This section should be read in conjunction with the financial information of our Group, including the notes thereto, as set forth in the accountants' report (the "Accountants' Report"), the text of which is set out in Appendix I to this document. We have prepared our financial statements in accordance with SFRS, which differs in certain respects from generally accepted accounting principles in other jurisdictions, including Hong Kong. Our financial information as of and for the seven months ended 31 July 2008 has not been audited. The selected financial information of our Group as of 30 September 2009 and for the three months ended 30 September 2008 and 2009, extracted from the unaudited interim condensed financial information as set out in Appendix II to this document, were prepared in accordance with SFRS. This document contains certain forward-looking statements relating to our plans, objectives, expectations and intentions, which involve risks and uncertainties. Our financial condition could differ materially from those discussed in this document. For factors that could cause or contribute to such differences, please refer to the section headed "Risk factors" and elsewhere in this document. Unless otherwise indicated, all financial data, whether presented on a consolidated basis or by segment, is presented net of inter-segment transactions. (i.e., inter-segment and other inter-company transactions have been eliminated.)

Pursuant to Rule 19.14 of the Listing Rules, the Stock Exchange has agreed to accept SFRS for the preparation of our Accountants' Report set out in Appendix I to this document provided that a reconciliation of such financial information in accordance with IFRS, with narrative descriptions of the major differences in a form which will facilitate investors' understanding of our financial performance, in this document. The Stock Exchange has also allowed us to continue to prepare our financial statements in accordance with SFRS after Listing, on conditions that the accountants' report in the subsequent financial reports, including our annual reports, interim reports and quarterly reports shall include a reconciliation of our financial statements in accordance with IFRS and the narrative descriptions of the major differences in a form which will facilitate investors' understanding of our financial performance. In addition, we are also required by the Stock Exchange that we shall prepare our financial statements in accordance with IFRS should we no longer maintain a listing on the SGX-ST.

OVERVIEW

We are one of the leading coal-based urea and compound fertiliser producers in China. According to the CNCIC Report, as of 30 September 2009, our production capacity of urea was the largest in Henan Province of the PRC, which was the then most populous and largest fertiliser consumption province in the PRC, and the 4th largest among all coal-based urea producers in the PRC. During the Track Record Period, urea contributed the most revenue among the other two major products, namely compound fertilisers and methanol, which contributed approximately 57.2%, 60.2%, 55.4% and 77.1% of the total revenue during the Track Record Period.

According to the CNCIC Report, in 2008, in terms of costs competitiveness, our urea production cost was the lowest and the 4th lowest among all coal-based urea producers in Henan Province and the PRC 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. Coal and electricity are the major cost components of our business, which accounted for approximately 53.1% and 13.6% of our total production cost in 2008. We used approximately 650kg of coal to produce one ton of urea in 2008. With respect to electricity, we have three power generating systems in our production plants. This offers us the flexibility to either purchase electricity from the market or to generate our own required electricity depending on market price and the availability of power subsidy from the PRC government.

We have three production plants, which are located at Xinxiang Economic and Technology Development Zone, Henan Province. In September 2006, our Production Plant II commenced its trial operation of urea and methanol. In 2009, the construction of our Production Plant III completed, and we have started its trial production since April 2009 and expected the operation to be commenced by the end of 2009. By the end of 2009, our total estimated annual production capacity will increase significantly, with approximately 1.25 million tons of urea, 600,000 tons of compound fertiliser and 200,000 tons of methanol.

During the Track Record Period, our total revenue were approximately RMB890.2 million, RMB1.5 billion, RMB2.1 billion and RMB1.2 billion respectively, and our net profit were RMB129.1 million, RMB267.6 million, RMB331.7 million and RMB67.7 million respectively.

BASIS OF PRESENTATION

Our Company was incorporated in Singapore on 17 July 2006 and the Shares have been listed on the SGX-ST since 20 June 2007. On 24 July 2006, Henan XLX Fertiliser, our sole and operating subsidiary, was established in the PRC by XLX Chem, with the registered capital of RMB107,570,000. Upon the establishment of Henan XLX Fertiliser, XLX Chem transferred the principal businesses of production and sales of urea, compound fertiliser and methanol, as well as selected assets and liabilities relating thereto to Henan XLX Fertiliser, but excluding (i) land use rights relating to the land at Xinxiang Economic and Technology Development Zone, Xiaoji Town, Henan Province, PRC, and the buildings located thereon; and (ii) land use rights relating to the land at Xinxiang Economic and Technology Development Zone, Qing Long Road Central, Henan Province, PRC, and certain vehicles and equipment (the "**Net Assets of Production Plants I and II**"), which were subsequently acquired by Henan XLX Fertiliser in 2007.

As part of the restructuring for the purpose of our listing on the SGX-ST, in July 2006, our Company acquired from XLX Chem, the entire equity interest in Henan XLX Fertiliser, at the consideration of US$13.5 million (the "**Henan XLX Fertiliser Acquisition**"). The consideration for transfer of shares of Henan XLX Fertiliser was determined based on an independent valuation report dated 21 July 2006 issued by Henan Yucai Assets Evaluation Co., Ltd. At the time of the transfer of Henan XLX Fertiliser from XLX Chem to our Company, the ultimate beneficial owners of our Company were identical to those of XLX Chem under trust arrangements. For further details of the restructuring of our Group, please refer to the sections headed "History and corporate structure" and "Relationships with the Controlling Shareholders and XLX Chem Group" in this document.

The consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows of our Group for the year ended 31 December 2006 has been prepared in accordance with the principles of merger accounting as if the restructuring for the purpose of our listing on the SGX-ST had been completed at the beginning of the Track Record Period, as our principal businesses were under common control whereby such businesses conducted by XLX Chem before the restructuring for the purpose of our listing on the SGX-ST and by our Group immediately after such restructuring are ultimately controlled by the same group of ultimate Shareholders of our Company.

The assets and liabilities involved in the Henan XLX Fertiliser Acquisition were included in the consolidated opening statement of financial position as at 1 January 2006. The financial information of our Group during the Track Record Period was presented as if the principal businesses had been conducted by our Group even before the Henan XLX Fertiliser Acquisition such that the related costs, including depreciation charges, for the Net Assets of Production Plants I and II, prior to the Henan XLX Fertiliser Acquisition, were also included in the financial information, while only the annual rental payments referred to above for the Net Assets of Production Plants I and II subsequent to the Henan XLX Fertiliser Acquisition but prior to the acquisition of Net Assets of Production Plants I and II were included in the costs of conducting of our Group's principal businesses for that period.

The financial information which is prepared based on the audited consolidated financial statements of the companies now comprising our Group includes the consolidated statements of comprehensive income, the consolidated statements of changes in equity, the consolidated statements of cash flows and the consolidated statements of financial position of the companies now comprising our Group, as if the current group structure had been in existence throughout the Track Record Period. All significant intra-group transactions and balances have been eliminated on consolidation.

FACTORS AFFECTING OUR FINANCIAL CONDITION AND RESULTS OF OUR OPERATIONS

Our Directors consider the factors set out below could affect our business and historical financial results and may also affect our future financial results.

1. Market Demand and Supply

Our revenue is directly affected by the market demand and supply of our products in the PRC. The market demand for products is affected by factors such as general economic conditions, cyclical trends in end-consumer market.

The demand for chemical fertilisers was also affected by agricultural requirements for fertilisers, governmental policies for the agricultural and chemical fertiliser industry and weather conditions in the PRC. The market supply for fertiliser products depends largely on the number of fertiliser producers, production capacities, production utilisation rates, operating margins and government policies towards the chemical fertiliser industry in the PRC. The import and export of chemical fertilisers of the PRC might also affect the market demand and supply.

The market demand for methanol in the PRC depends largely on the market demand for methanol as a raw material for the production of chemical products and methanol additives. The market supply for methanol depends largely on the number of methanol producers and their production capacities in the PRC.

The table below sets out the sales volume of our three major products, namely urea, compound fertiliser and methanol, during periods indicated.

	Year ended 31 December			Seven months ended 31 July	
	2006	2007	2008	2008	2009
	(tons)	(tons)	(tons)	(tons) (unaudited)	(tons)
Urea	325,063	596,803	661,880	383,343	534,760
Compound fertiliser. .	162,828	228,502	251,112	167,170	102,085
Methanol	47,527	92,869	87,615	52,081	53,580

The sales volume of urea increased by approximately 39.5% from approximately 383,343 tons for the seven months ended 31 July 2008 to approximately 534,760 tons for the seven months ended 31 July 2009, while the sales volume of compound fertiliser decreased by approximately 38.9% from approximately 167,170 tons for the seven months ended 31 July 2008 to approximately 102,085 tons for the seven months ended 31 July 2009. The reason for such increase in the sales volume was mainly due to the commencement of the trial operation of our Production Plant III in April 2009 by which the estimated annual production capacity of urea increased from approximately 731,000 tons in 2008 to approximately 1.25 million tons in 2009. The reason for the decrease in the sales volume of compound fertiliser is that the Group having considered that the average selling price of compound fertiliser decreased by approximately 18.1% for the first seven months 2009 as compared to the same period in 2008, our Group decided to produce and sell less compound fertiliser.

2. Production Utilisation

Our revenue is affected by the production utilisation rate of our production plants. Such production utilisation rate depends on the market demand and supply of chemical fertilisers as well as the efficiency of the production process.

