
RELATIONSHIPS WITH THE CONTROLLING SHAREHOLDERS AND XLX CHEM GROUP

CONTROLLING SHAREHOLDERS

As at the Latest Practicable Date and immediately following the Listing, Pioneer Top and Go Power will beneficially own approximately 34.34% and 28.06% of the total issued Shares of the Company respectively. Mr. Liu holds 100% equity interest in Pioneer Top on his own benefit and on trust for 7 beneficiaries under Trust Agreement 1, whereas Ms. Yan holds 100% equity interest in Go Power on her own benefit and on trust for 1,463 beneficiaries under the Trust Agreement 2. Pursuant to Trust Agreement 1 and Trust Agreement 2, each of Mr. Liu and Ms. Yan is irrevocably granted the absolute discretion to exercise the voting rights and day-to-day management rights in Pioneer Top and Go Power respectively. Furthermore, Ms. Yan is interested in 0.03% of the total issued shares of the Company. Therefore, Pioneer Top, Go Power, Mr. Liu and Ms. Yan are considered as Controlling Shareholders of the Company.

OTHER BUSINESSES OF THE CONTROLLING SHAREHOLDERS ENGAGED IN TRANSACTIONS WITH THE GROUP

As at the Latest Practicable Date and immediately following the Listing, apart from their interest in the Group, Mr. Liu, Ms. Yan and Mr. Li Buwen, our executive Directors, have an interest in XLX Chem respectively.

XLX Chem has 46 registered shareholders who are holding the entire equity interest in XLX Chem for their own benefit and on trust for approximately 1,427 beneficiaries, among whom are mainly current and past employees and customers and suppliers of our Group. As at 26 July 2006, immediately before the transfer of the entire equity share of Henan XLX Fertiliser from XLX Chem to the Company, the ultimate beneficial owners of XLX Chem were identical to the ultimate beneficial owners of Pioneer Top and Go Power. In April 2009, 7 corporate beneficial owners, being the present and past customers or suppliers of the Group, have transferred their respective interest in Go Power to 7 individuals respectively. In August 2007, upon receiving the written notice from one of the beneficiaries under the Trust Agreement 2, Ms. Yan in her capacity as the trustee has sold 320,000 Shares, representing approximately 0.03% of the total issued Shares of the Company, on the market. As at the Latest Practicable Date, save as the transfer of interest by the 7 corporate beneficial owners and the disposal of Shares by one beneficial owners disclosed above, the ultimate beneficial owners were identical to the ultimate beneficial owners of Pioneer Top and Go Power.

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XLX Chem Group is principally engaged in production and trading of equipment, chemical products, gas and raw materials, and provision of hotel and catering services. The respective shareholding percentage held by XLX Chem in these companies as at 31 July 2009 and details of the principal businesses of these companies are set out in the table below.

<u>Company</u>	<u>% of shareholding held by XLX Chem</u>	<u>Principal business</u>
Xinxiang Xinlianxin Chemical Equipment Co., Ltd. (新鄉市心連心化工設備有限公司)	36%	Production and installation of chemical equipment
Xinxiang Xinlianxin Gas Products Co., Ltd. (新鄉市心連心氣體有限公司)	57.50%	Production and filling and sealing of oxygen and nitrogen
Xinxiang Xinlianxin Lifting Equipment Co., Ltd. (新鄉市心連心吊裝有限公司)	42%	Provision of lifting services
Henan Shenzhou Heavy Sealing Co., Ltd. (河南神州重型封頭有限公司)	35.33%	Production of sealing and import and export of products and technology
Xinxiang Yuyuan Chemical Co., Ltd. (新鄉市玉源化工有限公司)	35.60%	Production of furfural
Xinxiang Xinlianxin Hotel Co., Ltd. (新鄉市心連心賓館有限責任公司)	35%	Lodging and catering services

Our Directors are of the view that the principal businesses of the XLX Chem Group are distinctly different and are not related to the businesses of our Group. As such, there is generally no competition between the businesses of our Group and XLX Chem Group. In addition, by a deed of undertaking dated 5 March 2007, XLX Chem has undertaken to us that:

- (a) it shall not, and shall procure that its subsidiaries and associates (whether present or future) will not, carry on business that is directly or indirectly in competition with the business of our Group;
- (b) it shall not, and shall procure that its subsidiaries and associates will not have any interest in or provide any financial assistance to any other person to carry on business or other activity that will directly or indirectly compete with our Group; and
- (c) it shall not, and shall procure that its subsidiaries and associates will not solicit, market to or entice away, whether directly or indirectly, any customer from our Group.

