OVERVIEW

We are one of the leading coal-based urea and compound fertiliser producers in the PRC. According to the CNCIC Report, as of 30 September 2009, our production capacity of urea was approximately 1.25 million tons per annum and was the largest in Henan Province, the then most populous and largest fertiliser consumption province in the PRC, and the 4th largest among all other coal-based urea producers in the PRC. Furthermore, according to the CNCIC Report, as of 30 September 2009, we ranked the 8th among 13 urea producers with an annual production capacity of over a million tons of urea in the PRC irrespective of the types of raw material used. Urea, the most commonly used nitrogen fertiliser in the PRC, is our major product which accounted for approximately 55.4% of our total revenue in 2008. We also manufacture compound fertilisers and methanol which accounted for approximately 34.0% and 10.3% of our total revenue in 2008 respectively. According to the CNCIC Report, in 2008, in terms of cost competitiveness, our urea production cost was the lowest among 22 urea producers in Henan Province, and the 4th lowest among all coal-based urea producers in the PRC respectively. Our average urea production cost was approximately RMB1,310 per ton, while the average urea production cost of other coal-based producers in Henan Province and the PRC were approximately RMB1,597 and RMB1,578 per ton respectively. According to the CNCIC Report, in 2008, we ranked the 7th lowest production cost among all urea producers in the PRC irrespective of the types of raw material used in terms of cost competitiveness.

Our production hub is situated at Xinxiang Economic and Technology Development Zone, Henan Province of the PRC, which is bolstered by a comprehensive network of railway lines and highways. This offers us close proximity to the majority of our customers, as well as to coal-rich Shanxi Province where most of our coal suppliers are based. In addition, different crops are grown in different regions in the PRC at a particular season, therefore different regions would exhibit various seasonal demands for fertiliser products. As we are located in the central part of the PRC, we enjoy lower transportation costs and are able to cater for the needs from different customers locating at different regions of the PRC. This strategic location enhances our competitive edge in terms of costs and quality of service.

Our Production Plant III started its trial production in April 2009. Upon its commencement of full operations by the end of 2009, it is estimated that our total production capacity of urea from our three production plants would increase to approximately 1.25 million tons per annum. The estimated aggregate production capacity of compound fertiliser and methanol are approximately 600,000 tons and 200,000 tons per annum respectively by the end of 2009. With our economy of scale, our products can be produced at a lower cost per unit and enjoy favourable terms of sales and purchases. Currently, our urea products are generally sold on advanced payment terms or cash terms, and also we have a long-term relationship with our coal suppliers, which enables us to have a stronger financial position as well as a stable and consistent supply of high quality raw materials.

Coal is the major cost component of our production which accounted for approximately 41% of our total cost of sales in 2008. We possess advanced production technologies which allows us to utilise resources more efficiently and effectively by consuming less coal and electricity. According to the CNCIC Report, our coal consumption per ton of urea production was the lowest among all major coal-based urea producers in the PRC in 2008. We used approximately 650kg of coal to produce one ton of urea on average in 2008, while the average coal consumption per ton of urea production among other coal-based urea producers in the PRC was approximately 850kg. With respect to electricity, we have 3 power generating systems which enable us to generate electricity for our production. This capability offers us the flexibility to either purchase electricity

from the market or to generate our own required electricity depending on the market price and availability of power subsidy from the PRC government. Together with our automated industrial process and our continuous effort to improve and computerise our production and industrial processes, our production cost of urea in 2008 was approximately 17% lower than the average production cost per ton among other coal-based urea producers in the PRC according to the CNCIC Report.

The chemical fertiliser industry of the PRC is highly fragmented with over 2,000 manufacturers as of September 2009. Due to the recent PRC government policies, which are favourable to agricultural related industries, and the deregulation of the chemical fertiliser industry, our Directors believe that the chemical fertiliser industry would experience a steady growth and a consolidation process in the coming future. In addition, due to excessive demands for natural gas in the PRC, the PRC government has implemented limitations on the use of natural gas to produce synthetic ammonia, one of the materials for the production of urea. As we are one of the largest coal-based manufacturers of urea in the PRC, our Directors believe we could capitalise on the upside trend of the industry and benefit from the potential consolidation.

For the three years ended 31 December 2008, we recorded a revenue of approximately RMB890.2 million, RMB1,541.4 million and RMB2,084.9 million respectively, representing a CAGR of approximately 53.0% over the period. For the same period, our net profit amounted to approximately RMB129.1 million, RMB267.6 million and RMB331.7 million respectively, representing a CAGR of approximately 60.3%. Due to the global economic crisis, which resulted in decreases in the average selling prices of our major products, namely urea, compound fertiliser and methanol, decreased from approximately RMB1,722, RMB2,314 and RMB2,706 per ton for the seven months ended 31 July 2008 respectively to approximately RMB1,666, RMB1,894 and RMB1,526 per ton for the seven months ended 31 July 2009 respectively. On the other hand, as a result of the reform and consolidation in coal industry in the PRC by which large state-owned mining companies merging with and acquiring small mining companies, the number of mining companies in the PRC reduced which led to a decreased supply and increased price of coal. Our total costs of coal increased by approximately 46.0% from approximately RMB341.5 million for the seven months ended 31 July 2008 to approximately RMB498.4 million for the seven months ended 31 July 2009. As a result of these two factors occurring for the first seven months of 2009, even though our total revenue increased from approximately RMB1,191.7 million for the seven months ended 31 July 2008 to approximately RMB1,221.4 million for the seven months ended 31 July 2009, our overall gross profit margin and net profit margin reduced from approximately 26% and 19% for the seven months ended 31 July 2008 to approximately 14% and 6% for the seven months ended 31 July 2009, respectively.

As at 31 July 2009, we had net current liabilities of approximately RMB414.7 million, for the reasons that we were not able to meet certain financial covenants under the syndicated loan agreement of which the syndicated loan amounted to approximately RMB307.6 million with an original maturity term in 2011, and the lenders had the rights to require us to repay the syndicated loan anytime. Thus, such syndicated loan of approximately RMB307.6 million was classified as current liabilities as at 31 July 2009. In order to avoid this uncertainty, we obtained bank borrowings from other banks with a sum in aggregate of approximately RMB300 million and voluntarily repaid the syndicated loan in advance by the end of September 2009. Furthermore, we extended the bank borrowings of approximately RMB100 million originally due within one year as at 31 July 2009 to terms of over one year and obtained a new long-term bank loan of RMB85 million by the end of October 2009. In light of the extension of terms of the bank borrowings, our Directors believe that such net current liabilities position is temporary in nature and our Group has returned to net current assets position as at 31 October 2009. Our Directors confirm that the

lenders under the syndicated loan agreement had not requested us to repay syndicated loan immediately, and further confirm that there was no cross-default on the other loan agreements for the reason that we were not able to meet the financial covenants under such syndicated loan.

The Shares have been listed on the SGX-ST since 20 June 2007. The Company seeks for a dual primary listing on the Stock Exchange under this document.

COMPETITIVE STRENGTHS

We believe the following competitive strengths will enable us to enhance our leading position in the manufacture of urea and compound fertilisers:

Leading coal-based chemical fertiliser producer in the PRC with renowned reputation in the industry

We are one of the leading coal-based urea and compound fertiliser producers in the PRC. According to the CNCIC Report, as of 30 September 2009, our urea production capacity was the largest in Henan Province and the 4th largest among all coal-based urea producers in the PRC, and we also ranked the 8th among 13 urea producers with an annual production capacity over a million tons of urea in the PRC irrespective of the type of raw material used. Our Directors believe that our production scale enables us to achieve economy of scale to produce fertiliser products at a competitive cost with high quality standard. Consistent and stable quality of our fertiliser products also enhances our branding and reputation among all distributors and consumers. As a result, we are able to sell our products at a price relatively higher than the market average price, and generally all our urea products are delivered to our customers after receiving full payments. Therefore, this could enhance our profitability and improve our working capital requirements. In addition, due to our scale and reputation in the industry, we have attracted Sinofert Holdings Limited, the largest fertiliser distributor in the PRC, as our strategic investor holding approximately 5.0% shareholding in our Company as at 16 October 2009. With this strategic relationship, our distribution network has been significantly strengthened.