The increases or decreases in our production utilisation rates may have a significant effect on the production volume, unit costs and gross profit margins. Currently, we have two production plants in operation, with 2 urea production lines, 1 compound fertiliser production line and 2 methanol production lines, where we have one production plants operated in trial since April 2009 with 1 urea production line and 1 compound fertiliser production line. We expect that, by the end of 2009, the aggregate designed production capacity will be approximately 1.25 million tons of urea, 600,000 tons of compound fertiliser and 200,000 tons of methanol, per annum. Table below sets forth data on the production volume and utilisation rates of our Production Plant I and Production Plant II during the three years ended 31 December 2008 and the seven months ended 31 July 2009:

	Year ended 31 December						Seven months ended 31 July	
	2006		2007		2008		2009	
	Production Volume	Utilisation rate(2)	Production Volume	Utilisation rate(2)	Production Volume	Utilisation rate(2)	production volume	Utilisation rate(3)
	(tons)	(%)	(tons)	(%)	(tons)	(%)	(tons)	(%)
Production Plant I:								
Urea	296,718	94	329,078	102	330,292	102	203,407	108
Compound fertiliser	174,159	58	230,698	77	253,278	84	127,749	73
Methanol	33,801	97	31,230	77	30,104	74	15,525	65
Production Plant II:(1)								
Urea	74,221	—	375,525	105	410,682	101	246,465	104
Methanol	14,391	—	61,536	95	58,244	90	23,373	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 designed annual production capacity. According to the CNCIC Report, the designed annual production capacity in the industry norm in China for the fertiliser industry is measured as 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. Base 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.

Our Directors consider that the suspension of production will have a significant impact on the utilisation rate, which in turn could adversely impact our results of operations. Our utilisation rate may be affected by: (i) repair and maintenance that suspends our production; (ii) interruptions or stoppages of raw material supplies; (iii) interruption of electricity power supply; and (iv) natural disasters such as typhoons and earthquakes. During the Track Record Period, we have not experienced any material suspension of production.

3. Average Selling Prices

The selling prices of our products are determined by their respective market demands and supplies, coal prices, cost of electricity and governmental policies and regulations towards the chemical fertiliser industry in the PRC. Due to the fragmented nature of the industry and homogeneity of urea, most urea producers are often price takers with minimal changes due to branding and product quality.

Table below sets out the average selling price of our three major products, namely urea, compound fertiliser and methanol, during the periods indicated.

	Year ended 31 December			Seven months ended 31 July	
	2006	2007	2008	2008	2009
	(RMB/ton)	(RMB/ton)	(RMB/ton)	(RMB/ton) (unaudited)	(RMB/ton)
Urea	1,567	1,555	1,707	1,722	1,666
Compound fertiliser	1,615	1,753	2,821	2,314	1,894
Methanol	2,251	2,217	2,452	2,706	1,526

The average selling price of urea increased from approximately RMB1,567 per ton in 2006 to RMB1,707 per ton in 2008. The average selling price of compound fertiliser increased from approximately RMB1,615 per ton in 2006 to RMB2,821 per ton in 2008. The increases were in line with the increase in prices of raw material and the general commodity boom during the first three quarters of 2008. The average selling price of methanol increased from approximately RMB2,251 per ton in 2006 to RMB2,452 per ton in 2008, which was primarily due to changes in market supply and demand.

Due to the global economic crisis in 2009, the demand for fertiliser products decreased and the fertiliser products were oversupplied, and consequently the average selling price of our major products, namely urea, compound fertiliser and methanol decreased by approximately 3.2%, 18.1% and 43.6% respectively, from approximately RMB1,722, RMB2,314 and RMB2,706 per ton respectively for the seven months ended 31 July 2008 to approximately RMB1,666, RMB1,894 and RMB1,526 per ton respectively, for the seven months ended 31 July 2009.

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 promulgated by the NDRC and Ministry of Finance PRC, the price control on nitrogen and phosphate fertilisers was removed on 25 January 2009 and allow the market to determine their prices. There is no assurance that the prices will remain at current levels or they will increase in the future. If the PRC government may impose the price ceiling on the fertiliser products in the future, our results of operations will be affected. On the other hand, the price ceiling may encourage the farmers to consume more fertiliser than they otherwise would, which may mitigate the negative effects of the price ceilings regulations.

4. Cost of Raw Materials

The cost of raw materials in our production of fertilisers, such as coal, occupies a significant portion of our total cost of sales. During the Track Record Period, the costs of coal in our production were approximately RMB221.4 million, RMB409.5 million, RMB654.0 million and RMB498.4 million, amounting to approximately 33%, 36%, 41% and 47% of our total cost of sales respectively. As the cost of raw materials represents a significant portion of our cost of sales, which affects our revenue, any significant fluctuation in the prices of raw materials may have significant impact on our profitability.

5. Seasonality

Application of compound fertilisers can provide nutrients for crops and our Directors believe that application of our compound fertiliser is more frequent during the months from August to October. We typically experience higher sales of compound fertiliser in the months from July to September, a month ahead of the peak usage season for compound fertilisers. As compared to compound fertilisers, demands for urea and methanol experience less seasonality as urea is a primary fertiliser in the agricultural industry and is applied throughout the year. Application of urea is cyclical, which depends on the seasons as different regions of China experience different seasons during the year.

Furthermore, the price of fertilisers could be affected by weather conditions. Due to the weather-related shifts in planting schedules, our quarterly performance may vary dramatically from one quarter to the next quarter. The unexpected adverse weather conditions could also materially and adversely affect the sales of our fertiliser products.

6. Competition

We operate in a competitive industry and frequently encounter competitions from the existing large scale players in the industry. 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.

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. Our compound fertiliser products compete on the basis of product quality, price, product development, customer service and distribution capacity.

7. Taxation

We are subject to income taxes in the PRC. On 16 March 2007, the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》) (the "**PRC EIT Law**") was promulgated by the Standing Committee of the National's People's Congress, which became effective on 1 January 2008. Pursuant to the PRC EIT Law, all enterprises (including the foreign-invested enterprises) will be subject to a uniform tax rate of 25%, and the tax exemptions, reductions and preferential treatments applicable to those foreign invested enterprises will be revoked. The PRC EIT Law also provides for transitional measures for enterprises established prior to the promulgation of the PRC EIT Law and eligible for lower tax rate preferential treatments in accordance with the then prevailing tax laws and regulations. These enterprises may continue to enjoy tax preferential treatments after the implementation of the PRC EIT Law until their preferential treatments expire and will become subject to the new, unified tax rate over a five-year period starting from 1 January 2008. As a result of the new law, Henan XLX Fertiliser will not continue to benefit from preferential tax treatment and will be subject to the uniform rate of 25% after the tax holiday period. The expiration of the tax holiday could have a material adverse effect on our future profits.

8. Derivative Financial Instruments

The fair value gains and losses arising from changes in the fair value of the financial instruments constitute our other income or other expenses, respectively. We entered into a convertible loan agreement with some investors on 16 October 2006 and two non-deliverable interest rate swap agreements (不交收利率調期合約) during the year ended 31 December 2008 which were used to hedge against the interest rate risk and foreign exchange risk of a syndicated loan under the syndicated long-term bank loan entered into between our Company and ABN AMRO Bank N.V. and other banks dated 30 September 2008. As the said syndicated loan was fully repaid in September 2009, the two non-deliverable interest rate swap agreements had then been disposed. According to the terms of the two non-deliverable interest rate swap agreements, both of them will be expired on 30 September 2011. Due to the nature of the derivative financial instruments, the fair value gains or losses on the swap and other derivative financial instruments will be beyond our control in the future. Accordingly, we recorded fair value losses of RMB64.3 million for the year ended 31 December 2007 and a derivative financial asset of RMB 19.8 million for the year ended 31 December 2008 which was reduced to RMB0.7 million as at 31 July 2009.

The Board has established the risk management policy to monitor the operations of the derivative financial instruments:

(i) before entering into any new derivative financial instrument(s), our management will review and assess the terms of the new derivative financial instrument(s), and provide the details of such derivative financial instrument(s) to the Board for consideration: (a) if the amount of such new derivative financial instrument(s), or the aggregate amount of such new derivative financial instrument(s) and the outstanding derivative financial instrument(s), is less than USD20 million or 10% of the net asset value of our Group as shown in our latest published financial statements, whichever is lesser (the "**Authority Limit**"), such new derivative financial instrument(s) will only be subject to the approval of our executive Directors; or (b) if the amount of such new derivative financial instrument(s), or the aggregate amount of the new derivative financial instrument(s) and the outstanding derivative financial instrument(s), exceeds the Authority Limit, such new derivative financial instrument(s) will be subject to the approval of our Board. The approval of any new derivative financial instrument(s) will usually be determined by our executive Directors or Board, as the case may be, within a week upon receipt of details of the derivative financial instruments. Our executive Directors and Board will have to satisfy that there is an underlying transaction to enter into a derivative transaction for the purposes of hedging interest rate risk and exchange rate risk;

(ii) upon entering into derivative financial instruments, our management will review the effectiveness of the hedge on a monthly basis by monitoring the interest expenses and the monthly statements in respect of the derivative financial instruments issued by banks or financial institutions;

(iii) the Board will continue to monitor the effectiveness of the hedge and the counterparty risk on a quarterly basis;

(iv) in the event that the fair value loss arising from any outstanding derivative financial instruments exceeds 1.0% of the net asset value of our Group as shown in our Group's previous month's management accounts, our management shall promptly inform the Board which shall use reasonable efforts and take follow-up actions to mitigate the counterparty risk and other exposure as well as to avoid or minimise any actual losses if necessary; and

(v) our external auditors will review the accounting treatment of the derivative financial instruments on an annual basis for the preparation of annual financial statements.

The above should be read in conjunction with the section headed "Risk factors" in this document.

CRITICAL ACCOUNTING POLICIES

The financial information sets out in the Accountants' Report in Appendix I to this document has been prepared in accordance with the SFRS. The preparation of our Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

The selection of critical accounting policies, the judgement and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the consolidated financial statements. The principal accounting policies are set forth in Note 3 of Section II of the Accountants' Report in Appendix I to this document. Our Directors believe that the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the financial information.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of consideration received or receivable.

(a) Sale of goods

Revenue from sale of goods is recognised upon the transfer of significant risk and rewards of ownership of the goods to the customers, which generally coincides with delivery and acceptance of the goods sold.