The Controlling Shareholders are not engaged in any other business which is or may be in competition with the businesses of our Group. Our Directors also confirm that none of our executive Directors are engaged in any other business which is or may be in competition with our Group's businesses.

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As set forth in the section headed “Connected transactions” in this document, we have entered into certain connected transactions with the XLX Chem Group. Our Directors consider it to be commercially beneficial to continue the said connected transactions immediately after the Listing. For details of the said continuing connected transactions, please refer to the section headed “Connected transactions” in this document.

INDEPENDENCE OF THE GROUP FROM THE CONTROLLING SHAREHOLDERS AND XLX CHEM GROUP

Management independence

The Board comprises of three executive Directors, three independent non-executive Directors. Each of our Directors is aware of his/her fiduciary duties as a Director which require, among others, that he or she must act for the benefits and in the best interests of us and does not allow any conflict between his/her duties as a Director and his/her personal interest. If there is any potential conflict of interest arising out of any transactions to be entered into between our Group and our Directors or their respective associates, such interested Director shall abstain from voting at the relevant board meetings of our Company in respect of such transactions and shall not be counted in the quorum.

Mr. Liu is the director of Pioneer Top and Ms. Yan is the director of Go Power. Although Mr. Liu and Ms. Yan are granted the voting rights and day-to-day management rights under the Trust Agreement 1 and Trust Agreement 2, Pioneer Top and Go Power are our corporation Controlling Shareholders which have no business other than holding their respective shareholding interests in our Company and hence our Directors do not consider that there is any issue in relation to management independence arising from overlapping of our Directors between our Company and Pioneer Top and Go Power. Furthermore, Mr. Liu and Ms. Yan confirm that they carry out their duties as executive Directors of the Company and they shall have the capacity to commit to the management of the Company on a full-time basis. In the event there is a potential conflict of interest arising out of any transaction to be entered into among our Group, the Controlling Shareholders and/or their associates, and any Directors and/or their respective associates, such interested Director shall abstain from being physically present and voting at the relevant board meetings of the Company in respect of such transactions and shall not be counted in the quorum.

Save as disclosed above, our Directors confirm that they (except for Mr. Liu and Ms. Yan) do not hold any directorship in Pioneer Top and Go Power respectively, and all of them do not hold any directorship in XLX Chem Group.

In addition, pursuant to the deeds of undertaking dated 5 March 2007 (the “**5 March 2007 Deed of Undertaking**”), each of Mr. Liu, Ms. Yan and Mr. Li Buwen, our executive Directors, and Mr. Zhang Qingjing, Mr. Wang Nairen, Mr. Li Yushun, Mr. Ru Zhengtao, our senior management, and each of the remaining beneficiaries under Trust Agreement 1 has undertaken to us that he/she will not, for as long as he/she remains (i) a Director of the Company (or any of our subsidiary or associated companies); and/or (ii) a Shareholder with an interest of 5% or more (whether direct or indirect) in the total issued Shares of the Company:

- (a) he/she will not be involved in any decision-making in XLX Chem or any of its related companies that will put him/her in a conflict of interest position with respect to his/her duties and responsibilities in our Group;

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- (b) he/she will procure that XLX Chem will not conduct any business which will compete directly or indirectly with the businesses of our Group;
- (c) in the event that any resolution is proposed which could result in a potential conflict of interest arising between our Group and XLX Chem and any of its related companies, he/she will, exercise his/her voting rights (if any) in the relevant company to vote against such resolution and take such steps as may be in his/her power so as to give full effect to the matters described under (a) and (b) above;
- (d) he/she will not have any interest, directly or indirectly, in any entity whose business competes directly or indirectly with the businesses of our Group, except that he/she shall be permitted to have interest not exceeding 5% in any securities of any corporation listed or quoted on any stock exchange notwithstanding that such corporation may be engaging in a business which may compete directly or indirectly with the businesses of our Group; and
- (e) he/she will not directly or indirectly carry on or be engaged or interested in any capacity in any other business, trade or occupation whatsoever, except in a business, trade or occupation which does not compete with any business carried on or proposed to be carried on by our Group.

In addition, we shall make the relevant disclosure to the audit committee of the Company in the event that any of the aforesaid persons who provided the 5 March 2007 Deed of Undertaking take up any direct or indirect interests not exceeding 5% in any securities of any corporation listed or quoted on any stock exchange that may be engaging in a business which may compete directly or indirectly with the businesses of our Group.

We have an independent management team with substantial experience and expertise in conducting the businesses of our Group. Our Directors confirm that, as at the Latest Practicable Date, (i) we have not engaged in any businesses similar in nature to those conducted by XLX Chem Group, and (ii) none of our Directors and senior management staff holds any position in the XLX Chem Group.