High profitability resulting from our cost effectiveness leadership

According to the CNCIC Report, in 2008, in terms of cost competitiveness, our urea production cost was the lowest in Henan Province among 22 coal-based urea producers in Henan Province, and the 4th lowest among all coal-based urea producers in the PRC, and we also ranked the 7th lowest production cost among all urea producers in the PRC irrespective of the types of raw material used. Given that urea is a commodity with little product differentiation, we believe cost advantage is the key to success in this industry. One of the key contributors to our cost competitiveness is our advanced technologies and automatic industrial processes. According to the CNCIC Report, we are one of the few urea producers in the PRC that have adopted automatic industrial processes for urea production and 18 advanced technologies recommended by the relevant fertiliser industry associations of the PRC, which enable us to consume resources, including coal and electricity, in our production in a more effective and efficient way. In 2008, the average usage of coal for our urea production was approximately 650kg per ton, which was the lowest among all major coal-based urea producers in the PRC. In 2008, our average production cost of methanol was approximately RMB1,688 per ton, which was approximately RMB212 lower than the average production cost in the methanol industry in PRC. From July 2008 to October 2009, we had been enjoying approximately 32% electricity subsidies from the government. On 18

November 2009, the NDRC promulgated the "Notice of Adjustment of Electricity Price in Central China" that the electricity prices will be adjusted in Central China including Henan Province with effect from 20 November 2009. With our capability to generate a significant portion of our electricity, we are less susceptible to power shortage compared to other fertiliser producers in the PRC without self-power generation capability. Also, we are able to produce fertiliser products at a more competitive cost in the event the government removes the power subsidy in the future.

Strategic locations to raw material suppliers and customers

Our production hub is strategically located in Xinxiang Economic and Technology Development Zone, Henan Province of the PRC, which is well supported by a comprehensive network of railways and highways. As approximately 60% of our customers was based in Henan Province, this offers us close proximity with the majority of our customers. Henan Province is also close to coal-rich Shanxi Province where approximately 90% of our current coal supplies are derived from. In addition, different crops are grown in different regions in the PRC at a particular season where each region would therefore exhibit different seasonal demands for fertiliser products. As we are located in the central part of the PRC, we are able to save our transportation costs as well as react swiftly to the needs from different customers in different regions of the PRC.

Benefits from changes in government policies in the industry with high growing potential and demand

As China is the most populous country in the world and its economy has been developing rapidly, stable and adequate food supply is crucial for its social and economic development. According to the CNCIC Report, China was the largest fertiliser consumption country in the world in 2008, with approximately 30% of world consumption. The continuous industrialisation and urbanisation in the PRC will lead to a decline in available arable land. As such, efficient and effective usage of arable land will be the key to maintain adequate food supply. As fertilisers can normally enhance crop yield for approximately 40%, our Directors believe that the demand for fertilisers will continue to increase in the future. As the PRC government has promulgated a number of favourable policies to foster the growth of the agricultural industry, our Directors believe our leading status in the industry would enable us to capture the future growth opportunities arising in the industry.

Furthermore, the PRC government has recently imposed the limitation on the usage of natural gas as feedstock in new fertiliser production capacities. It is expected that the proportion of natural gas based fertiliser producers will decrease in the future. As we are one of the leading coal-based fertiliser producers in China having established relationships with coal suppliers and substantial experience in manipulating coal-based fertiliser production facilities and technologies, we would take such opportunity to enlarge our market share and further enhance our leading status in the industry.

Our experienced and competent management team

Our management team comprises experienced personnel, each with an average of over 14 years in management, operations and finance in the chemical fertiliser industry. Besides, our management team has a low personnel turnover rate and has been working very closely to formulate the business and growth strategies of the Group. In addition, our Directors believe that a stringent control system is critical to the success of our Group, all employees are required to adhere strictly to their positions and to maintain a high standard of discipline. As a result, we can operate our business effectively and efficiently and achieve our cost effectiveness leadership in the industry. We believe that our professional management team and our stringent control system will continue to allow us to maintain our leadership in cost competitiveness and profitability in the future.

BUSINESS STRATEGIES

Our goal is to become the most profitable coal-based urea and compound fertiliser corporation in the PRC. Our business strategies are as follows:

Self-development and expansion of our production capacity

Our Production Plant III has operated on a trial basis since April 2009. We expect that it will commence its full operations by the end of 2009. The estimated aggregate annual production capacity in respect of urea, compound fertiliser and methanol would reach approximately 1.25 million tons, 600,000 tons and 200,000 tons respectively by the end of 2009. In the future, we would concentrate on the development of our urea and compound fertiliser products through improving the effectiveness and efficiency of our production plants as well as expansion of our production capacities. In addition, as cost is the differentiating factor of the competitions among fertiliser producers, we would continue with our efforts to further lower our production cost as well as our total cost.

We will continue to strive to reduce our production cost by using the new cost-saving technology available in the market, such as using coal powder to produce gas when all other collaborative factors are matured. Meanwhile, we would continue to apply resources in our research and development for technology advancement which is beneficial to our production and to maintain our leading position in the chemical fertiliser industry.

Developing our business through vertical business integration

We will consider to invest in appropriate raw material suppliers, such as coal mines or mining companies, in order to ensure the stable and consistent supply of raw materials at competitive costs for our production. As coal is the principal raw material for our fertiliser production, our potential targets would be coal mines or mining companies which are in proximity to our production hub. As at the Latest Practicable Date, we had not identified any specific acquisition target in respect of our vertical business integration and investment. If, after Listing, we identify any specific coal mines or mining companies, we will make investment in such targets (which may or may not be controlled by us) with an aim to maintain stable supply of raw materials instead of operating the mining businesses by ourselves.

Expanding our business through horizontal integration

We will maintain a strategic relationship with the PRC leading fertiliser enterprises and look for other appropriate business partners in the chemical fertiliser industry. In addition, according to the "Notice Regarding Reform of Fertiliser's Pricing Policies" (關於改革化肥價格形成機制的通知) jointly announced by the NDRC and the Ministry of Finance PRC, the guided price of chemical fertilisers was removed by the PRC government with effect from 25 January 2009. As a result, we may have more opportunities to acquire other chemical fertiliser producers in the PRC in order to increase our production capacity and market shares through consolidation of the industry. As at the Latest Practicable Date, we had not identified any specific target in respect of our horizontal business integration.

Expanding the business of compound fertiliser

Fertiliser occupies an important role in the continuous development of the PRC's agricultural production. Generally, the demand for China's fertiliser, particularly compound fertilisers, has been growing at an extraordinary rate over the past decade, driven largely by population expansion and strong economic growth of the PRC. According to the CNCIC Report, the total production capacity of the PRC's compound fertiliser has grown along with the PRC's agricultural output, which increased from approximately 24.6 million tons in 2003 to approximately 47.0 million tons in 2008.

Our Directors are of the view that as the growth of domestic consumption of compound fertiliser has remained stable in recent years and the forecasted demand of compound fertiliser would have a steady growth, the sales of compound fertiliser by our Group will continue to increase steadily. Furthermore, although its profitability is lower than the one of urea, we can directly use our urea to produce compound fertiliser which could save our transportation costs and hence production costs. As a result, our Directors will make strong efforts in enhancing the branding of our compound fertilisers. In addition, we believe that product quality is the foundation of a brand. In this regard, we will ensure the quality of our compound fertilisers, as well as our other fertiliser products, are of high quality. This would increase our profits and enlarge our market shares by obtaining a wider customer base.

Improvement of internal management

We believe that our employees have been an important element of our success. In the future, we would continue to provide on-the-job and external training to our employees in relation to management, recent technology updates, occupational safety and others to ensure our employees are competent in performing their respective duties and to enhance their competitiveness. Regarding our research and development centre, which is also known as "agrochemical service centre", we would recruit more experts and professionals of soil chemistry, agronomy, plant protection and horticulture fields to enhance the competiveness of our research and development team. We would also adopt a more efficient and effective internal control system to ensure our production processes comply with the relevant internal and external rules and regulations.

PRODUCTS

Urea

Urea is an organic compound with the chemical formula $(NH_2)_2CO$ and is also known by the International Nonproprietary Name (rINN) carbamide. Urea is, in essence, a waste product of protein catabolism, which is found in and extracted from urine. Urea is used as a nitrogen-release fertiliser and has the highest nitrogen content of more than 46%. Therefore, it has the lowest transportation costs per unit of nitrogen nutrient. Because of no occurrence of soil hazards by using urea, urea is one of the most popular nitrogen nutrients for farmers. Urea is commercially produced from two raw materials, namely ammonia and carbon dioxide. The production of urea from ammonia and carbon dioxide takes place in an equilibrium reaction under high temperature and pressure. According to different uses, urea can be produced as prills, granules, flakes, pellets, crystals, and solutions. Prilled urea and granular urea are commonly used as fertilisers. In order to enhance the efficiency of the fertilisers, functional urea is widely used.

Urea as a neutral fertiliser can be used in all kinds of soil for any crops, which can also be used for base fertilisers or additional fertilisers and applied in no matter dry farmland or paddy field, and for compound fertiliser production. After urea decomposition and absorption, no hazardous substance remains in the soil. More than 90% of production is destined for use as a fertiliser, and the remaining 10% of production is used as the raw material in plastics, resin, painting and other industries. Urea is a stable product to store and transport. Its most common alternative, ammonium-nitrate, is now classified as a hazardous product (because it can be used as an explosive). As a result, urea is considered as a safe product among nitrogen fertilisers.