(b) Interest income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Property, plant and equipment

All items of property, plant and equipment are initially recorded at cost. The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

Subsequent to recognition, property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation of an asset begins when it is available for use and is computed on a straight-line basis to write off the cost of property, plant and equipment less estimated residual value over the estimated useful life of the assets as follows:

	Years	Residual value
Buildings	15–25	3–10%
Other fixtures and constructions	15–25	3–10%
Plant and machinery	8–15	3–10%
Office equipment and furniture	5	3–10%
Motor vehicles	5	3–10%

Construction-in-progress relates to assets under construction (buildings and plant and machinery) and are not depreciated as these assets are not available for use. The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable. The residual values, useful life and depreciation method are reviewed at each financial year-end to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment. An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is included in the statement of comprehensive income in the year the asset is derecognised.

Financial assets

Financial assets are recognised on the statement of financial position when, and only when, our Group becomes a party to the contractual provisions of the financial instrument. When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end. A financial asset is derecognised where the contractual right to receive cash flows from the asset has expired. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that has been recognised directly in equity is recognised in the statement of comprehensive income.

(a) Financial assets at fair value through profit or loss

Financial assets held for trading are classified as financial assets at fair value through profit or loss. Financial assets held for trading are derivatives (including separated embedded derivatives) or financial assets acquired principally for the purpose of selling in the near term.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value. Any gains or losses arising from changes in fair value of the financial assets are recognised in the statement of comprehensive income. Net gains or net losses on financial assets at fair value through profit or loss include exchange differences, interest and dividend income.

(b) Loans and receivables

Financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method. Gains and losses are recognised in the statement of comprehensive income when the loans and receivables are derecognised or impaired, and through the amortisation process.

(c) Held-to-maturity investments

Financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold the investment to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the held-to-maturity investments are derecognised or impaired, and through the amortisation process.

(d) Available-for-sale financial assets

Available-for-sale financial assets are financial assets that are not classified in any of the other categories. After initial recognition, available-for-sale financial assets are measured at fair value. Any gains or losses from changes in fair value of the financial asset are recognised directly in the fair value adjustment reserve in equity, except that impairment losses, foreign exchange gains and losses and interest calculated using the effective interest method are recognised in the income statement. The cumulative gain or loss previously recognised in equity is recognised in the statement of comprehensive income when the financial asset is derecognised.

Investments in equity instruments whose fair value cannot be reliably measured are measured at cost less impairment loss.

Impairments of financial assets

Our Group assesses at each reporting date whether there is any indication that the financial and non-financial assets is impaired. The amount of impairment loss of an asset is estimated by comparing their carrying amounts with their recoverable amounts. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately. When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of impairment loss is recognised as an income immediately.

With respect to the financial assets carried at amortised cost, the amount of impairment loss is calculated as difference between the carrying amount of the asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate, which is recognised in the statement of comprehensive income.

With respect to the financial assets cared at cost, the amount of impairment loss is calculated as the difference between the carrying amount of the asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed on subsequent periods.

With respect to the available-for-sale financial assets, the amount of impairment loss is calculated as the difference between the cost of the asset and the current fair value, less any impairment loss previously recognised in the statement of comprehensive income.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs incurred in bringing the inventories to their present location and condition are accounted for as follows:

Raw materials — purchase cost on a weighted average basis.

Finished goods and work-in-progress — cost of direct materials and a proportion of manufacturing overheads based on normal operating capacity (excluding borrowing costs). These costs are assigned on a weighted average basis.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Trade and other receivables

Trade and other receivables are classified and accounted for as loans and receivables under SFRS 39. An allowance is made for uncollectible amounts when there is objective evidence that our Group will not be able to collect the debt. Bad debts are written off when identified.

Income taxes

(a) Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date. Current taxes are recognised in the statement of comprehensive income except that tax relating to items recognised directly in equity is recognised directly in equity.

(b) Deferred tax

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax assets and liabilities are recognised for all temporary differences, except:

— Where the deferred tax arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction affects neither accounting profit nor taxable profit or loss;

— In respect of temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled by our Group and it is probable that the temporary differences will not reverse in the foreseeable future; and

— In respect of deductible temporary differences and carry-forward of unused tax credits and unused tax losses, if it is not probable that taxable profit will be available against which the deductible temporary differences and carry-forward of unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. Deferred taxes are recognised in the statement of comprehensive income except that deferred tax relating to items recognised directly in equity is recognised directly in equity and deferred tax arising from a business combination is adjusted against goodwill on acquisition.

*(c) Value-added-tax (“**VAT**”)*

Our sales of goods in the PRC are generally subjected to VAT at the applicable tax rates of 13% (for urea and compound fertiliser segments) and 17% (for methanol segment) for PRC domestic sales. However, as part of government subsidies for the fertiliser industry, full VAT exemption is given to urea and compound fertiliser.

Revenues, expenses and assets are recognised net of the amount of VAT except:

Where the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and receivables and payables that are stated with the amount of VAT included.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Convertible loans

The component of convertible loans that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs. On issuance of convertible loans, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible loans based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

If the conversion option of convertible loans exhibits characteristics of an embedded derivative, it is separated from its liability component. On initial recognition, the derivative component of the convertible loans is measured at fair value and presented as part of derivative financial instruments. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs are apportioned between the liability and derivative components of the convertible loans based on the allocation of proceeds to the liability and derivative components when the instruments are initially recognised. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in the statement of comprehensive income.

Derivative financial instruments and hedging activities

The Group uses derivative financial instruments such as interest rate swaps to hedge its risks associated with interest rate fluctuation. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into; attributable transaction costs are recognised in the income statement when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

Derivative financial instruments are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Any gains or losses arising from changes in fair value on derivative financial instruments that do not qualify for hedge accounting are taken to the income statement for the financial year.

The fair value of interest rate derivative contracts is determined by reference to market values for similar instruments.

This is a level 1 measurement in the fair value hierarchy as categorised according to SFRS 107 Amendments to SFRS 107 Financial Instruments: Disclosures — Improving Disclosures about Financial Instruments.

SUMMARY OF RESULTS OF OPERATIONS

The table below sets out our selected results of operations for the periods indicated.

	Year ended 31 December			Seven months ended 31 July		Three months ended 30 September	
	2006	2007	2008	2008	2009	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)		(unaudited)	(unaudited)
REVENUE	890,175	1,541,422	2,084,943	1,191,688	1,221,399	628,523	665,923
Cost of sales	(678,607)	(1,125,001)	(1,603,073)	(886,255)	(1,056,295)	(495,735)	(598,298)
Gross profit	211,568	416,421	481,870	305,433	165,104	132,788	67,625
Other income and gains	13,495	31,761	13,664	7,128	6,417	4,295	2,766
Selling and distribution expenses	(9,712)	(20,166)	(20,722)	(12,952)	(9,494)	(4,582)	(4,643)
General and administrative expenses	(41,487)	(76,635)	(91,290)	(44,837)	(60,009)	(17,287)	(31,483)
Other expenses	—	(64,343)	(6,963)	(2,906)	(1,479)	(6,715)	(6,608)
Finance costs	(21,447)	(18,062)	(26,791)	(13,261)	(16,633)	(6,595)	(9,933)
PROFIT BEFORE TAX	152,417	268,976	349,768	238,605	83,906	101,904	17,724
Tax	(23,333)	(1,417)	(18,094)	(11,612)	(16,192)	(5,302)	(5,261)
Net profit attributable to equity holders of the parent	129,084	267,559	331,674	226,993	67,714	96,602	12,463
Other comprehensive income							
Gain/(loss) on hedging instruments	—	—	19,807	—	(19,087)	14,773	(31)
Total comprehensive income attributable to equity holders of the parent	129,084	267,559	351,481	226,993	48,627	111,375	12,432
Earnings per Share (RMB cents per Share)							
Basic	20.68	31.65	33.17	22.70	6.77	9.66	1.25

OVERVIEW OF MAJOR ITEMS OF STATEMENTS OF COMPREHENSIVE INCOME

Revenue

Revenue represents our sales of urea, compound fertiliser, methanol and other related fertiliser products and income. Revenue derived from methanol is net of VAT, but the revenues derived from urea and compound fertiliser are inclusive of VAT due to preferential VAT exemption policy enjoyed by all fertiliser producers in the PRC. The table below sets out our total revenue and the percentage of revenue by product category for the periods indicated.

	Year ended 31 December						Seven months ended 31 July			
	2006		2007		2008		2008		2009	
	Revenue	% of total revenue	Revenue	% of total revenue	Revenue	% of total revenue	Revenue	% of total revenue	Revenue	% of total revenue
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000) (unaudited)	(%)	(RMB'000)	(%)
Urea	509,431	57.2%	928,315	60.2%	1,155,540	55.4%	659,996	55.4%	941,531	77.1%
Compound fertiliser	262,983	29.5%	400,521	26.0%	708,268	34.0%	386,830	32.5%	193,365	15.8%
Methanol	106,973	12.0%	205,891	13.4%	214,836	10.3%	140,956	11.8%	81,745	6.7%
Others	10,788	1.3%	6,695	0.4%	6,299	0.3%	3,906	0.3%	4,758	0.4%
Total revenue	890,175	100%	1,541,422	100%	2,084,943	100%	1,191,688	100%	1,221,399	100%

We recorded an increase in our total revenue of approximately 134.2% from approximately RMB890.2 million in 2006 to approximately RMB2.1 billion in 2008, where the revenue derived from our three major products, namely urea, compound fertiliser and methanol, increased during such period as well. Urea was the biggest contributor to our total revenue and accounted for approximately 57.2%, 60.2%, 55.4% and 77.1% of our total revenue during the Track Record Period. The sales of compound fertiliser also contributed a significant amount of our total revenue during the Track Record Period which represented approximately 29.5%, 26.0%, 34.0% and 15.8% of our total revenue, and the revenue derived from such sales increased by approximately 169.3% from approximately RMB263.0 million in 2006 to approximately RMB708.3 million in 2008, but decreased significantly from RMB386.8 million for the seven months ended 31 July 2008 to RMB193.4 million for the seven months ended 31 July 2009. The revenue derived from our sales of methanol represented approximately 12.0%, 13.4%, 10.3% and 6.7% of our total revenue during the Track Record Period and increased considerably from approximately RMB107.0 million to RMB214.8 million from 2006 to 2008. The considerable increase in our total revenue between 2006 and 2008 was mainly due to the increase in the average selling prices of our major products and the increased sales volume of urea and compound fertiliser. Furthermore, upon the expansion of our production capacity from the Production Plant II when its trial operation commenced in September 2006, our urea production volume increased from approximately 371,000 tons in 2006 to approximately 705,000 tons in 2007 and 741,000 tons in 2008, and our compound fertiliser production volume increased from approximately 174,000 tons in 2006 to approximately 231,000 tons in 2007 and 253,000 tons in 2008, while our methanol production volume increased from approximately 48,000 tons in 2006 to approximately 93,000 tons in 2007 and then decreased to approximately 88,000 tons in 2008.

