</b>					
Cash and cash equivalent	0.36%	2,454,099	-	52,014	2,506,113
Guarantee deposits with maturity over 3 months	3.6%	-	1,965,151	-	1,965,151
Trade and other receivables	-	-	-	9,831,096	9,831,096
<b>Financial Liabilities</b>					
Trade and other payables	-	-	-	(8,452,519)	(8,452,519)
Bank loans and credit co-operatives loans	5.79%	-	(14,574,872)	-	(14,574,872)
Notes payable	-	-	-	(3,275,252)	(3,275,252)
		2,454,099	(12,609,721)	(1,844,661)	(12,000,283)

**Note 24: Financial Risk Management (continued)**

**d) Market risk (continued)**

**Sensitivity analysis**

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the group's profit after tax (through the impact on floating rate financial assets and financial liabilities).

	<b>CONSOLIDATED</b>			
	<b>2010</b>		<b>2009</b>	
	+0.04% (4 basis points)	-0.04% (4 basis points)	+0.04% (4 basis points)	-0.04% (4 basis points)
	\$	\$	\$	\$
Cash at bank	753	(753)	982	(982)
Tax charge at 30% (2009: 30%)	(226)	226	(294)	294
After tax increase / (decrease)	<u>527</u>	<u>(527)</u>	<u>688</u>	<u>(688)</u>

*Significant assumptions used in interest rate exposure sensitivity analysis:*

- (i) Reasonable possible movements in interest rates were determined based on the current levels of debt, relationships with financial institutions and economic forecaster's expectations
- (ii) The net exposure at balance date is representative of what the group was and is expecting to be exposed to in the next twelve months from balance date.

**Note 25: Key Management Personnel Disclosures**

	<b>CONSOLIDATED</b>	
	<b>2010</b>	<b>2009</b>
	\$	\$
<b>(a) Compensation</b>		
Short-term employee benefits	147,209	72,050
Post-employment benefits	1,049	5,291
	<u>148,258</u>	<u>77,341</u>

Further information regarding the identity of key management personnel and their compensation can be found in Audited Remuneration Report.

**b) Equity instruments**

**Shareholdings**

Details of equity instruments (other than options and rights) held directly, indirectly or beneficially by key management personnel and their related parties are as follows:

Name	Balance at 1 January 2010	Granted as compensation	Received on exercise of options or rights	Other changes	Balance at 31 December 2010
Zeng Li	-	-	-	8,639,999	8,639,999
Yinan Zhang	-	-	-	12,346,001	12,346,001
Zoe Yan Zhang	-	-	-	24,000	24,000
<b>Total</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,010,000</u>	<u>21,010,000</u>

No comparative information was provided as the share allotment by the parent company is accomplished in December 2010.



**Note 26: Related Party Transactions**

**(a) Subsidiaries**

Interests in subsidiaries are disclosed in note 17.

**(b) Transactions with related parties other than key management personnel**

There were no transactions with related parties other than key management personal during the year.

	<b>CONSOLIDATED</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
<b>c) Outstanding balances</b>		
<b>Other receivables from other related parties</b>	505,982	-
 <b>Prepayments to other related parties</b>		
Balance at beginning of the year	556,793	-
Prepayments made to other related parties	-	627,262
Reclassify to other receivable	(505,982)	-
Effect of movement in foreign exchange	(50,811)	(70,469)
Balance at end of year	-	556,793
 <b>Advances to other related parties</b>		
Balance at beginning of the year	545,619	-
Loans advanced	20,934	4,304,453
Repayments made by other related parties	(555,451)	(3,689,778)
Effect of movement in foreign exchange	(11,102)	(69,056)
Balance at end of year	-	545,619

CONSOLIDATED

2010  
\$

2009  
\$

**Note 27: Cash Flow Information**

**Reconciliation of the profit after tax to the net cash flows from operations:**

Profit for the year	1,943,035	2,173,300
Depreciation of non-current assets	2,801,395	3,033,794
Amortisation of prepayments (land use rights)	20,177	12,419
Net loss on sale of property, plant and equipment	-	250,957

**Changes in Assets and Liabilities:**

(Increase)/decrease in trade and other receivables	(2,608,445)	1,029,530
Decrease/(increase) in inventory	4,051,023	(5,533,318)
Decrease in other assets	(2,547,163)	648,536
Decrease in deferred tax	459,937	66,874
(Decrease)/Increase in trade and other payables	(2,317,451)	1,373,907
(Decrease)/Increase in other liabilities	(1,070,825)	1,192,552
Increase in notes payable	-	3,689,778
(Decrease)/Increase in income tax liabilities	203,915	636,559

Net cash flow from operating activities	<u>935,598</u>	<u>8,574,888</u>
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**Note 28: Commitments and Contingencies**

**Capital commitments**

***Property, plant and equipment***

Payable within one year	1,166,364	630,077
Later than one year but not later than 5 years	508,959	-
	<u>1,675,323</u>	<u>630,077</u>

**Non-cancellable operating leases**

Payable:

Within one year	61,412	32,753
Later than one year but not later than 5 years	193,464	163,763
Later than 5 years	1,066,532	1,206,385
	<u>1,321,408</u>	<u>1,402,901</u>

The group entered into a non-cancellable operating lease agreement in November 2002 for a set of land use rights together with the factory building on the land. The contract will expire in November 2052. The rent is RMB200,000 (\$32,086) per year and there are no CPI escalation clauses attached to this lease agreement. The lease does not include commitments for any renewal options on leases.