Compound Fertiliser

Compound fertiliser is a kind of fertilisers with several mineral elements and nutrients that the crops require. In general, the primary elements contained in compound fertiliser are nitrogen (N), phosphorus (P) and potassium (K), which also called macronutrient. Compound fertiliser can be used for base fertiliser or additional fertiliser of many crops in China such as wheat, paddy rice, sweet corn, cotton, soybean and peanut. Properties of high nutrient content, low accessory constituent and nice physical shape are important in balancing fertiliser application, improvement of fertiliser utilisation, promotion of high and stable yield.

With high fertiliser efficiency, compound fertiliser is very suitable for base fertiliser. According to numbers of tests and studies, both binary compound fertiliser and NPK compound fertiliser are suitable for basal fertiliser application. It is because that compound fertiliser contains N, P and K nutrients, especially P and K are sensitive elements for crops and are required in early stage. Compound fertiliser decomposes slowly.

Compound fertiliser has characteristic of high concentration and high absorption rate, and is used for base fertiliser. The nutrient of compound fertiliser is released slowly and absorbed easily by crops because compound fertiliser is processed by coating and granulation. Furthermore, compound fertiliser has balanced nutrient and high fertiliser efficiency, and also improves soil environment, crop quality, disease resistance and resistance of crop gene reverse function. However, it is not suitable for consumption in the period between middle and later stage of planting.

Methanol

Methanol, is the simplest alcohol, which is a light, volatile, colourless, flammable, toxic liquid with a distinctive odor. It is produced naturally in the anaerobic metabolism of many varieties of bacteria, and is also produced by decomposition of nonrenewable petrochemicals such as petroleum.

Methanol is widely used as raw materials in chemical industry and fuels. Its downstream products are up to hundreds, which is mainly applied in fine chemical industry and plastics industry for producing formaldehyde, plastic cement, plywood, paint, acetic acid, chloromethane, methylamine, dimethyl sulfate, anti crease textile and many other organic products. Methanol has been proposed as a fuel, mainly in combination with gasoline. It is also used as a detergent of pipeline and windscreen. With further applications, methanol is not only used in synthetic fiber, medicine, insecticide and dyes, but can also be applied in production of artificial protein. Methanol protein is produced by microbial fermentation. Methanol protein is nourishing and contains protein and vitamins, which is widely used in animal, livestock and fish feeding.

Methanol is now produced synthetically by a multi-step process from natural gas or coal gas and petroleum. Today, synthesis gas is most commonly produced from the methane component in natural gas rather than from coal in the U.S. and Western Europe. However, In China, due to the deficiency of natural gas resource, methanol is mainly produced by coal.

Others (comprising liquid ammonia and ammonia solution)

This comprises liquid ammonia and ammonia solution. Occasionally, in our urea production process, synthetic ammonia may not be successfully reacted with carbon dioxide to produce urea. If unsuccessful, liquid ammonia and ammonia solution will be produced. These products have to be sold immediately because we do not have the necessary facilities for their storage.

PRODUCTION

Production Facilities and Capacities

Currently, we have three production plants, which are strategically located at Xinxiang, Henan Province, and are supported by a comprehensive network of railway and highways. We currently have 3 production lines for urea, 2 production lines for compound fertiliser and 2 production lines for methanol. Our Production Plant I has designed annual production capacity for urea, compound fertiliser and methanol in 2009 of approximately 323,000 tons, 300,000 tons and 40,800 tons respectively; our Production Plant II commenced trial production of urea and methanol in September 2006 and trial production of compound fertiliser in August 2009, with its designed annual production capacity for urea, compound fertiliser and methanol in 2009 of approximately 408,000 tons, 300,000 tons and 64,600 tons respectively; and our Production Plant III commenced the trial production in April 2009, with designed annual production capacity for urea and methanol in 2009 of approximately 527,000 tons and 95,200 tons respectively. Our designed annual production capacity for each of urea, compound fertiliser and methanol is measured by multiplying the daily production capacity by 340 days.

In order to maintain our production facilities at full capacity and in proper order, we regularly inspect and maintain our production equipment and facilities. We have not experienced any material or prolonged suspension of production at our facilities due to equipment or facilities failure during the Track Record Period. Our production facilities are subject to scheduled inspections and maintenance every 12 months and are shut down for approximately 10 days during this scheduled maintenance. Our Production Plant I and Production Plant II have achieved a record of 358 days and 356 days of full scale production respectively. Table below sets forth information on the actual production volume, design annual production capacity and utilisation rates for our Production Plant I and Production Plant II during the Track Record Period:

	Year ended 31 December									Seven months ended 31 July		
	2006			2007			2008			2009		
	Actual production volume	Design annual production capacity	Utilisation rate[2]	Actual production volume	Design annual production capacity	Utilisation rate[2]	Actual production volume	Design annual production capacity	Utilisation rate[2]	Actual production volume	Design annual production capacity	Utilisation rate[3]
	(tons)	(tons)	(%)	(tons)	(tons)	(%)	(tons)	(tons)	(%)	(tons)	(tons)	(%)
Production Plant I:												
Urea	296,718	315,000	94	329,078	323,000	102	330,292	323,000	102	203,407	323,000	108
Compound fertiliser	174,159	300,000	58	230,698	300,000	77	253,278	300,000	84	127,749	300,000	73
Methanol	33,801	35,000	97	31,230	40,800	77	30,104	40,800	74	15,525	40,800	65
Production Plant II:[1]												
Urea	74,221	—	—	375,525	357,000	105	410,682	408,000	101	246,465	408,000	104
Methanol	14,391	—	—	61,536	64,600	95	58,244	64,600	90	23,373	64,600	62

Notes:

(1) The trial operation of our Production Plant II commenced in 2006.

(2) Utilisation rate refers to the percentage of actual production volume over design annual production capacity. According to the CNCIC Report, the design annual production capacity in the industry norm in China for the fertiliser industry is measured at daily production capacity multiplied by 340 days per year.

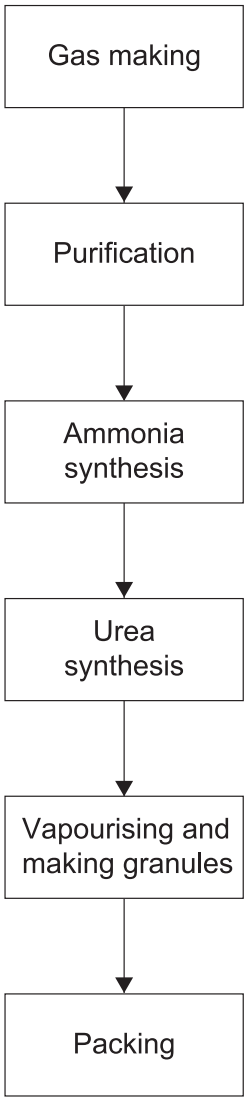
(3) Utilisation rate refers to the percentage of actual production volume over design annual production capacity. Based on (2) above, the design annual production capacity in the industry norm in China for the fertiliser industry is measured at daily production capacity multiplied by 28.33 days per month.

We commenced construction of a new compound fertiliser production line in Production Plant II in February 2009 which was completed in August 2009. Upon the commencement of the trial operation of the new compound fertiliser production line in August 2009, our estimated annual production capacity in Production Plant II will be approximately 408,000 tons of urea, 300,000 tons of compound fertiliser and 64,600 tons of methanol. The construction of the Production Plant III was also completed in April 2009 and it is expected that upon the commencement of the operation of Production Plant III by the end of 2009, our estimated annual production capacity in Production Plant III will be approximately 527,000 tons of urea and 95,200 tons of methanol. It is estimated that upon the commencement of the operation of the new compound fertiliser production line in Production Plant II and Production Plant III, our aggregate annual production capacity in respect of urea, compound fertiliser and methanol could reach approximately 1.25 million tons, 600,000 tons and 200,000 tons, respectively.

Production Process

The basic steps involved in the production processes relating to our various products are as follows:

(i) Urea



Step 1: Gas making (造氣): The main raw material coal is put into the intermittent reaction furnace to react with air and steam so as to produce semi-liquid coal gas.

Step 2: Purification (淨化): The semi-liquid coal gas is purified, and impurities and harmful gases are removed by washing, transforming, absorbing and separation processes, obtaining hydrogen and nitrogen which comply with the industrial standards required for ammonia synthesis.

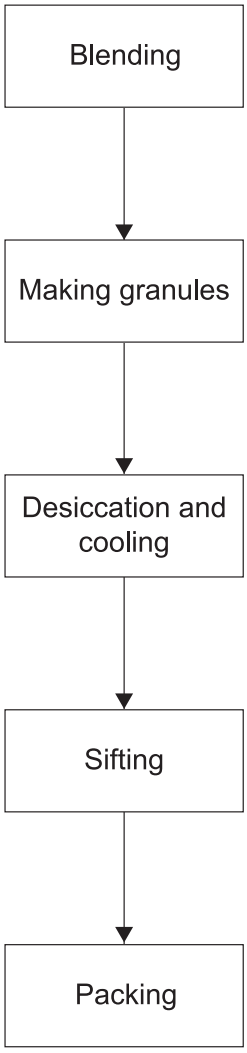
Step 3: Ammonia synthesis (氨合成): Hydrogen and nitrogen are synthesized into pure synthetic ammonia under high temperature and pressure with a catalyst, and then sent to the ammonia storage tank for storage.