The sales of urea contributed to the total revenue increased from approximately 55.4% for the seven months ended 31 July 2008 to approximately 77.1% for the seven months ended 31 July 2009. Such increase was mainly due to the increase in our sales volume of urea by 39.5% for the relevant period, although the average selling price of urea slightly dropped by 3.2% in the same period. The increase in the sales and production volume of urea was due to the commencement of the trial operation of our Production Plant III in April 2009 leading to an increase in our estimated aggregate production capacity of urea to 1.25 million tons per annum. With respect to the sales of each of compound fertiliser and methanol contributed to the total revenue which decreased from approximately 32.5% and 11.8% respectively for the seven months ended 31 July 2008 to approximately 15.8% and 6.7% for the seven months ended 31 July 2009, such decrease in revenue of compound fertiliser was mainly due to the significant decrease in sales volume and average selling price of compound fertiliser by approximately 38.9% and 18.1% respectively for the first seven months 2009 as compared to the same period of 2008. The reason for the decrease in the sales volume of compound fertiliser is that the Group having considered that the average selling price of compound fertiliser decreased by approximately 18.1% for the first seven months 2009 as compared to the same period in 2008, our Group decided to produce and sell less compound fertiliser. The decrease in the revenue for methanol was mainly due to the drop in its average selling price by approximately 43.6% for the first seven months 2009 as compared to the same period of 2008.

Cost of sales

Our cost of sales includes costs of raw materials (namely coal, coal powder, electricity, phosphorous and potassium), depreciation, labour cost, package and other costs, such as repair, maintenance and insurance costs. The table below sets out the breakdowns on our cost of sales and the percentage of cost of sales of each item for the periods indicated.

	Year ended 31 December						Seven months ended 31 July			
	2006		2007		2008		2008		2009	
	RMB'000		RMB'000		RMB'000		RMB'000 (unaudited)		RMB'000	
Raw materials	604,971	89%	1,043,468	93%	1,485,578	93%	809,777	91%	946,983	90%
Depreciation	38,979	6%	38,036	3%	68,336	3%	44,822	5%	61,870	6%
Labour cost	21,873	3%	39,236	3%	40,106	3%	25,903	3%	34,875	3%
Others	12,784	2%	4,261	1%	9,053	1%	5,753	1%	12,567	1%
Total	678,607	100%	1,125,001	100%	1,603,073	100%	886,255	100%	1,056,295	100%

Our total cost of sales increased from approximately RMB678.6 million in the year ended 31 December 2006 to approximately RMB1.6 billion in the year ended 31 December 2008. The cost of raw materials consumed in our production accounted for the largest proportion of our total cost of sales during the Track Record Period. In particular, the cost of coal was the major component of our cost of sales during the Track Record Period. Such increase in our total cost of sales was mainly due to the increase of our production volume after the operation of our Production Plant II and the increase in the prices of raw materials during the same period.

The table below sets out the breakdowns on our costs of raw materials for the periods indicated.

	Year ended 31 December			Seven months ended 31 July	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Coal	221,429	409,534	654,005	341,480	498,444
Coal powder	40,417	97,141	197,457	116,033	109,544
Electricity	138,206	221,697	217,956	122,741	170,603
Phosphorous	74,439	125,626	179,190	84,738	47,788
Potassium	39,236	59,978	98,754	58,328	32,075
Others	91,244	129,492	138,216	86,457	88,529
Total costs of raw materials	604,971	1,043,468	1,485,578	809,777	946,983

Coal

During the Track Record Period, the costs of coal were approximately RMB221.4 million, RMB409.5 million, RMB654.0 million and RMB498.4 million respectively, representing approximately 33%, 36%, 41% and 47% respectively of our total cost of sales. Such increase was mainly due to the commencement of operation of Production Plant II in 2007 and trial operation of Production Plant III in April 2009, and increasing demand in urea and methanol, which resulted in increase in their respective production capacity and sales volume from 2006 to 2009. Our consumption of coal in production of urea and methanol increased, which amounted to approximately 312,000 tons, 585,000 tons, 585,000 tons and 451,000 tons respectively for the year ended 31 December 2006, 2007 and 2008 and seven months ended 31 July 2009. Furthermore, the average selling prices of coal were RMB692.9, RMB726.9, RMB1,080.8 and RMB1,114.0 per ton, respectively during the Track Record Period, consequently the costs of coal significantly increased by approximately 59.7% from the year ended 31 December 2007 to the year ended 31 December 2008 and by approximately 46.0% from the seven months ended 31 July 2008 to the seven months ended 31 July 2009.

Coal powder

During the Track Record Period, the costs of coal powder were approximately RMB40.4 million, RMB97.1 million, RMB197.5 million and RMB109.5 million respectively, representing approximately 6%, 9%, 12% and 10% respectively of our total cost of sales. The costs of coal powder increased by approximately 140.4% from 2006 to 2007, and by approximately 103.3% from 2007 to 2008, which was mainly due to the increase in production volume of urea and methanol after commencement of operation of Production Plant II in 2007. The costs of coal powder decreased by approximately 5.6% from approximately RMB116.0 million for the seven months ended 31 July 2008 to approximately RMB110.0 million for the seven months ended 31 July 2009, which was primarily due to the decrease in average selling prices of coal powder by 11.8% for the seven months ended 31 July 2009.

Electricity

During the Track Record Period, the costs of electricity were approximately RMB138.2 million, RMB221.7 million, RMB218.0 million and RMB170.6 million, respectively, representing approximately 20%, 20%, 14% and 16%, respectively of our total cost of sales. The increase in the costs of electricity was mainly due to the commencement of operation of Production Plant II in 2007 by approximately 60.4% from 2006 to 2007, and as a result of the increase in our use of electricity during the same period. The costs of electricity have slightly decreased by approximately 1.7% from 2007 to 2008 primarily due to decrease in the average electricity unit price in 2008. The costs of electricity for the seven months ended 31 July 2008 and 2009 were approximately RMB122.7 million and RMB170.6 million respectively, where such increase was due to the trial operation of Production Plant III which commenced in April 2009.

Phosphorous

During the Track Record Period, the costs of phosphorous were approximately RMB74.4 million, RMB125.6 million, RMB179.2 million and RMB47.8 million, respectively, representing approximately 11%, 11%, 11% and 5%, respectively of our total cost of sales. The costs of phosphorous increased by approximately 68.8% from 2006 to 2007 and by approximately 42.6% from 2007 to 2008, which was mainly due to the increase in the average selling price of phosphorous from RMB1,709.0 to RMB2,083.1, and to RMB3,651.7 per ton respectively for the years ended 31 December 2006, 2007 and 2008. However, the average selling price of phosphorous decreased to approximately RMB2,352.4 per ton for the seven months ended 31 July 2009, which resulted in the costs of phosphorous significantly decreasing by 43.6% from approximately RMB84.7 million for the seven months ended 31 July 2008 to approximately RMB47.8 million for the seven months ended 31 July 2009.

Potassium

During the Track Record Period, the costs of potassium were approximately RMB39.2 million, RMB60.0 million, RMB98.8 million and RMB32.1 million, respectively, representing approximately 6%, 5%, 6% and 3%, respectively of our total cost of sales. The average selling price of potassium were RMB1,791.0, RMB1,975.5, RMB3,531.5 and RMB3,749.6 per ton, respectively during the Track Record Period. The increase in costs of potassium by approximately 53.1% from 2006 to 2007 and by approximately 64.7% from 2007 to 2008, as a result of the increase in the average selling price of potassium during the Track Record Period. The costs of potassium for the seven months ended 31 July 2008 were approximately RMB58.3 million, which decreased to approximately RMB32.1 million for the seven months ended 31 July 2009. Such decrease was mainly because we used less potassium in terms of quantity to produce our compound fertiliser in the first half year of 2009 as a result of decrease in production volume of compound fertiliser for the same period.

Others

During the Track Record Period, other costs of raw materials, such as water, carbon dioxide and liquid ammonia, were approximately RMB91.2 million, RMB129.5 million, RMB138.2 million and RMB88.5 million, respectively, representing approximately 13%, 12%, 9% and 8%, respectively of our total costs of sales. The increase in other costs from 2006 to 2008 was mainly because the commencement of operation of our Production Plant II in 2007 and trial operation of Production Plant III in April 2009, and consequently the production capacity and sales volumes of our products increased in 2007, 2008 and the first seven months of 2009.

Other income and gains

Our other income and gains comprises mainly sale of by-products, unrealised and realised exchange gain, interest income from bank deposits and amortisation of deferred grants etc. Sale of by-products includes coal residue, etc. Unrealised exchange gain refers to foreign exchange gain resulting from the translation differences from SGD or USD bank and loan balances into RMB, our functional currency, while realised exchange gain arises mainly from the conversion of SGD or USD into RMB for our capital expenditure payments.

Selling and distribution expenses

Our selling and distribution expenses comprise mainly marketing and advertising expenses, transportation expenses, entertainment expenses and sales staff costs.

General and administrative expenses

Our general and administrative expenses comprise mainly office staff salaries, depreciation and amortisation expenses, insurance, office and administrative expenses, professional fees incurred for listing preparation, transportation expenses, entertainment expenses, renovation and repair expenses, R&D expenses and miscellaneous expenses.