Having considered the above factors, our Directors are satisfied that our management team is able to perform its role in our Group independently, and our Directors are of the view that we are capable of managing our businesses independently from the Controlling Shareholders and their associates and the XLX Chem Group.

Business independence

We are engaged primarily in production and sales of urea, compound fertiliser, methanol and other related fertiliser products. We have full rights to make business decisions independently and hold all relevant licenses and permits necessary to carry out our businesses, and have sufficient capital, equipment, employees and office accommodations to operate our businesses independently.

Save and except for our transactions with the XLX Chem Group which are set out in the section headed "Connected transactions" in this document, we have not entered into any other transactions with the Controlling Shareholders and their associates and the XLX Chem Group. Our major suppliers and customers are all accessible independently from the Controlling

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Shareholders and their associates and the XLX Chem Group. We do not rely on the Controlling Shareholders or their associates or the XLX Chem Group for the provision of raw materials or sale of products.

Having considered the above factors, our Directors believe that we are capable of operating and conducting our businesses independently from the Controlling Shareholders and their associates and the XLX Chem Group.

Financial independence

During the Track Record Period, XLX Chem, as a connected person, has provided certain financial assistance: (a) in January 2008, Henan XLX Fertiliser and XLX Chem have entered into two entrusted loan agreements for an aggregate sum of RMB90,000,000 for the term of thirty-six months at the rate of 6.804%; and (b) in August 2008, Henan XLX Fertiliser entered into two short term loan agreements with Bank of China Limited (Xinxiang Xinshi District Branch) for an aggregate sum of RMB80,000,000, which XLX Chem has provided a guarantee in favour of Bank of China Limited for the purpose of securing such loan. Our Directors confirm that the amounts due to XLX Chem under the two entrusted loan agreements and the guarantee provided by XLX Chem have already settled and released.

Our Directors confirm that, we are financially independent from the Controlling Shareholders and XLX Chem Group. We have a finance department and have established our own financial auditing system independent from the Controlling Shareholders and XLX Chem Group. We have independent bank accounts, made independent tax registration and have employed financial personnel responsible for conducting financial audit work on our Group's accounts. Our Directors also confirm that our Group carries out all of its essential administrative operations, such as cash and accounting management, invoicing and billing, and other financial and management control systems independently from the Controlling Shareholders and XLX Chem Group.

All outstanding loans, non-trade payables owed to, and/or outstanding financial guarantees or indemnities, from any of the Controlling Shareholders and their associates and the XLX Chem Group had been settled before the Listing Date and our Directors do not expect the Group to be financially dependent on the Controlling Shareholders and the XLX Chem Group after the Listing. Our Directors are of the view that we are able to maintain financial independence from the Controlling Shareholders and their associates and the XLX Chem Group.

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NON-DISPOSAL UNDERTAKING

Save as permitted under the waiver from strict compliance with Rules 10.07 and 10.08 of the Listing Rules in relation to issuance of securities and non-disposal of shares granted by the Stock Exchange, each of Pioneer Top, Mr. Liu, Ms. Yan and the beneficiaries under the Trust Agreement 1 (the “**Covenantors**”) has provided a non-disposal undertaking to the Stock Exchange, the Sponsor and the Company that without the prior written consent of the Stock Exchange, and unless all the relevant requirements under the Listing Rules and all applicable laws are complied with the Introduction, it shall not, and will procure that the relevant registered holders shall not, directly or indirectly, in the period commencing on the date by reference to which disclosure of its shareholding in the Company is made in this document and ending on a date which is six months from the Listing Date (the “**Lock-up Period**”):

- (a) transfer or dispose of, or enter into any agreement to transfer or dispose of or otherwise create any options, rights, interests or encumbrances in respect of any of such securities of the Company in respect of which it is shown by this document to be the beneficial owner(s) or any interest in such securities (which includes any interest in a company which holds any such securities) or securities that constitute or confer the right to receive such securities or securities convertible into or exercisable or exchangeable for or repayable with such securities or any part of the beneficial interests in Pioneer Top owned by Mr. Liu and the beneficiaries under the Trust Agreement 1, or any direct or indirect holdings of shares or any part of the beneficial interests in Go Power owned by Ms. Yan; or
- (b) enter into a swap agreement or any other agreement or any transaction that transfers, in whole or in part, directly or indirectly, the economic consequence of ownership of such securities, whether any such swap agreement or other agreement or transaction is to be settled by delivery of such securities or other securities, in cash or otherwise; or
- (c) agree (conditionally or unconditionally) to enter into or effect any transaction with the same economic effect as any of the transactions referred to in paragraphs (a) or (b) above; or
- (d) announce any intention to enter into or effect any of the transactions referred to in paragraphs (a), (b) or (c) above.