Step 4: Urea synthesis (尿素合成): Synthetic ammonia from the ammonia storage tank is reacted with the carbon dioxide produced during the purification of the ammonia so as to produce urea solution.

Step 5: Vapourising and making granules (蒸發造粒): The urea solution is extracted and purified to obtain urea in a fusion state, which is then granulated and packed.

Step 6: Packing (成品包裝): The qualified urea products are packed and weighed then sent to the finished products warehouse.

(ii) Compound Fertiliser



Step 1: Blending (配料): The raw materials such as carbamide, monoammonium phosphate and potassium chloride are mixed together.

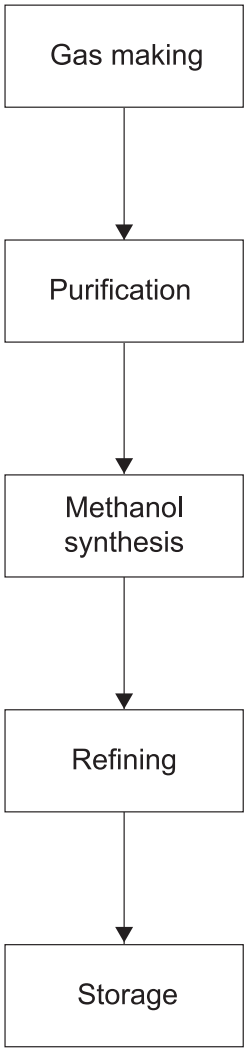
Step 2: Making granules (造粒): The raw materials are crushed, mixed together and granulated within a fluid mixture formed by carbamide, steam and water. The granules are then sent to the dryer by conveyor belt.

Step 3: Desiccation (乾燥) and cooling (冷却): The granules are tossed within the dryer, causing the granules to come into contact with hot gas from the hot blast stove, drying the granules. The dried granules are cooled and sent to the vibrating sift for sifting.

Step 4: Sifting (篩分): The cooled granules are sifted through a 4.5mm hole; granules larger than 4.5mm are sent back to the crusher for crushing and then re-made into granules; granules smaller than 4.5mm are sifted through a 2.0mm hole, then sent to the membrane-wrapping machine for packing.

Step 5: Packing (成品包裝): The finished products are packed and sent for electronic weighing before being stored in the finished products warehouse.

(iii) Methanol



Step 1: Gas making (造氣): The main raw material coal is put into the intermittent reaction furnace to react with air and steam to produce semi-liquid coal gas.

Step 2: Purification (淨化): The semi-liquid coal gas is purified, and impurities and harmful gases are removed by washing, transforming, absorbing and separation processes, obtaining carbon monoxide, carbon dioxide and hydrogen which comply with the industrial standards required for methanol synthesis.

Step 3: Methanol synthesis (甲醇合成): The carbon monoxide and carbon dioxide in the compound ammonia are reacted with hydrogen in the synthesis tower to produce crude methanol.

Step 4: Refining (精製): The crude methanol is extracted and refined to remove impurities and to derive refined methanol (精甲醇).

Step 5: Storage (儲存): The refined methanol is stored in the storage tank.

Production technology

We have adopted 18 advanced technologies recommended by the fertiliser industry associations of the PRC, which enable us to increase our production capacity and save our production costs, as well as to improve our technologies for environmental protection.

Name of the technology	Registered owner of the technology	Purposes of technology
Parallel connection of two urea reactors process (尿素合成塔雙塔並聯工藝)	public technology	increase production capacity, energy saving
Methanol rectification process (甲醇精餾系統節能降耗工藝技術)	public technology	energy saving and reduction production costs
Double decomposition of potassium chloride and ammonium sulphate production process (硫酸鉀複肥新工藝)	public technology	resource and energy saving
Technique on modification of urea plant with aqueous solution total cycle process (水溶液全循環尿素高壓系統節能增產新工藝)	public technology	energy saving
Ammonia plant energy saving revamp (氨合成節能降壓改造)	public technology	energy saving
Remaining heat type lithium bromide absorbing pattern generator for cold water unit (餘熱型溴化鋰吸收式冷水機組)	public technology	energy saving and environmental protection
Steam condensate recovery tank (蒸汽凝結水閉式回收裝置)	public technology	environmental protection
Heat transfer augmentation techniques of shell-and-tube heat exchangers and self cleaning technology (管殼式換熱器强化傳熱與自清潔技術)	public technology	environmental protection
Energy saving circulating fluid-bed boiler (節能型環保循環流化床鍋爐)	public technology	energy saving, environmental protection and reduce production cost
Energy-saving type blown gas waste heat recovery technology (吹風氣回收餘熱鍋爐與熱網絡餘熱發電)	public technology	energy saving and environmental protection
Multi-functional converter (多功能變頻器)	public technology	energy saving
Carbon dioxide removal by pressure swing adsorption technology[(1)] (變壓吸附脱碳技術)	Sichuan Tianyi Science & Technology Co., Ltd. (四川天一科技股份有限公司)	energy saving
Ammonia synthesis and alcohol alkylation system[(2)] (氨合成和醇烃化系統)	Hunan Anchun Hi-Technology Co., Ltd. (湖南安淳高新技術有限公司)	resource and energy saving
Water tube isothermal methanol reactor[(3)] (水管式等温甲醇反應器)	Hunan Anchun Hi-Technology Co., Ltd. (湖南安淳高新技術有限公司)	energy saving
No padding cooling tower[(4)] (節能無填料冷却塔)	Jiangxi Wuleng Technology Co., Ltd. (江西霧冷科技有限公司)	energy saving
New type evaporative condenser[(5)] (蒸發式冷凝器)	Luoyang Longhua Cold Air Equipment Co., Ltd. (洛陽隆華製冷設備有限公司)	energy saving
Shockwave ash blowing technology[(6)] (激波清灰技術)	Luoyang Qiangsheng Electrical Appliance Co., Ltd. (洛陽強聲電器有限公司)	environmental protection
Intelligent power conservation apparatus[(7)] (智能化節電設備)	Asianet PE Systems Ltd. (亞太電效系統(珠海)有限公司)	energy saving

Notes:

(1) By a technology development contract dated 26 November 2007 between Henan XLX Fertiliser and Sichuan Tianyi Science & Technology Co., Ltd. ("**Sichuan Tianyi**"), an independent third party, Sichuan Tianyi agreed, among other things, to provide us with the technology and technical services including design, specification and installation of carbon dioxide removal by pressure swing adsorption technology for our production facilities, as well as to provide the technical training to our technical staff. The consideration under the technology development contract was RMB200,000 and the installation of the aforesaid technology was completed in April 2008.

(2) Henan XLX Fertiliser and Hunan Anchun Hi-Technology Co., Ltd. ("**Hunan Anchun**"), an independent third party, entered into a technology agreement on 27 November 2007, by which Hunan Anchun agreed to provide technology and technical advisory services, including design of ammonia synthesis and alcohol alkylation system for our production facilities, at a consideration of RMB760,000. Under the aforesaid technology agreement, the process design of ammonia synthesis and alcohol alkylation system shall be kept confidential by both parties.

(3) Henan XLX Fertiliser and Hunan Anchun entered into a transfer of technology (patent licensing) agreement dated 7 March 2008, by which Henan XLX Fertiliser was granted a licence to use the patents of water tube isothermal methanol reactor for our methanol production facilities from 7 March 2008 to the expiry of the patents, at a consideration of RMB500,000. Hunan Anchun also provided the process design of such technology to us, and we shall be refrained from transferring or disclosing the process design and technology specification to any third parties.

(4) By a no padding cooling tower purchase agreement dated 25 March 2008 between Henan XLX Fertiliser and Jiangxi Wuleng Technology Co., Ltd. ("**Jiangxi Wuleng**"), an independent third party, Jiangxi Wuleng agreed to provide the process design and specification of no padding cooling tower to Henan XLX Fertiliser at a consideration of RMB970,000. Jiangxi Wuleng also assisted Henan XLX to install the no padding cooling tower to our production facilities. Under the aforesaid purchase agreement, Henan XLX Fertiliser shall be refrained from disclose the process design of no padding cooling tower to any third parties.

(5) By a supply agreement dated 8 June 2008, Henan XLX Fertiliser and Luoyang Longhua Cold Air Equipment Co., Ltd. ("**Luoyang Longhua**"), an independent third party, Luoyang Longhua agreed to supply the evaporative condenser to us and to provide equipment installation advisory services at a consideration of RMB4,056,000.