Other expenses

Other expenses represent the fair value loss of derivative financial liabilities.

Finance costs

Our finance costs comprise mainly interests on bank loans, overdrafts and other loans.

Tax

We are subject to the income tax on an entity basis on profit arising in or derived from the tax jurisdictions in which members of our Group are domiciled and operate. The Company is incorporated in Singapore and have subsidiary/business operations in the PRC and hence are taxed in accordance with the relevant income tax rate of Singapore and the PRC.

The applicable Singapore and PRC enterprise income tax rates for our Group during the Track Record Period are set out below:

	Year ended 31 December			Seven months ended 31 July
	2006	2007	2008	2009
Singapore				
The Company[(1)]	20%	18%	18%	18%
PRC				
Henan XLX Fertiliser[(2)] . .	33%	Fully exempted	Fully exempted	12.5%

Notes:

(1) Regarding the tax provision in Singapore, the Company is subject to an income tax rate of 20% for the year ended 31 December 2006 and 18% for the years ended 31 December 2007 and 2008 and for the seven months ended 31 July 2009. Taxes on profits assessable elsewhere have been calculated at the tax rates prevailing in the country in which our Group operates, based on relevant legislation, interpretations and practices.

(2) Currently, Henan XLX Fertiliser, our PRC operating subsidiary, is entitled to full exemption from income tax for the first two years and a 50% reduction in income tax for the next three years, where it has elected the financial year ending 31 December 2007 as the first profitable year for the purpose of determining the tax holiday period. In this regard, Henan XLX Fertiliser continues to enjoy a full tax exemption for the year ended 31 December 2008 and will subsequently be entitled to a 50% tax reduction in income tax in the three years ending 31 December 2011.

On 16 March 2007, PRC EIT Law was promulgated by the Standing Committee of the National People's Congress, which became effective on 1 January 2008. Pursuant to the PRC EIT Law, all enterprises (including the foreign-invested enterprises) will be subject to a uniform tax rate of 25%, and the tax exemptions, reductions and preferential treatments applicable to those foreign-invested enterprises will be revoked. The PRC EIT Law also provides for transitional measures for enterprises established prior to the promulgation of the PRC EIT Law and eligible for lower tax rate preferential treatments in accordance with the then prevailing tax laws and regulations. These enterprises may continue to enjoy tax preferential treatments after the implementation of the PRC EIT Law until their preferential treatments expire and will become subject to the new, unified tax rate over a five-year period starting from 1 January 2008. As a result of the new law, Henan XLX Fertiliser will not continue to benefit from preferential tax treatment and will be subject to the uniform rate of 25% after the tax holiday period.

During the Track Record Period, our effective tax rates were approximately 15%, 1%, 5% and 19% respectively. The effective tax rate for the year ended 31 December 2006 was approximately 15% primarily because our Company's subsidiary in the PRC, Henan XLX Fertiliser, was subject to the income tax rate of 33% and the tax for that year was partially reduced by a tax credit of RMB26.9 million relating to purchases of locally manufactured machines and equipment for approved technology innovation projects in accordance with Temporary Rules on the Offset of Corporate Income Tax for the Investment by Technology Innovation on State-Manufactured Machines and Equipment promulgated by the State Taxation Bureau and Ministry of Finance, with effect from 1 July 1999. The effective tax rate was approximately 1% and 5% respectively for the years ended 31 December 2007 and 2008, which was primarily because Henan XLX Fertiliser was entitled to full exemption from its income tax in 2007 and 2008 under the PRC EIT Law, but we are required to withhold PRC income tax on our dividends payable to our foreign shareholders under the PRC EIT Law as a result of a 5% withholding tax on profits imposed in 2008. The effective tax rate for the seven months ended 31 July 2009 was approximately 19%, mainly because Henan XLX Fertiliser was only entitled to a 50% tax reduction in income tax in 2009, while it enjoyed full exemption of income tax in 2007 and 2008 under the PRC EIT Law, and the uniform tax rate was 25%.

During the years ended 31 December 2006, 2007 and 2008 and seven months ended 31 July 2009, the expenses not deductible for tax were approximately RMB2.0 million, RMB19.1 million, RMB4.5 million and RMB2.5 million respectively. The expenses not deductible for tax were mainly arising from (i) the fair value loss of derivative financial liabilities, (ii) loss on disposal of property, plant and equipment, (iii) staff welfare, (iv) salaries, (v) labour union fee, (vi) advertising and (vii) entertainment, of which items (iii) to (vii) were capped at certain percentage to the total cost of such individual item incurred during the Track Record Period.

Margin Analysis

The table below sets out our gross profit margins and net profit margins for the periods indicated.

	Year ended 31 December			Seven months ended 31 July	
	2006	2007	2008	2008	2009
				(unaudited)	
• Overall gross profit/(loss) margin	24%	27%	23%	26%	14%
— Urea	28%	32%	23%	29%	21%
— Compound fertiliser	16%	15%	25%	18%	(2%)
— Methanol	29%	32%	20%	34%	(31%)
• Overall net profit margin	15%	17%	16%	19%	6%

Our gross profit margin and net profit margin decreased 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, primarily due to the global economic crisis which resulted in decreases in the average selling prices of our methanol and compound fertiliser and an increase in our costs of coal in the first half of 2009.

REVIEW OF HISTORICAL OPERATING RESULTS

Year ended 31 December 2007 compared to year ended 31 December 2006

Revenue

Our total revenue increased by approximately 73.2% from approximately RMB890.2 million in 2006 to approximately RMB1.5 billion in 2007. The revenue derived from urea, compound fertiliser and methanol increased by approximately RMB418.9 million, RMB137.5 million and RMB98.9 million respectively. The increase in total revenue was due to the increase in sales of urea and methanol as our production utilisation rate had improved since the trial operation of Production Plant II in September 2006.

Urea

Revenue from the sales of urea increased by approximately 82.2% from approximately RMB509.4 million in 2006 to approximately RMB928.3 million in 2007. The increase in revenue from urea was primarily attributable to the increase in sales volume by approximately 83.6% from approximately 325,000 tons in 2006 to approximately 597,000 tons in 2007. The increase in sales volume in 2007 was primarily due to the increase of our production capacity after the commencement of trial operation of the Production Plant II in 2006 in order to meet the increasing demand for our urea. The annual production capacity of urea was approximately 315,000 tons in 2006, which increased to approximately 680,000 tons in 2007; while the urea production volume increased from approximately 371,000 tons in 2006 to approximately 705,000 tons in 2007.

Compound fertiliser

Revenue from the sales of compound fertilisers increased by approximately 52.3% from approximately RMB263.0 million in 2006 to approximately RMB400.5 million in 2007. Such increase was mainly due to both of the increases in sales volume and average selling price in

2007. Average selling price of compound fertiliser increased from approximately RMB1,615 per ton in 2006 to RMB1,753 per ton in 2007, representing an increase of approximately 8.5%. Such increase was primarily due to the increase in prices of raw materials in respect of phosphorous and potassium. On the other hand, the sales volume of compound fertiliser went up by approximately 40.3% from approximately 163,000 tons in 2006 to approximately 229,000 tons in 2007. The increase in sales volume of compound fertiliser was the consolidated result of the increased sales efforts for compound fertiliser by promoting the XLX brand as well as the provision of value-added service of customizing the nutrients of compound fertiliser via our agrochemical service centre.

Methanol

Revenue from the sales of methanol increased by approximately 92.4% from approximately RMB107.0 million in 2006 to approximately RMB205.9 million in 2007. The increase was primarily due to the increase in sales volume by approximately 95.4% from approximately 48,000 tons in 2006 to approximately 93,000 tons in 2007, while the average selling price of methanol remained largely stable at approximately RMB2,251 per ton in 2006 and RMB2,217 per ton in 2007. The increase in sales volume in 2007 was primarily the result of the full year operation of our Production Plant II which only commenced operation in September 2006 in order to meet the market demand for our methanol products.

Cost of sales

Our total cost of sales increased by approximately 65.8% from approximately RMB678.6 million in 2006 to approximately RMB1.1 billion in 2007. The cost of sales of our three major products, namely urea, methanol and compound fertiliser, increased from approximately RMB369.3 million, RMB76.1 million, RMB221.6 million to approximately RMB635.4 million, RMB139.1 million and RMB341.8 million respectively. As the total cost of sales increased at a lower rate than the total revenue, the overall gross profit margin increased from approximately 24% in 2006 to approximately 27% in 2007.

Urea

Cost of sales for urea increased by approximately 72.1% from approximately RMB369.3 million in 2006 to approximately RMB635.4 million in 2007. The increase in cost of sales was lower than the increase in revenue of urea, resulting in the improvement in gross profit margin from approximately 28% in 2006 to approximately 32% in 2007. The increase in cost of sales of urea was mainly due to increase in sales volume, while the improvement in gross profit margin was the result of the effort placed by the Group in enhancing the production efficiency as well as the economies of scale resulting from the full year operation of our Production Plant II.

Compound fertiliser

Cost of sales for compound fertiliser increased by approximately 54.2% from approximately RMB221.6 million in 2006 to approximately RMB341.8 million in 2007. Such increase was slightly higher than the approximately 52.3% increase in revenue from compound fertiliser, resulting in a corresponding slight decrease in gross profit margin for this segment from approximately 16% in 2006 to approximately 15% in 2007. The increase in cost of sales for compound fertiliser was primarily due to the cost of raw materials for producing compound fertiliser increased in 2007, but such increase in cost had not been transferred to our customers, which resulted in the gross profit margin for compound fertiliser dropped in 2007.

Methanol

Cost of sales for methanol increased by approximately 83.0% from approximately RMB76.0 million in 2006 to approximately RMB139.1 million in 2007. The increase in cost of sales was lower than the increase in revenue for this product. As a result, there was an improvement in gross profit margin from approximately 29% in 2006 to approximately 32% in 2007. The increase in cost of sales of methanol was mainly due to increase in production volume and the improvement in gross profit margin was the result of the effort placed by the Group in enhancing the production efficiency as well as the economies of scale resulting from the full year operation of our Production Plant II.