**Note 28: Commitments and Contingencies (continued)**

**Contingent assets and liabilities**

**(a) Land Use Right**

The group obtained a Land Use Right in November 2007 for the land occupied at East Yuntai Road Xiuwu County. As at 31 December 2010 RMB2,365,850 (\$352,087) is recognised as a liability in respect of the Land Use Right. A land use right certificate has been obtained despite payment being outstanding.

There are ongoing negotiations between the group and the local government in respect of this land use right. Local government has claimed an additional amount of RMB 2,090,922 (\$311,168). No liability has been recognised to this amount as at 31 December 2010, as the company does not deem it likely this amount is due or payable to the government.

**(b) Dispute on broker fees**

The parent entity had been in a dispute in relation to the management and broker fees payable to one of the sponsoring broker for an amount of \$651,728 (GST inclusive). As at the date of this financial report, the dispute is in a preliminary stage and it is not practical to reliably estimate its likely outcome. However, the directors will vigorously defend this matter and believe there will be no material additional liabilities.

**Note 29: Subsequent Events**

No matters or circumstances have arisen since the end of the financial year that have significantly affected or may significantly affect the operations of the group, the results of those operations, or the state of affairs of the group, in subsequent financial years, except following:

Subsequent to balance date, the parent entity received total proceeds of \$ 6,308,000 from the new share offering, which was recorded as receivables as at 31 December 2010 (note 12b(i)).

On 11<sup>th</sup> January 2011, The parent entity pledged a total cash deposit of \$5,000,000 to Bank of China Zhengzhou Branch as a security deposit as a guarantee for applying for a bank loan to fund the compound fertiliser capital project as detailed in the company's prospectus.

**Note 30: Company Details**

**(a) Registered Office**

Suite 14, Level One, 7 Clunies Ross Court BTP eight Mile Plains QLD 4113

**(b) Principal Place of Business**

Eastern side of Middle Yuntai Road, Xiuwu County, Jiaozuo City, Henan Province, PRC

## DATON GROUP AUSTRALIA LTD AND ITS SUBSIDIARIES

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### Note 31: Parent entity financial information

The following information relates to the parent entity Daton Group Australia Limited. The information presented has been prepared using accounting policies that are consistent with those presented in Note 1.

	<b>Parent</b>	
	<b>2010</b>	<b>2009</b>
Current asset	6,337,992	-
Non-current assets	22,526,501	-
<b>Total assets</b>	<b>28,864,493</b>	<b>-</b>
Current liabilities	1,134,053	-
Non-current liabilities	-	-
<b>Total liabilities</b>	<b>1,134,053</b>	<b>-</b>
Contributed equity	28,115,244	-
Retained earnings	(384,804)	-
Foreign currency translation	-	-
<b>Total equity</b>	<b>27,730,440</b>	<b>-</b>
(Loss) for the year	(384,804)	-
Other comprehensive	-	-
<b>Total comprehensive income for the year</b>	<b>(384,804)</b>	<b>-</b>

### Guarantees in relation to subsidiaries

Daton Group Australia Limited has not guaranteed any of its subsidiaries as at 31 December 2010.

### Contingent liabilities

As detailed in Note 28(b), Daton Group Australia Limited has a contingent liability in respect of an invoice dispute with its sponsoring broker.

### Capital Commitments

Daton Group Australia Limited has no capital commitments as at 31 December 2010.

### Note 32: Changes of results from 4E

On 28 February 2011 the Group announced to the market its preliminary financial results for the financial year ended 31 December 2010 for \$2,028,695. The audited profit after income tax of the Group for relevant period was \$1,943,035, \$85,660 less than the preliminary financial results. The changes represented 4.4% of the final financial results and were caused by adjustments in administration expenses and deferred income tax expenses.

**DECLARATION BY DIRECTORS**

The directors of the company declare that:

1. The financial statements, comprising the statement of comprehensive income, statement of financial position, statement of cash flows, statement of changes in equity, accompanying notes, are in accordance with the Corporations Act 2001 and:
  - (a) comply with Accounting Standards and the Corporations Regulations 2001; and
  - (b) give a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the year ended on that date.
2. The company has included in the notes to the financial statements an explicit and unreserved statement of compliance with International Financial Reporting Standards.
3. In the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
4. The remuneration disclosures included in pages 8 to 14 of the directors' report (as part of audited Remuneration Report), for the year ended 31 December 2010, comply with section 300A of the *Corporations Act 2001*.
5. The directors have been given the declarations by the chief executive officer of Daton Group Australia Ltd and chief financial officer of Henan Datong Chemical Co. Ltd required by section 295A.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the directors by:



**Yinan Zhang**  
**Managing Director**

Brisbane, Australia

Date: 31<sup>st</sup> March 2011

## INDEPENDENT AUDITOR'S REPORT

To the members of Daton Group Australia Limited

### Report on the Financial Report

We have audited the accompanying financial report of Daton Group Australia Limited, which comprises the consolidated statement of financial position as at 31 December 2010, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

### Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

### Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

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

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

### Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Daton Group Australia Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

### Opinion

In our opinion:

- (a) the financial report of Daton Group Australia Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

### Report on the Remuneration Report

We have audited the Remuneration Report included in pages 8 to 14 of the directors' report for the year ended 31 December 2010. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

### Opinion

In our opinion, the Remuneration Report of Daton Group Australia Limited for the year ended 31 December 2010 complies with section 300A of the *Corporations Act 2001*.



BDO Audit (NSW-VIC) Pty Ltd



Wayne Basford

Director

Sydney, this 31<sup>st</sup> day of March 2011