(6) By a supply agreement dated 7 December 2008, Henan XLX Fertiliser and Luoyang Qiangsheng Electrical Appliance Co., Ltd. ("**Luoyang Qiangsheng**"), an independent third party, Luoyang Qiangsheng agreed to supply the shockwave ash blowing equipment to us, as well as to provide equipment installation advisory services at a consideration of RMB660,000.

(7) Xinxiang Xinhua Electric Supply Station entered into a purchase contract of equipment with Henan XLX Fertiliser on 16 December 2008, by which Xinxiang Xinhua Electric Supply Station will provide us with 3 sets of power conservation apparatus at a total consideration of RMB555,000.

QUALITY CONTROL

We strongly believe that strict quality control and the provision of consistent, quality products are essential for us to maintain sustainable growth in the chemical fertiliser industry. Accordingly, we have implemented a set of quality control system in the production process of urea, compound fertilisers and methanol to ensure that we produce quality products. We attained a quality system certification of GB/T 19001-2000 idt ISO 9001:2000 in relation to production of agricultural urea and industrial methanol, and development and production of compound fertiliser of Henan XLX Fertiliser issued by the Quality Assurance Centre of China Association for Quality on 28 March 2007.

We have adopted the following quality management and control systems:

- Raw materials: we perform quality control inspections on the raw materials and purchase from the pre-selected suppliers who are able to provide us with high quality coal that enables us to achieve optimal extraction of coal gas used for our production.

- Process control: we have well-trained management and operating personnel to optimise operation efficiency and stabilise the production output and quality.

- Testing and inspection: we have testing appliances at every stage of our production process. Our quality inspection team performs random tests on both intermediate and finished products on a sample basis to ensure that the products comply with the required standards. Testing processes include checking the physical appearance and composition of nutrients.

- Packaging and storage: we adopt systematic package and storage procedures in order to ensure proper packaging and avoid any damages to our fertiliser products during storage in our warehouses.

As at the Latest Practicable Date, we have not experienced any material sales returns by customers, any product liability or other legal claims arising from allegations relating to the quality of our products.

RAW MATERIALS, ENERGY AND SUPPLIERS

Raw Materials

Coal is the major raw material in our production of urea. The coal used in our urea production is usually sourced in Shanxi Province, which has abundant resources of coal. During the Track Record Period, the quantity of coal used in our production plants amounted to approximately 312,000 tons, 585,000 tons, 585,000 tons, and 451,000 tons respectively, where the total cost of coal in our cost of sales amounted to approximately RMB221.4 million, RMB409.5 million, RMB654.0 million and RMB498.4 million respectively.

The major raw materials used in the production of our compound fertilisers are urea, potassium and phosphorous. During the Track Record Period, the total cost of potassium amounted to approximately RMB39.2 million, RMB60.0 million, RMB98.8 million and RMB32.1 million respectively, where the total cost of phosphorus amounted to approximately RMB74.4 million, RMB125.6 million, RMB179.2 million and RMB47.8 million respectively.

We have adopted stringent policies on the selection of our raw materials suppliers. The basis criteria of selection of our raw material suppliers are: (i) the supplier's reputation; (ii) the ability of supplier to supply quality raw materials that meet our standards; and (iii) the ability of the supplier to meet our raw materials supply requirements.

Energy

Electricity is the primary source of energy in our production as our production plants require significant amount of electricity for our daily operation and production. Our three power generator systems enable us to have stable electricity supplies for our production. During the Track Record Period, the amount of electricity generated by our power generator systems contributed to

approximately 37%, 26%, 46% and 20% of our electricity consumption, and we purchased approximately 353.1 million Kwh, 632.9 million Kwh, 684.4 million Kwh, and 501.0 million Kwh of electricity from the electricity suppliers for the operation of our production plants at approximately RMB138.2 million, RMB221.7 million, RMB218.0 million and RMB170.6 million respectively. During the Track Record Period, we had not experienced any material shortages of electricity, except for occasional stoppages of power of limited duration caused by severe weather conditions which did not materially impact our production. Please refer to the paragraph headed "Our production plants may be materially and adversely affected by power shortages" under the section headed "Risk factors" in this document for details.

Suppliers

Generally, we enter into non-legally binding memorandums of understanding with most of the suppliers, by which the indicative quantity of raw materials are agreed and the price are based on the prevailing market prices at the time of supply of raw materials. We settle our raw material purchases through advanced cash payments and bear our own transportation costs. Our suppliers of coal, who are mining companies or trading companies, are mainly located in Shanxi, while our suppliers of potassium are mainly located in Shaanxi and Qinghai, and our suppliers of phosphorous are mainly located in Henan, Hubei and Yunnan. Our Directors believe that we have established a close relationship with the suppliers, which enables us to obtain a stable and reliable supply of raw materials.

During the Track Record Period, purchases from our largest supplier accounted for approximately 10.7%, 16.1%, 7.8% and 9.3%, and purchases from our five largest suppliers accounted for approximately 24.2%, 26.1%, 23.5% and 22.5%, respectively, of our total cost of sales. During the Track Record Period, our five largest suppliers were all related to coal and consumables purchases. Furthermore, none of our Directors, senior management and their associates or any shareholders holding more than 5% of the total issued Shares of the Company had any interest in any of our five largest suppliers during the Track Record Period.

Our suppliers usually give us credit periods of 30 to 90 days.

We have not experienced any material disruption or dispute in the supply of raw materials during the Track Record Period.

SALES, CUSTOMERS AND MARKETING

Sales

During the Track Record Period, our revenue comprised principally from the sales of urea, compound fertiliser and methanol. Table set forth below is a breakdown of our revenue by products during the Track Record Period:

	For the year ended 31 December						For the seven months ended 31 July	
	2006		2007		2008		2009	
	(audited)		(audited)		(audited)		(audited)	
Products	Revenue	% of total revenue	Revenue	% of total revenue	Revenue	% of total revenue	Revenue	% of total revenue
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)
Urea	509,431	57.2	928,315	60.2	1,155,540	55.4	941,531	77.1
Compound fertiliser	262,983	29.5	400,521	26.0	708,268	34.0	193,365	15.8
Methanol	106,973	12.0	205,891	13.4	214,836	10.3	81,745	6.7
Others	10,788	1.3	6,695	0.4	6,299	0.3	4,758	0.4
Total	890,175	100	1,541,422	100	2,084,943	100	1,221,399	100

During the Track Record Period, a large proportion of our revenue were derived from sales of our urea and we sell our urea mainly in Henan with the balance in Anhui, Jiangsu, Jilin, Hubei, Guangdong and other provinces. The steady growth of revenue is mainly attributable to the increase in our production capacity and competitive product pricing.

We mainly sell our compound fertiliser in Henan, Hubei, Shandong, Heilongjiang, Anhui and other provinces.

In respect of methanol, we sell over 51% of our methanol in Shandong as of 2008 and the rest in Henan, Hubei, Jiangsu and other provinces.

Apart from urea, compound fertiliser and methanol, we also sell other by-products, such as ammonia solution and liquid ammonia, which contributed to less than 2% of our total revenue during the Track Record Period. Furthermore, we have provided marketing and soil testing services to our customers for the period from November 2008 to April 2009 to assist their marketing activities.

Customers and Sales Channel

We sell our fertiliser products to customers who are end-users or distributors. We usually enter into non-legally binding memoranda of understanding with some of our major customers who are independent-third-party distributors, by which the annual target quantities of our products to be sold within the exclusive defined geographical areas are indicated and the selling prices of our products are determined with reference to the prevailing market prices from time to time. Apart from selling our fertiliser products, the distributors also sell the fertiliser products produced by other manufacturers, as well as other agricultural products. During the course of the year, we will enter into sales agreements with our major customers who are distributors, by which the terms of the total quantity and the selling price of our products to be sold will be agreed, as well as the payment terms, such as the distributors can make payments in the form of wire transfer or cash, and they are required to settle the full payment before the delivery of our products. We also set out the arrangements for delivery of our products in the sales agreement with our customers who are distributors, where we arrange delivery and the distributors are responsible for the delivery costs.

We have not adopted a typical distributorship sales model under which we own and operate a distribution network and retail outlets/points. As such, we do not enter into any distribution agreement with our customers. Despite the fact that we do not own or operate the distribution network and retails outlets/points of our customers who are independent-third-party distributors, and have no direct control over them, we usually require our major customers who are distributors to submit their annual sales plans at the beginning of each year and our sales and marketing staff would monitor the execution of such sales plans through regular visits to those distributors to obtain information on the quantity, quality and delivery of their fertiliser products. We usually monitor the frequency and the sales volume by which the distributors placing their orders with us, and based on the historical transaction pattern we would make reasonable enquiries with the distributors should we become aware of any abnormal ordering pattern. Based on the best knowledge of our Directors, our Directors are not aware that the distributors purchased our products with an intention to build up their inventory at the distributors/distribution points. Furthermore, as we require our customers to make advanced payment before delivery of our products and we do not have a refund or exchange of goods policy, except for defective or damaged products, we believe that such policy will discourage our customers who are the distributors to accumulate inventory as they may incur losses if the market prices of the fertiliser products drop. During the Track Record Period, we had not experienced any material sales return by our customers who were distributors, except for return of defective or damaged products by our customers which the amounts were minimal and had no material adverse impact on our business operation.