Other income and gains

Our other income and gains increased from approximately RMB13.5 million in 2006 to approximately RMB31.8 million in 2007, representing an increase of approximately 135.6%. This was mainly attributable to (i) the unrealised foreign exchange gains of approximately RMB11.1 million from SGD denominated fixed deposits and (ii) the realised foreign exchange gains of approximately RMB7.5 million mainly arising from the conversion of listing proceeds from SGD, which we received from our 2007 initial public offering in Singapore into RMB, our functional currency. Such increases were partially offset by the decrease in amortisation of deferred grant of RMB3.0 million.

Selling and distribution expenses

Our selling and distribution expenses increased by approximately 107.6% from approximately RMB9.7 million in 2006 to approximately RMB20.2 million in 2007. Such increase was mainly due to the increase in (i) transportation cost by approximately RMB6.5 million; and (ii) sales staff cost by approximately RMB2.5 million resulting from our increasing marketing effort with a view to expanding of our customer base.

General and administrative expenses

Our general and administrative expenses increased by approximately 84.7% from approximately RMB41.5 million in 2006 to approximately RMB76.6 million in 2007 due to the increase in our staff costs as a result of the increase of our number of staff from 1,920 in 2006 to 2,439 in 2007 due to the commencement of operation of production Plant II and the increment of our staff's average salary after our listing on the SGX-ST in 2007.

Other expenses

Our other expenses in 2007 amounted to approximately RMB64.3 million, represented the fair value loss of derivative financial liabilities. We entered into a convertible loan agreement on 16 October 2006 with certain investors, by which the investors agreed to grant our Company a loan facility of an aggregate amount of US$7.12 million in consideration for a right to convert the full sum of such loan into fully paid Shares. Such conversion was exercised on 11 May 2007 prior to our listing on the SGX-ST. The conversion right embedded in the convertible loan, exhibit characteristic of embedded derivatives and are measured at fair value at each reporting date and any gains or losses arising from change in fair value are recognised to the income statement.

Finance costs

Our finance costs decreased by approximately 15.8% from approximately RMB21.4 million in 2006 to approximately RMB18.1 million in 2007. Such decrease was mainly due to majority of the loans were only transferred as part of the acquisition of Production Plant I and Production Plant II in the later part of 2007.

Profit before tax

As a result of the above factors, our profit before tax increased by approximately 76.5% from approximately RMB152.4 million in 2006 to approximately RMB269.0 million in 2007.

Tax

Our income tax was reduced significantly by approximately 94.0% from approximately RMB23.3 million in 2006 to approximately RMB1.4 million in 2007, which was mainly because our subsidiary, Henan XLX Fertiliser, started to enjoy full exemption from its income tax in the year ended 31 December of 2007 due to its wholly foreign owned enterprise status in accordance with the PRC EIT Law.

Net profit attributable to the equity shareholders

Our net profit attributable to the equity shareholders increased by approximately 107.3% from approximately RMB129.1 million in 2006 to approximately RMB267.6 million in 2007. Our net profit margin increased from approximately 14.5% in 2006 to approximately 17.4% in 2007.

Year ended 31 December 2008 compared to year ended 31 December 2007

Revenue

Our total revenue increased by approximately 35% from approximately RMB1.5 billion in 2007 to approximately RMB2.1 billion in 2008. The revenue derived from urea, compound fertiliser and methanol increased by approximately RMB227.2 million, RMB307.7 million and RMB8.9 million respectively. The increase in revenue was due to the increase in sales of urea and methanol as well as the increase in the average selling prices of urea, methanol and compound fertilisers resulted from the increase in raw material prices and the general commodity boom in the first 9 months of 2008.

Urea

Our revenue derived from our sales of urea increased by approximately 24.5% from approximately RMB928.3 million in 2007 to approximately RMB1.2 billion in 2008. This was mainly due to the increase in the average selling price of urea caused by the increase in the cost of raw materials required for its production as well as the increase in its sales volume resulted from our increased marketing efforts and our entering into the new markets in the north-eastern and central parts of the PRC in 2008. Our sales volume of urea slightly increased by approximately 10.9% from approximately 597,000 tons in 2007 to 662,000 tons in 2008.

Compound fertiliser

Our revenue derived from our sales of compound fertiliser increased by approximately 76.8% from approximately RMB400.5 million in 2007 to approximately RMB708.3 million in 2008. This was mainly due to the increase in the average selling price of compound fertiliser, as well as the increase in its sales volume resulted from our increased marketing efforts and our entering into the new markets in the north-eastern and central parts of the PRC in 2008. The average selling price of our compound fertiliser significantly increased by approximately 60.9%, from approximately RMB1,753 per ton in 2007 to RMB2,821 per ton in 2008, because (i) the costs of raw material (such as phosphorus and potassium) increased; (ii) the PRC government has adopted preferential policies for the agricultural industry to increase the grain and other agricultural productions, and accordingly demand for compound fertiliser increased significantly; and (iii) increasing demand in compound fertiliser in both PRC and international market caused compound fertiliser price to continue to increase. The sales volume of compound fertiliser increased by approximately 9.9%, from approximately 229,000 tons in 2007 to approximately 251,000 tons in 2008.

Methanol

Our revenue derived from our sales of methanol increased by approximately 4.3% from approximately RMB205.9 million in 2007 to approximately RMB214.8 million in 2008. This was mainly due to the increase in the average selling price of methanol caused by the increase in the cost of raw material required for its production. The average selling price of methanol increased by approximately 10.6%, from approximately RMB2,217 per ton in 2007 to RMB2,452 per ton in 2008, but the sales volume of methanol slightly decreased by approximately 5.7% from approximately 93,000 tons in 2007 to approximately 88,000 tons in 2008.

Cost of sales

Our total cost of sales increased by approximately 42.5% from approximately RMB1.1 billion in 2007 to approximately RMB1.6 billion in 2008. As the total cost of sales increased at a faster rate than the total revenue, the overall gross profit margin decreased from approximately 27% to approximately 23%.

Urea

Our cost of sales for urea increased by approximately 39.5% from approximately RMB635.4 million in 2007 to approximately RMB886.3 million in 2008. As the increase in our revenue derived from the sales of urea was smaller than the increase in its cost of sales, the profit margin of urea decreased from approximately 32% in 2007 to approximately 23% in 2008. The main reason for the increase in the costs of sales for urea was because the price of coal in 2008 increased by approximately 49% compared to the one in 2007, which was primarily resulted from the commodity boom in the first half of 2008 and shortage in coal supply in 2008 where many small coal mines were shut down.

Compound fertiliser

Our cost of sales for compound fertiliser increased by approximately 56.4% from approximately RMB341.8 million in 2007 to approximately RMB534.5 million in 2008. As the increase in our revenue derived from the sales of compound fertiliser was larger than the increase in its cost of sales, the profit margin of compound fertiliser increased from approximately 15% in 2007 to approximately 25% in 2008. Such increase in our cost of sales for compound fertiliser was resulted from the increase in cost of raw materials.

Methanol

Our cost of sales for methanol increased by approximately 23.9% from approximately RMB139.1 million in 2007 to approximately RMB172.4 million in 2008. The profit margin of methanol decreased from approximately 32% in 2007 to approximately 20% in 2008 as the increase in our revenue derived from the sales of methanol was smaller than the increase in its cost of sales. The main reason for the increase in the cost of sales for methanol was because the price of coal in 2008 increased by approximately 49% compared to the one in 2007, which was primarily resulted from the commodity boom in the first half of 2008 and shortage in coal supply in 2008 where many small coal mines were shut down.

Other income and gains

Our other income and gains decreased by approximately 57.0% from approximately RMB31.8 million in 2007 to approximately RMB13.7 million in 2008. Such decrease was mainly due to (i) the realised exchange gain and unrealised exchange gain amounted to approximately RMB7.5 million and RMB11.1 million respectively in 2007, but there were no realised exchange gain and unrealised exchange gain in 2008; and (ii) decrease in bank interest income from approximately RMB8.0 million in 2007 to approximately RMB2.9 million in 2008.

Selling and distribution expenses

Our selling and distribution expenses increased by approximately 2.8% from approximately RMB20.2 million in 2007 to approximately RMB20.7 million in 2008. Such increase was mainly due to the increased railway transportation cost led by expansion of our compound fertiliser customer base in the north eastern PRC market.

General and administrative expenses

Our general and administrative expenses increased by approximately 19.2% from approximately RMB76.6 million in 2007 to approximately RMB91.3 million in 2008. This was mainly due to the increase in (i) our staff costs as we hired more staff for our Production Plant III to be operated in trial in April 2009; (ii) the legal, consultancy and upfront bank fees incurred for our syndicated USD loan; (iii) our post-listing obligations; and (iv) the increase in our depreciation of office equipment caused by the upgrade of our information technology, safety and environmental systems in 2008.

Other expenses

Other expenses decreased from approximately RMB64.3 million in 2007 to approximately RMB7.0 million in 2008, representing a substantial decrease of approximately 89.1%. Such decrease was mainly because the convertible loan was converted fully into shares in 2007.

Finance costs

Our finance costs increased by approximately 48.3% from approximately RMB18.1 million in 2007 to approximately RMB26.8 million in 2008. This was mainly due to the increase in our interest bearing loans after the USD 45.0 million offshore syndicated loan was drawn down to finance the construction of our Production Plant III.

Profit before tax

As a result of the above factors, our profit before tax increased by approximately 30.0% from approximately RMB269.0 million in 2007 to RMB349.8 million in 2008.

Tax

Our income tax increased by approximately 1,176.9% from approximately RMB1.4 million in 2007 to RMB18.1 million, which was primarily due to a 5% withholding tax on unremitted profits imposed in 2008 and our profit before tax increased from approximately RMB269.0 million in 2007 to approximately RMB349.8 million in 2008.