Each of the Covenantors has undertaken to the Stock Exchange, the Sponsor and the Company that without the prior written consent of the Stock Exchange, and unless all the relevant requirements under the Listing Rules and all applicable laws are complied with, it shall not, and will procure that the relevant registered holder(s) shall not, directly or indirectly, in the period of six months commencing on the date on which the Lock-up Period expires do any of the foregoing if immediately following such actions, the Covenantors collectively would cease to be a controlling shareholder of the Company for the purposes of the Listing Rules.

In the event that a Covenantor takes any such action aforementioned, such Covenantor shall take all reasonable steps to ensure that any such action will not create a disorderly or false market for any Shares or other securities of the Company.

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Save as permitted under the waiver from strict compliance with Rules 10.07 and 10.08 of the Listing Rules in relation to issuance of securities and non-disposal of shares granted by the Stock Exchange, each of the Covenantors has also undertaken to the Stock Exchange, the Sponsor and the Company that within the period from the date by reference to which disclosure of their shareholding in the Company is made in this document and ending on the date which is 12 months from the Listing Date, it shall:

- (a) when it pledges or charges any securities or interests in the securities of the Company beneficially owned by it in favour of an authorised institution pursuant to Note 2 to Rule 10.07(2) of the Listing Rules, immediately inform the Company in writing of such pledges or charges together with the number of securities and nature of interest so pledged or charged; and
- (b) when it receives indications, whether verbal or written, from any pledgee or chargee that any of the pledged or charged securities or interests in the securities of the Company will be sold, transferred or disposed of, immediately inform the Company in writing of such indications.

The Company will inform the Stock Exchange as soon as it has been informed of the matters above (if any) and disclose such matters by way of announcement.

Please refer to the paragraph headed “Issuance of securities and non-disposal of shares” under the section headed “Waivers” in this document.

NON-COMPETITION UNDERTAKING

Each of Pioneer Top, Go Power, Mr. Liu and Ms. Yan (together, the “**Non-competing Covenantors**”) has entered into a deed of non-competition (the “**Non-competition Deed**”) in favor of the Company, pursuant to which each of the Non-competing Covenantors has undertaken to the Company (for itself and for the benefit of its subsidiaries) that he or she would not, and would procure that his or her associates (except any members of the Group) would not, during the restricted period set out below, directly or indirectly, either on his or her own account or in conjunction with or on behalf of any person, firm or company, among other things, carry on, participate or be interested or engaged in or acquire or hold (in each case whether as a shareholder, partner, agent, employee or otherwise) any business which is or may be in competition with the business of any member of our Group from time to time (the “**Restricted Business**”). Such non-competition undertaking does not apply where any of the Non-competing Covenantors or his/her/its associates has interests in the shares of a company whose shares are listed on a recognised stock exchange, provided that the total number of the shares held by the Non-competing Covenantors and/or their respective associates in aggregate does not exceed 30% of the total issued shares of that class of the company in question and such Non-competing Covenantors and/or their respective associates are not entitled to appoint a majority of the directors of that company and at any time there should exist at least another shareholder of that company whose shareholdings in that company is more than the total number of shares held by the Non-competing Covenantors and their respective associates in aggregate.

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Under the Non-competition Deed, the Non-competing Covenantors further undertake to the Company that:

- (a) the Non-competing Covenantors shall allow, and shall procure that the relevant associates (excluding us) allow, the independent non-executive Directors to review, at least on an annual basis, the compliance with the terms of the Non-competition Deed by the Controlling Shareholders and their respective associates;
- (b) the Non-competing Covenantors shall provide all information necessary for the annual review by the independent non-executive Directors to determine whether the terms of the Non-competition Deed are complied with and enforced;
- (c) the Company shall disclose decisions on matters reviewed by the independent non-executive Directors relating to the compliance and enforcement the terms of the Non-competition Deed either through the annual report, or by way of announcement to the public; and
- (d) the Non-competing Covenantors shall provide to the Company with a confirmation annually for inclusion by the Company in its annual report, in respect of their compliance with the terms of the Non-competition Deed.

The “restricted period” stated in the Non-competition Deed refers to the period during which (i) the Shares of the Company remain listed on the Stock Exchange; (ii) in relation to each Non-competing Covenantor, he or it or his or its associate holds an equity interest in the Company; and (iii) the relevant Non-competing Covenantors or their respective affiliates jointly or severally are entitled to exercise or control the exercise of not less than 30% in aggregate of the voting rights at general meetings of the Company.