As at the Latest Practicable Date, our urea was sold at approximately 5,000 distribution points across the PRC owned and/or operated by our customers who were independent-third-party distributors. The distributors are mainly private companies, state-owned enterprises or sole proprietors engaging in selling of agricultural products or chemical products businesses. The distribution network covers the areas of Henan, Anhui, Hubei, Jiangsu, Shangdong, Shanxi, Hebei, Zhejiang, Jiangxi, Fujian, Hunan, Guangdong, Guangxi, Sichuan, Liaoning, Inner Mongolia, Jilin and Heilongjiang. During the Track Record Period, we had approximately 236, 239, 242 and 247 customers who were independent-third-party distributors, and approximately 86.18%, 85.31%, 86.10% and 88.2% of our total revenue was generated from sale of our products to the independent-third-party distributors.

The following table sets forth the changes in the number of our customers who were distributors during the Track Record Period:

	Year ended 31 December			Seven months ended 31 July
	2006	2007	2008	2009
Additions of new customers who were distributors	—	3	3	18
Termination of existing customers who were distributors	—	—	—	(13)
Net increase in customers who were distributors	—	3	3	5
At the end of year/period	236	239	242	247

The following map shows the number of our customers who were distributors allocated in different parts of the PRC as at the Latest Practicable Date:

During the Track Record Period, approximately 18.5%, 25.7%, 24.0% and 19.8% of our total revenue were contributed by our five largest customers, and approximately 6.4%, 13.4%, 11.9% and 8.6% of our total revenue were contributed by our largest customer. Sinofert Holdings Limited is one of our largest customers, which held approximately 5.0% of the total issued Shares of the Company as at 16 October 2009. None of our Directors, senior management, their associates or any shareholders holding more than 5% of the total issued Shares of the Company had any interest in any of our five largest customers during the Track Record Period.

Pricing, Settlement Terms and Credit Control

Generally, all of our urea and methanol customers are required to make advanced full payment prior to delivery of products and no credit would be granted to customers of such kind. However, during the global economic crisis since the fourth quarter of 2008, we may consider to grant credit terms of no more than 90 days to those most creditworthy customers. Up to the Latest Practicable Date, we had not granted credit terms to our urea and methanol customers. For compound fertiliser customers, we also require them to make full payment before delivery of products, except for a limited number of long-term customers which we would grant, and had granted during the global economic crisis, credit terms of no more than 90 days. Payment by the

customers is mainly made by way of cash or bank telegraphic transfer before delivery of our products to those customers. Therefore, most of our revenue are contributed by cash instead of account receivables. As at the Latest Practicable Date, we had not experienced any material issues in respect of the doubtful debts from our sales.

Our sales and marketing departments perform regular reviews at each reporting date on trade receivables with reference to aging analysis of trade receivable and communication with our customers. Based on these reviews, specific provision for impairment of trade receivables will be made where appropriate. In view of our credit control system in place and the fact that most of our trade receivables relate to a group of diversified customers, our Directors consider that there is no significant credit risk. During the Track Record Period, the amounts of the bad debts written off were approximately nil, RMB1,030,000, RMB75,000 and nil, respectively.

Marketing

As at the Latest Practicable Date, our sales and marketing team, led by Mr. Wang Nairen, comprised approximately 170 sales and marketing personnel responsible for procuring sales orders, maintaining customers' relationships, conducting market researches, organising marketing events and formulating sales and marketing strategies. In order to procure sales orders and maintain customers' relationships, our sales and marketing staff regularly visit the customers to obtain information on the quality and delivery of our products and on how to improve our services, or invite the customers to visit our production facilities to enable them to have better understandings of our operations and products and to increase their confidence in us and our products. We also regularly participate in and organise trade affairs and exhibitions to promote our products and to conduct market researches, such as the Central Plains Area Xinlianxin Fertiliser Meeting. We use media to promote our products and strengthen our corporate image through media such as advertising on television and publishing interviews of our senior management in newspapers and magazines.

Furthermore, we offer soil testing services for our compound fertiliser customers, which allows them to have a better understanding of the nature and characteristic of the soil of their farm. Such service is normally provided to our customers before their purchase and is free of charge. Where a customer decides to purchase compound fertiliser from us, we would adjust the mineral composition within the compound fertiliser based on the respective soil test result to enhance the effectiveness of fertiliser application.

RESEARCH AND DEVELOPMENT

R&D is of great importance to our industry as the level of competition in respect of production costs and processes has increased considerably over the past years. We believe our research and development team is capable of improving our existing production processes through incorporation of new equipments and techniques into our existing production processes to optimise the efficiency and effectiveness as well as to reduce the costs of production.

Mr. Li Yushun, our technical officer having over 20 years of experience in the chemical fertiliser industry, is the head of our R&D department, which consists of over 80 staff graduating from different institutions in the PRC and specializing in soil chemistry, agronomy, plant nutrition and horticulture. Other than the support from the said professionals, our team is bolstered by our agrochemical service centre as well.

In addition, we invest resources into projects focusing on improvement of the quality of our fertilisers. Due to our ability to modify the chemical composition of our compound fertilisers, we have also developed a compound fertiliser series which has a high nitrogen content and is suitable for applying to soils with different qualities.

Energy recycling is also one of the major focuses for our R&D department as we value environmental protection and our production costs could be reduced by recycling. Our aim is to fully utilise our resources and energy. For examples, the coal used in our production would be reused and its residue would be sold to cement factories; and the steam emitted from our production plants is contained and its heat energy would be reused in our production processes, etc.

Our expenses on R&D were approximately RMB1,694,000, RMB993,000, RMB41,000 and RMB125,000 for the years ended 31 December 2006, 2007 and 2008 and the seven months ended 31 July 2009 respectively.

COMPETITION

We face intense competition in the chemical fertiliser industry in the PRC. Pursuant to the CNCIC Report, there were over 180 urea producers, over 210 methanol producers and thousands of compound fertiliser producers in the PRC in 2008, which included state-owned enterprises, private-owned enterprises and foreign-invested enterprises.

Our annual production capacity of urea could reach approximately 1.25 million tons by the end of 2009, and our Directors consider that the Group is in direct competition with large-scale coal-based urea producers in the PRC.

Our Directors are of the view that the major factor defining the competition landscape in respect of urea and methanol producers is production costs, and therefore we invest substantial amount of time and effort to improve our production efficiency and to achieve lower production costs in order to increase our competitiveness. According to the CNCIC Report, in 2008, in terms of cost competitiveness, our production cost was the 4th lowest and the lowest among all coal-based urea producers in the PRC and Henan Province respectively and we also ranked the 7th lowest production cost among all urea producers in the PRC irrespective of the types of raw material used. Furthermore, our Directors believe that there are significant entry barriers to large-scale operations as significant capital investment is required for establishing and maintaining large-scale production facilities and environment sensitivity in the fertiliser industry in the PRC. According to the CNCIC Report, China had only 13 urea producers with an annual production capacity of over a million tons of urea as of 30 September 2009 and we ranked the 8th among the aforesaid 13 urea producers in the PRC irrespective of the types of raw material used.

Our compound fertiliser products compete on the basis of product quality, price, product development, customer service and distribution capacity. Accordingly, we have established research and development centres to collect soil samples from farmlands in order to develop new formulations of compound fertilisers with different mineral compositions for improving quality and cost efficiency. According to the CNCIC Report, as of 30 September 2009, we ranked the third among all urea-based fertiliser producers in the PRC in terms of our production capacity of compound fertiliser.