Net profit attributable to the equity shareholders

Our net profit attributable to the equity shareholders increased by approximately 24.0% from approximately RMB267.6 million in 2007 to approximately RMB331.7 million in 2008.

Seven months ended 31 July 2009 compared to seven months ended 31 July 2008

Revenue

Our total revenue increased by approximately 2.5% 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. Such increase was primarily due to the increase in production capacity and sales volume of urea in 2009 as a result of the commencement of trial operation of Production Plant III in April 2009. However, the decrease in revenue generated from sales of compound fertiliser as a result of decrease in its sales volume, and the decrease in revenue generated from sales of methanol as a result of decrease in its average selling price for the seven months ended 31 July 2009, have offset the increase in revenue generated from sales of urea for the same period.

Urea

Our revenue derived from the sales of our urea increased by approximately 42.7% from approximately RMB660.0 million for the seven months ended 31 July 2008 to approximately RMB941.5 million for the seven months ended 31 July 2009, which was primarily due to increase in production capacity and sales volume of our urea in 2009 after the commencement of trial operation of Production Plant III in April 2009. The sales volume of our urea increased by approximately 39.5% from approximately 383,343 tons for the seven months ended 31 July 2008 to approximately 534,760 tons for the seven months ended 31 July 2009, when the estimated aggregate annual production capacity of our urea increased from approximately 731,000 tons in 2008 to approximately 1.25 million tons during the same period. Our urea sales volume was not significantly affected by the global economic crisis for the first seven months of 2009 primarily because the demand for urea remained stable in the PRC during the relevant period as a result of various preferential agricultural policies implemented in 2009. These preferential agricultural policies included fertiliser subsidies to farmers which encouraged the farmers to increase their crop yields. As a consequence, demand for urea increased as urea is one of the most popular nitrogen nutrients for farmers. On the other hand, the increase in revenue derived from the sales of our urea was partially offset by the decrease of 3.2% in the average selling price of our urea from approximately RMB1,722 per ton for the seven months ended 31 July 2008 to approximately RMB1,666 per ton for the seven months ended 31 July 2009, primarily due to the current global economic crisis.

Compound fertiliser

Our revenue derived from our sales of compound fertiliser decreased by approximately 50% from approximately RMB386.8 million for the seven months ended 31 July 2008 to approximately RMB193.4 million for the seven months ended 31 July 2009. Such decrease primarily reflected the decrease in sales volume of our compound fertiliser by approximately 38.9% from approximately 167,170 tons for the seven months ended 31 July 2008 to approximately 102,085 tons for the seven months ended 31 July 2009, as result of a decrease in our production of compound fertiliser. Due to the fall in average selling price of compound fertiliser, urea was sold directly instead of producing compound fertilisers, and consequently the production volume and sales volume of our compound fertiliser decreased during the same period. Average selling price of our compound fertiliser decreased by approximately 18.1% from approximately RMB2,314 per ton for the seven months ended 31 July 2008 to approximately RMB1,894 per ton for the seven months ended 31 July 2009.

Methanol

Our revenue derived from our sales of methanol decreased by approximately 42.0% from approximately RMB141.0 million in the seven months ended 31 July 2008 to approximately RMB81.7 million in the seven months ended 31 July 2009, which was primarily due to the significant decrease in the average selling price of our methanol by approximately 43.6% from RMB2,706 per ton for the seven months ended 31 July 2008 to approximately RMB1,526 per ton for the seven months ended 31 July 2009. The sales volume of methanol remained relatively stable.

Cost of sales

Our total cost of sales increased by approximately 19.2% from approximately RMB886.3 million for the seven months ended 31 July 2008 to RMB1,056.3 million for the seven months ended 31 July 2009, which was mainly due to the increase in sales volume of urea by approximately 39.5% for the seven months ended 31 July 2009.

Urea

Our cost of sales for urea increased by approximately 59.4% from approximately RMB469.2 million for the seven months ended 31 July 2008 to approximately RMB747.9 million for the seven months ended 31 July 2009, which primarily reflected the increase in sales volume of urea by approximately 39.5% and consequently the increase in cost of coal for producing urea by approximately 51.1% during the same period.

Compound fertiliser

Our cost of sales for compound fertiliser decreased by approximately 38.3% from approximately RMB318.7 million for the seven months ended 31 July 2008 to approximately RMB196.6 million for the seven months ended 31 July 2009, primarily reflecting the decrease in sales volume of our compound fertiliser by approximately 38.9% during the same period.

Methanol

Our cost of sales for methanol increased by approximately 14.8% from approximately RMB93.2 million for the seven months ended 31 July 2008 to approximately RMB107.1 million for the seven months ended 31 July 2009. The cost of sales for methanol increased primarily because the costs of coal increased by approximately 21% for the seven months ended 31 July 2009.

Other income and gains

Our other income and gains decreased by approximately 10.0% from approximately RMB7.1 million for the seven months ended 31 July 2008 to approximately RMB6.4 million for the seven months ended 31 July 2009, which was mainly because bank interest income and sale of by-products decreased by approximately RMB1.1 million and RMB2.4 million respectively, while the amortisation of deferred grants and subsidy income increased by approximately RMB1.5 million and RMB0.6 million respectively, for the same period.

Selling and distribution expenses

Our selling and distribution expenses decreased by approximately 26.7% from approximately RMB13.0 million for the seven months ended 31 July 2008 to approximately RMB9.5 million for the seven months ended 31 July 2009. Such decrease was mainly due to the decrease in salaries of our sales staff and the transportation charges reflecting the decrease in sales volume of compound fertiliser by approximately RMB2.0 million and RMB1.8 million respectively for the seven months ended 31 July 2009.

General and administrative expenses

Our general and administrative expenses increased by approximately 33.8% from approximately RMB44.8 million for the seven months ended 31 July 2008 to approximately RMB60.0 million for the seven months ended 31 July 2009, primarily reflecting (i) the increase in professional fees and consultancy fees for listing in Hong Kong by approximately RMB7.3 million; (ii) the increase in advertising expenses by approximately RMB1.1 million; and (iii) the increase in fees for valuation of land by approximately RMB3.0 million, for the seven months ended 31 July 2009.

Finance costs

Our finance costs increased by approximately 25.4% from approximately RMB13.3 million for the seven months ended 31 July 2008 to approximately RMB16.6 million for the seven months ended 31 July 2009, mainly because of the increase in interest on bank loans by approximately 64.1% during the same period.

Profit before tax

As a result of the above factors, our profit before tax decreased by approximately 64.8% from approximately RMB238.6 million in the seven months ended 31 July 2008 to approximately RMB83.9 million in the seven months ended 31 July 2009.

Tax

Our income tax increased by approximately 39.4% from approximately RMB11.6 million in the seven months ended 31 July 2008 to approximately RMB16.2 million in the seven months ended 31 July 2009, which was mainly because we were subject to a higher effective tax rate of 19% for the seven months ended 31 July 2009, as compared with the effective tax rate of 5% for the seven months ended 31 July 2008. The main reason for the increase in the effective tax rate for the first seven months 2009 as compared to the same period in 2008 was that Henan XLX Fertiliser enjoyed full exemption of income tax in 2007 and 2008 under the PRC EIT Law, while it only was entitled to a 50% tax reduction in income tax in 2009 and the uniform tax rate was 25%.

Net profit attributable to the equity shareholders

Our net profit attributable to the equity shareholders decreased by approximately 70.2% from approximately RMB227.0 million in the seven months ended 31 July 2008 to approximately RMB67.7 million in the seven months ended 31 July 2009.

Three months ended 30 September 2009 compared to three months ended 30 September 2008

Revenue

Our total revenue increased by approximately 6.0% from approximately RMB628.5 million for the three months ended 30 September 2008 to approximately RMB665.9 million for the three months ended 30 September 2009, which was mainly contributed by increase in revenue generated from sales of our urea by approximately 65.7%. However, the increase in our total revenue was partially offset by the decreases in sales of our compound fertiliser and methanol, amounting to approximately 40.2% and 10.6% respectively, for the same period.

Urea

Our revenue derived from sales of our urea increased by approximately 65.7% from approximately RMB256.0 million for the three months ended 30 September 2008 to approximately RMB424.2 million for the three months ended 30 September 2009, primarily due to increase in sales volume of our urea by approximately 93.1% from approximately 148,534 tons for the three months ended 30 September 2008 to approximately 286,808 for the three months ended 30 September 2009, but the average selling price decreased by approximately 14.2% from approximately RMB1,723 per ton to approximately RMB1,479 per ton during the same period.

Compound fertiliser

Our revenue derived from sales of our compound fertiliser decreased by approximately 40.2% from approximately RMB309.6 million for the three months ended 30 September 2008 to approximately RMB185.0 million for the three months ended 30 September 2009, primarily due to the decrease in average selling price of our compound fertiliser by approximately 45% from approximately RMB3,446 per ton for the three months ended 30 September 2008 to approximately RMB1,895 per ton for the three months ended 30 September 2009.

Methanol

Our revenue derived from sales of our methanol decreased by approximately 10.6% from approximately RMB60.9 million for the three months ended 30 September 2008 to approximately RMB54.5 million for the three months ended 30 September 2009, primarily due to the decrease in the average selling price of our methanol by approximately 39.5% from RMB2,642 per ton for the three months ended 30 September 2008 to approximately RMB1,598 per ton for the three months ended 30 September 2009.

Cost of sales

Our total cost of sales increased by approximately 20.7% from approximately RMB495.7 million for the three months ended 30 September 2008 to RMB598.3 million for the three months ended 30 September 2009, primarily due to the increases in cost of sales of our urea and methanol by approximately 57.8% and 17.4%, respectively, during the same period. Such increase in total cost of sales was partially offset by the decrease in cost of sales of our compound fertiliser by approximately 17.0% for the same period.

Urea

Our cost of sales for urea increased by approximately 57.8% from approximately RMB225.5 million for the three months ended 30 September 2008 to approximately RMB355.9 million for the three months ended 30 September 2009, primarily due to the increase in sales volume of our urea by approximately 93.1% during the same period.