AWARDS AND ACCREDITATIONS

As at the Latest Practicable Date, the following major awards and accreditations were granted:

Year awarded	Award/Accreditation	Awarded by	Awarded to
March 2005	Top 100 China Fertiliser Manufacturing Enterprise (Overall Interests) (2004年度中國肥料製造行業綜合效益百強)	China Petroleum & Chemical Industry Association and State Statistics Bureau Industry Communications Statistics Office (中國石油和化學工業協會／國家統計局工業交通統計司)	XLX Chem
November 2006 . .	2nd Prize for the "Project for the Non-Discharge of Waste Water During Nitrogen Fertiliser Production Process" (氮肥生產污水零排放綜合治理環保工程，二等獎)	China Nitrogen Fertiliser Industry Association (中國氮肥工業協會)	Henan XLX Fertiliser
October 2007. . . .	Runner up of "Most Transparent Company Award"	Securities Investors Association (Singapore)	The Company
November 2007 . .	Henan 100 Most Important Industrial Enterprises	Henan Provincial Government	Henan XLX Fertiliser
April 2008	The 30 Highest Production Capacity of Methanol Producers 2007 (2007年甲醇產量30強)	China Nitrogen Fertiliser Industry Association (中國氮肥工業協會)	Henan XLX Fertiliser
July 2008.	The 500 Most Important Chinese Chemical Enterprises 2008 (2008中國化工企業500強)	China Chemical Enterprises Management Association (中國化工企業管理協會) and China Chemical Engineering Information Association (中國化工情報信息協會)	Henan XLX Fertiliser
November 2008 . .	The 100 Most Important Chinese Fertiliser Enterprises 2008 (2008中國化肥企業100強)	China Chemical Enterprises Management Association (中國化工企業管理協會) and China Chemical Engineering Information Association (中國化工情報信息協會)	Henan XLX Fertiliser
November 2008 . .	The 100 Most Important Chinese Fertiliser Enterprises Brand 2008 (2008中國化肥企業品牌100大)	China Chemical Enterprises Management Association (中國化工企業管理協會) and China Chemical Engineering Information Association (中國化工情報信息協會)	Henan XLX Fertiliser
May 2009	The 50 Most Important Nitrogen Fertiliser Enterprises 2008	China Nitrogen Fertiliser Industry Association (中國氮肥工業協會)	Henan XLX Fertiliser
May 2009	The 30 Highest Production Capacity of Methanol Producer 2008	China Nitrogen Fertiliser Industry Association (中國氮肥工業協會)	Henan XLX Fertiliser
May 2009	Certificate of Enterprise Credit Grade (AAA Credit Grade)	China Nitrogen Fertiliser Industry Association (中國氮肥工業協會)	Henan XLX Fertiliser

INVENTORY CONTROL

Our inventory mainly comprises raw materials such as coal, potassium and phosphorous, and finished goods. We usually store our finished products for a short period of time before delivering to our customers who are end-users and distributors. We monitor our inventory movements regularly to ensure the quality of our products and manage our inventory levels based principally on the market demand and the ordered sales volume.

In 2008, we maintained inventory of our raw materials such as coal, potassium and phosphorous for approximately 32 days, 84 days and 47 days respectively, and inventory of our finished goods such as urea and methanol for less than 13 days. For the years ended 31 December 2006, 2007 and 2008 and seven months ended 31 July 2009, our total inventory accounted for approximately RMB118.0 million, RMB178.5 million, RMB235.0 million and RMB182.5 million, respectively.

With respect to our inventory provisioning policies, we perform regular reviews at each reporting date on the carrying amounts of inventories with reference to aging analysis of inventories, projections of expected future sales ability of goods and management experience and judgments. Based on these reviews, specific provision for impairment of inventories will be made when the carrying amounts of inventories decline below their estimated net realisable value. Save as the provision of inventory of approximately RMB6.0 million for the year ended 31 December 2008, we did not experience any material impairment to our inventory, such as slow moving or otherwise obsolete inventory and thus did not provide for any inventory impairment allowance during the Trade Record Period.

INSURANCE AND PRODUCT LIABILITY

As at the Latest Practicable Date, we had maintained insurance covering our production plants, machines and equipments. We also provide social welfare insurance and occupational accident damages insurance for our full-time employees in accordance with the relevant PRC laws and regulations.

We have not maintained any product liability insurance for our products, as we are not legally required to have such insurance under the PRC laws at present. Our Directors believe that it is not a common practice to purchase the product liability insurance in the chemical fertiliser industry in the PRC. During the Track Record Period, we had not experienced any material claim relating to our product liability. After taking into consideration of the costs and benefits of purchasing such insurance, our Directors are of the opinion that the purchase of such product liability insurance is not necessary.

OCCUPATIONAL HEALTH AND SAFETY

We consider that occupational health and safety as one of our important social responsibilities. We have implemented a system of occupational health and safety measures, where the details are as follows:

(i) Formulation and implementation of safety policies

We have adopted a comprehensive and effective safety management system in every stage of our production process to ensure our employees can work in a safe environment during their course of employment. Our safety management system includes both our internal safety regulations as well as the relevant government regulations in respect of occupational safety. The main safety regulations which we have adopted and reviewed annually are as follows:

a. Occupational safety regulations

In order to ensure that our employees comply with all the relevant safety rules, regulations and procedures in every stage of our production process, we provide a safety position-oriented regulatory handbook to each of our employees. Such handbook contains details of the relevant safety rules, regulations and procedures in respect of each of our production process, and would be given to each of our employees when he/she joins us. Every newly joined employee is required to be familiar with the contents of such handbook and we also provide relevant trainings to assist them in this regard.

In addition, we have established a production safety committee to supervise and monitor the compliance of the relevant occupational safety rules, regulations and procedures. Such committee conducts inspection checks on a quarterly basis to ensure all relevant occupational safety rules, regulations and procedures are being complied with.

b. Accident prevention and management regulations

We have established detailed accident prevention and management regulations for our employees to comply with. Such regulations contains details of the relevant accident prevention and management regulations in respect of our production process.

c. Machinery and equipment regulations

Before accepting the delivery of newly purchased machine and equipment from vendors, our quality assurance team has to ensure such machine and equipment are accompanied by the relevant quality certification issued by the manufacturers. In addition, it is required by our internal policy that our quality assurance team must inspect and examine such machine and equipment by conducting various inspection tests to ensure they are safe, stable and reliable, and can satisfy our internal safety regulations for machines and equipments.

(ii) Strengthening employees' safety awareness and education

We set out detailed examination standards in relation to safety management, and have strengthened our employee's participation in safety management and their responsibility for discovering, analysing and responding promptly to work-related hazards. All production staff are required to undergo training programme to learn new techniques and reinforce their understanding of safety regulations. We also keep safety records relating to past events to educate our employees through case studies.

(iii) Organising various activities relating to work safety

We organise "Safety Day" annually, which include exhibition of safety photographs, safety examinations and drills as well as safety evaluations.

We believe that our business operations are in compliance with the current applicable national and local health and safety laws and regulations in all material aspects. Save as disclosed in the sub-paragraph headed "Xinxiang Factory's incident in 2001" under the paragraph "Occupational Health and Safety" in "Business" section, we are not aware of any penalties imposed by any PRC regulatory departments associated with the breach of any existing health and safety laws or regulations.

In respect of the safety protection matters, our expenses incurred for the years ended 31 December 2006, 2007 and 2008 and the seven months ended 31 July 2009 were approximately RMB6,626,000, RMB12,640,000, RMB16,347,000 and RMB11,985,000 respectively, accounting for approximately 0.7%, 0.8%, 0.8% and 1.0% of our total revenue respectively. Taking into account the historical expenses incurred during the Track Record Period and the expansion of production facilities and production capacity of our fertiliser products, and implementation of any new government policies in the future, we expect the expenses for safety protection matters will be approximately 1% of our total revenue per annum for the purposes of maintenance and improving of our machinery and equipment and providing various safety training programmes to our existing and new employees.

Xinxiang Factory's incident in 2001

On 26 January 2001, a gas explosion occurred in Xinxiang Factory, which caused the death of three employees and the injuries of eleven people including employees of Xinxiang Factory and other persons. On 12 February 2001, the General Motor Product Institute for Mechanical Industry, which was commissioned by the People's Government of Xinxiang City, conducted the examination and concluded that such accident was caused by an air control valve purchased from a third party, which did not meet the necessary quality standards. The accident investigation report issued by the Incident Investigation Team organised by the People's Government of Xinxiang City dated 13 March 2001 also concluded that such incident was caused by the air control valve, which was attached with a quality assurance certificate issued by the manufacturer when Xinxiang Factory purchased such air control valve. As a result, Xinxiang Factory had a monetary loss of RMB400,000 for damaged equipments, which was fully compensated by the insurance payout. In addition, the casualties and their families had received a compensation of approximately RMB65,000 and RMB193,000 from Xinxiang Factory and the local insurance company respectively. Mr. Liu was given an administrative warning by the Supervision Bureau,

Xinxiang City on 28 April 2001 and Mr. Li Yushun was given a demerit by Xinxiang Factory on 30 April 2001. No other fines or penalties were imposed by the PRC authorities in respect of such incident.

Our Directors have seriously considered the impact of the incident in 2001, and have taken proactive measures to address the occupational safety issues, including formulation and implementation of safety policies, strengthening our employees' safety awareness and education, and organising various activities relating to occupational safety as above-mentioned. We also recognise that our operation may involve inherently hazardous activities which may cause accidents resulting in harm to people, property and the environment, and we are committed to continuously to comply with the health and safety standards required by the applicable laws and regulations and to manage such health and safety related risks.

In order to prevent future occurrence of similar explosion accidents, our quality assurance team will inspect and examine the conditions of our machinery and equipment regularly. Furthermore, we provided various trainings to our employees to strengthen their safety awareness, and also require them to comply with our occupational safety regulations for safety use of machinery and equipment throughout the production process.

We have engaged Camco Advisory to conduct an environmental, health, safety and social ("**EHSS**") due diligence on our operation subsidiary, Henan XLX Fertiliser and to ensure our performance on environmental, health, safety and social meets the national and international standards. Camco Advisory, an independent third party, is an international institution in identifying and implementing solutions that help business address their climate change risks and opportunities, and they also provide strategic, technical and financial solutions for carbon related issues. Camco Advisory issued the "Report on Environmental and Social Due Diligence and Health and Safety Action Plan" (the "**Due Diligence Report**") in August 2009 and the "Report on monitoring EHSS Corrective Actions" (the "**Monitoring Report**") in August 2009. The Due Diligence Report was commissioned by us, and we paid a consulting fee in the amount of RMB137,250 to Camco Advisory for its issuance. Our Directors are of the view that the payment of the consulting fee does not affect the fairness of conclusions drawn in the Due Diligence Report.

The Due Diligence Report is a comprehensive evaluation of the facilities and occupational safety policies of Henan XLX Fertiliser, which was conducted pursuant to the PRC laws and regulations, and other national and international standards in relation to environmental, health, safety and social issues.

The Due Diligence Report has concluded that we have insisted on complying with applicable PRC laws and regulations to improve environmental and social performance during our rapid development, particularly since the Company has listed on the SGX-ST since June 2007. We have allocated large sums of money to introduce environmental, health and safety protection facilities, and to maintain good performance by implementation of the three synchronies policy, that is the pollution prevention facilities needed for construction projects should be designed, constructed and put into operation simultaneously with the main part of the project. Camco Advisory further concluded that the environmental and occupational health protection performance of our Group is of a high standard, and is better than many fertiliser companies operating in China.

Based on the Monitoring Report, Camco Advisory concluded that there is no material violation of the relevant PRC labour and safety laws and regulations, and some areas even reached international standards. We are also committed to improving our production safety measures by allocating more resources to upgrade our existing safety system to achieve international standards.

Since the Xinxiang Factory's incident in 2001 and during the Track Record Period, we have not experienced any fatal accidents or major accidents which caused material interruptions of our operations. Our PRC legal advisers, Haihua Yongtai Law Firm, have confirmed that there was no material violation of the relevant PRC labour and safety laws and regulations, and we are not subject to any material employee safety claims, lawsuits, penalties or disciplinary actions, during the Track Record Period.

Based on (i) the Sponsor's review of the Due Diligence Report and the Monitoring Report; (ii) the above confirmation from the Company's PRC legal advisers and Camco Advisory and discussions with each of them; and (iii) the Group's production safety measures, their implementations and standard applied in the EHSS audit as discussed with the Group's senior management, person-in-charge of the Group's safety matters, the Company's PRC legal advisers and Camco Advisory's person-in-charge of the EHSS audit, the Sponsor is of the view that the Group's production safety measures are sufficient and have been satisfactorily implemented.

ENVIRONMENTAL MATTERS

We are committed to environmental protection. In order to effectively control and minimise pollution and to protect our environment, we have implemented technical measures to process waste water, waste gas and solid waste in accordance with the relevant PRC environmental protection rules and regulations.

Our environmental protection and safety department, led by Mr. Zhang Zhixin who has over 10 years experience in respect of environmental protection management, with a team of about 50 employees, is responsible for overseeing and implementing our environmental protection and management policies, and to ensure our production facilities are in compliance with the applicable PRC environmental laws and regulations. We have installed various types of pollution control equipment in our facilities to reduce, treat and recycle waste water, waste gas and dreg generated during our production process. We also perform regular maintenance on our production facilities to ensure the equipment and systems are in good working condition. As to our future environmental protection plan, we will adopt advanced technology to upgrade our environmental protection standards and entrust environment consultants to evaluate our environmental protection systems from time to time.

Waste water

Waste water is generated during the production process in our production plants. We have adopted different processes to minimise the waste water generated in our production plants. Furthermore, we are equipped with online monitoring facilities to control the chemical oxygen demand (COD) and ammonia (NH_3-N) in discharged waste water.

Waste gas

Waste gas is generated during the production process. We have adopted processes to reuse the waste gas generated from the production process for furnace fuel and also installed a wet scrubber to remove dust and sulphur. The waste gas generated from boilers is purified by electrostatic precipitators and desulphurisation of ammonia. We are equipped with online monitoring facilities to control the dust and sulphur dioxide emissions from boilers.

Solid waste

We generated a large amount of slag in our production process and boiler, as compared to urea producers using natural gas as raw material. We reuse part of the slag as fuel for our boilers and sell other dreg, such as powder collected from dust removers and sludge from waste water treatment to companies for use in construction.

We are subject to PRC environmental laws and regulations on matters such as control of atmospheric pollution, discharge of waste water and other pollutants. Please refer to the section headed "PRC regulatory overview" in this document for details of the relevant environmental laws and regulations. According to the environmental impact assessment report and the confirmation letter issued by the relevant PRC environmental authorities, we did not breach any relevant PRC environmental laws or regulations during the Track Record Period. Furthermore, we have obtained the "Pollutant Discharge Permit" (污染物排放許可證) dated 8 August 2008 issued by Environmental Protection Bureau of Henan Province (河南省環境保護局). In addition, we were awarded the second prize for "Project for the Non-discharge of Waste Water During Nitrogen Fertiliser Production Process" (氮肥生產污水零排放綜合治理環保工程) by China Nitrogen Fertiliser Industry Association (中國氮肥工業協會) in November 2006. We also participated in environmental protection trainings in relation to control of waste water from compound ammonia industry organised by Environmental Protection Bureau of Henan Province in September 2008. Furthermore, we have adopted the "Effluent Standard of Water Pollutants of Ammonia Industry" announced jointly by Quality and Technical Supervision Bureau of Henan Province (河南省質量技術監督局) and Environmental Protection Bureau of Henan Province on 19 June 2008 with effect from 1 January 2009.

In respect of the regulatory compliance matters, our expenses incurred for the three years ended 31 December 2006, 2007 and 2008 and the seven months ended 31 July 2009 were approximately RMB3,670,000, RMB10,893,000, RMB16,970,000 and RMB16,325,000 respectively, accounting for approximately 0.4%, 0.7%, 0.8% and 1.3% of our total revenue respectively. Taking into account the historical expenses incurred during the Track Record Period and the expansion of production facilities and production capacity of our fertiliser products, and implementation of any new government policies in the future, we expect the expenses for regulatory compliance matters will be approximately 1% of our total revenue per annum for purchasing advanced technology and equipment and retaining consultants to upgrade our environmental protection standard.

EMPLOYEES AND STAFF TRAINING

We invest resources in our continuing education and training scheme as set out below for our managerial staff and other employees in order to improve their respective skills and knowledge:

1. Military oriented training is provided to each of our new employees to ensure that they are familiar with our policies, safety measures as well as basic technical skills and knowledge.

2. We periodically provide technical skills training to each of our employees in the production department to improve their knowledge in relation to new technologies and mechanical manipulations.

3. We provide occupational safety lessons to each of our manufacturing staff.

4. We encourage our senior managerial staff to attend management courses organised by universities in China including the Business Management Program of Tsinghua University. The expenses in respect of our staff training rendered in the years ended 31 December 2006, 2007 and 2008, and the seven months ended 31 July 2009 were approximately RMB680,000, RMB2,020,000, RMB1,960,000 and RMB1,385,000 respectively.

INFORMATION TECHNOLOGY SYSTEMS

Our production plants are equipped with advanced information system which enhances the effectiveness and efficiency of our business operation and production. We have a dedicated high-speed internet cable connected to our computer servers which enables our employees to have stable and easy access to the internet. In addition, our production processes as well as our usual business operation are computerised. We are equipped with an enterprise resources planning system, also know as ERP system, which enables our employees to manage and coordinate all the resources, information and functions of our business from shared data stores. Currently, our enterprise resources planning system comprises information in respect of financial accounts, cost auditing, budget management, financial statements analysis, merchandizing management, transportation management, production management, inventory control, human resources management, quality control, etc.

PROPERTIES

For details relating to the Group's properties owned and leased together with the valuations and valuation certificates and the details of the building ownership certificates or land use rights certificates prepared by Jones Lang LaSalle Sallmanns Limited, please refer to "Appendix III — Property Valuation" in this document.

INTELLECTUAL PROPERTY

Further information relating to the trademarks and patents of our Group is set forth in the paragraph headed "Intellectual property" under section headed "Further information about the business of the Group" in "Appendix VI — Statutory and General Information" in this document.

LEGAL COMPLIANCE AND PROCEEDINGS

As at the Latest Practicable Date, none of the members of the Group or our Directors is a party to any legal, arbitration or administrative proceedings, and no proceedings are known by any member of the Group or our Directors to be contemplated by government authorities or third parties, which, if adversely determined, would materially and adversely affect the Group.

Our PRC legal advisers, Haihua Yongtai Law Firm, confirmed that we have complied with all relevant laws and regulations in the PRC during the Track Record Period and we have obtained all relevant approvals, permits, licences and certificates necessary for our operations and business in all material respects.