Compound fertiliser

Our cost of sales for compound fertiliser decreased by approximately 17.0% from approximately RMB215.8 million for the three months ended 30 September 2008 to approximately RMB179.1 million for the three months ended 30 September 2009, primarily due to the decrease in the average selling price of potassium used for producing compound fertiliser, during the same period.

Methanol

Our cost of sales for methanol increased by approximately 17.4% from approximately RMB51.4 million for the three months ended 30 September 2008 to approximately RMB60.4 million for the three months ended 30 September 2009, primarily because the sales volume of methanol increased by approximately 47.8% during the same period.

Other income and gains

Our other income and gains decreased by approximately 35.6% from approximately RMB4.3 million for the three months ended 30 September 2008 to approximately RMB2.8 million for the three months ended 30 September 2009, primarily because the sales of by-products and the net fair value gain on derivative financial assets decreased by approximately RMB0.8 million and RMB1.8 million respectively, while the subsidy income increased by approximately RMB1.0 million, during the same period.

Selling and distribution expenses

Our selling and distribution expenses amounted to approximately RMB4.6 million both in three months ended 30 September 2008 and 2009.

General and administrative expenses

Our general and administrative expenses increased by approximately 82.1% from approximately RMB17.3 million for the three months ended 30 September 2008 to approximately RMB31.5 million for the three months ended 30 September 2009, primarily due to the increase in professional fees and consultancy fees for the proposed listing of our Company in Hong Kong by approximately RMB5.9 million, and the increase in repair and maintenance expenses by approximately RMB1.0 million and depreciation charges by approximately RMB0.7 million after the construction of Production Plant III in April 2009 for the three months ended 30 September 2009. Other general and administrative expenses including office expenses, salaries and travelling expenses were also increased as a result of the proposed listing of our Company in Hong Kong during the same period.

Finance costs

Our finance costs increased by approximately 50.6% from approximately RMB6.6 million for the three months ended 30 September 2008 to approximately RMB9.9 million for the three months ended 30 September 2009, primarily due to the increase in interest on loans by approximately 51.3% during the same period.

Profit before tax

As a result of the above factors, our profit before tax decreased by approximately 82.6% from approximately RMB101.9 million for the three months ended 30 September 2008 to RMB17.7 million for the three months ended 30 September 2009.

Tax

Our income tax decreased by approximately 0.8% from approximately RMB5.30 million for the three months ended 30 September 2008 to approximately RMB5.26 million for the three months ended 30 September 2009, primarily due to the significant decrease in our profit before tax by approximately 82.6%, amounting to a decrease of approximately RMB84.2 million for the same period. We are subject to a higher effective tax rate of 30% for the three months ended 30 September 2009, as compared with the effective tax rate of 5% for the three months ended 30 September 2008.

Net profit attributable to the equity shareholders

Our net profit attributable to the equity shareholders decreased by approximately 87.1% from approximately RMB96.6 million for the three months ended 30 September 2008 to approximately RMB12.5 million for the three months ended 30 September 2009.

LIQUIDITY AND CAPITAL RESOURCES

Currently, our principal sources of liquidity and capital resources have been, and are expected to continue to be, cash flow from operating activities, bank borrowings. Our principal cash needs have historically related to, and we expect to continue to be, (i) capital expenditures for acquisition of property, plant and equipment, (ii) capital expenditures for expansion of our production plants, (iii) costs and expenses relating to our production and operation, such as raw materials costs and other related manufacturing expenses required for our fertiliser productions, and (iv) repayments of the principal of, and interest on, our loans and borrowings. Given our current credit status and our current levels of operations and conditions in the markets and industry, our Directors believe that our cash flows from operating activities, our bank relationships and future financings will enable us to meet our working capital requirements, capital expenditures, and other funding requirements for the foreseeable future.

We had cash and cash equivalents of approximately RMB157.6 million, RMB506.8 million, RMB200.1 million and RMB199.2 million as at 31 December of 2006, 2007 and 2008, and 31 July 2009, respectively.

We had net current liabilities of approximately RMB45.8 million as at 31 December of 2006 and RMB414.7 million as at 31 July 2009, while we had net current assets of approximately RMB176.2 million and RMB51.6 million as at 31 December of 2007 and 2008, respectively, as we had large amounts of inventories and cash and cash equivalents in 2007 and 2008.

As at 31 July 2009, our net current liabilities were approximately RMB414.7 million. The current assets comprised mainly inventories of approximately RMB182.5 million, trade and bills receivables of approximately RMB20.2 million, prepayments of approximately RMB34.9 million, deposit and other receivables of approximately RMB31.6 million and cash and cash equivalents of approximately RMB199.2 million. The current liabilities comprised trade payables of approximately RMB44.1 million, bills payable of approximately RMB33.7 million, accruals and other payables of approximately RMB289.4 million, amounts due to related companies of approximately RMB2.1 million, deferred grants of approximately RMB9.0 million and interest-bearing bank and other borrowings of approximately RMB522.6 million.

Our Directors have given careful consideration to the future liquidity of our Group in light of its net current liabilities of approximately RMB414.7 million as at 31 July 2009. Despite the net current liabilities, after taking into account of its available banking facilities and cash flows from our operations, our Directors believe that such net current liabilities position is temporary in nature and the Group had returned to net current assets position as at 31 October 2009, our Directors are of the view that we have sufficient working capital for our operations for the reasons as set forth below:

1. of the RMB414.7 million net current liabilities as at 31 July 2009, approximately RMB307.6 million related to a syndicated loan which had an original maturity term in 2011. We became aware that our Company was not able to meet certain financial covenants under the syndicated loan agreement at the time we prepared our interim

reports in or about August 2009, and that the lenders had the rights to require our Company to repay the syndicated loan anytime. Thus, 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;

2. for approximately RMB100 million bank borrowings due within one year as at 31 July 2009, our Group had extended the borrowings to terms of over one year by the end of October 2009; and

3. a new long-term bank loan of RMB85 million was obtained by the end of October 2009.

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

As at 31 October 2009, our net current assets were approximately RMB72.2 million. For detailed breakdown of the net current assets, please refer to the paragraph headed "Working Capital" in this section.

Cash flows

The table below sets out the selected cash flows data from our consolidated statements of cash flows for the periods indicated.

	Year ended 31 December			Seven months ended 31 July	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Net cash flows from operating activities	243,258	208,498	369,563	266,753	198,651
Net cash flows used in investing activities	(256,755)	(334,777)	(897,180)	(470,437)	(328,548)
Net cash inflow/(outflow) from financing activities	131,449	475,518	220,921	(123,573)	128,946
Net increase/(decrease) in cash and cash equivalents	117,952	349,239	(306,696)	(327,257)	(951)
Cash and cash equivalents at beginning of year/period	39,619	157,571	506,810	506,810	200,114
Cash and cash equivalents at end of year/period	157,571	506,810	200,114	179,553	199,163

Net cash flows from operating activities

Our cash inflow from operating activities was mainly from receipt of cash from the sales of our three major products, namely, urea, compound fertiliser and methanol. Our cash outflow from operating activities mainly represents amounts paid to trade creditors for purchases of raw materials.

Our net cash inflow from our operating activities decreased by approximately 14.3% from approximately RMB243.3 million in 2006 to approximately RMB208.5 million in 2007. The decrease was mainly caused by the changes in working capitals such as accrual and other payables.

Our net cash inflow from our operating activities increased by approximately 77.3% from approximately RMB208.5 million in 2007 to approximately RMB369.6 million in 2008, as our profit before tax increased considerably in 2008 compared to the one in the year ended 31 December of 2007 resulting from the increased sales price and volume of compound fertiliser and a urea service income of approximately RMB25.8 million which commenced in 2008.

Our net cash inflow from operating activities decreased by approximately 25.5% from approximately RMB266.8 million for the seven months ended 31 July 2008 to approximately RMB198.7 million for the seven months ended 31 July 2009. This is mainly because of significant decrease in profit before tax by approximately 64.8% from approximately RMB238.6 million for the seven months ended 31 July 2008 to approximately RMB83.9 million for the seven months ended 31 July 2009.

Net cash flows used in investing activities

Cash inflows or outflows from investing activities mainly represent payment for purchase of property, plant and equipment.

Our net cash outflow in respect of our investing activities increased by approximately 30.4% from approximately RMB256.8 million in 2006 to approximately RMB334.8 million in 2007. Such significant difference was mainly due to our acquisition of the related assets and liabilities pertaining to our Production Plant I and Production Plant II in 2007. We paid the net assets value of approximately RMB206.9 million to XLX Chem. In addition to the acquisition of the related assets and liabilities of our Production Plant I and Production Plant II, we also paid for the purchase of property, plant and equipment of approximately RMB137.5 million.

Our net cash outflow in respect of our investing activities increased by approximately 168.0% from approximately RMB334.8 million in 2007 to RMB897.2 million in 2008. We paid approximately, RMB632.2 million for the construction of Production Plant III, RMB205.0 million for upgrading our Production Plant I and Production Plant II, and RMB21.4 million for purchase of land use rights. As a result, our cash outflow in respect of investing activities was increased in the year ended 31 December of 2008.

Our net cash used in investing activities decreased by approximately 30.2% from approximately RMB470.4 million for the seven months ended 31 July 2008 to approximately RMB328.5 million for the seven months ended 31 July 2009. Such decrease was mainly because the costs of the construction of our Production Plant III were mostly paid in 2008, while the construction was completed in April 2009. The purchase of property, plant and equipment then decreased from approximately RMB431.4 million for the seven months ended 31 July 2008 to approximately RMB310.5 million for the seven months ended 31 July 2009, and the purchase of land use rights also decreased from approximately RMB18.0 million for the seven months ended 31 July 2008 to approximately RMB1.6 million for the seven months ended 31 July 2009.

Net cash flows from financing activities

We derive cash inflow from financing activities from bank borrowings and advances from related parties, while cash outflow from financing activities mainly comprises repayment of bank borrowings and payment of dividends.

Our net cash inflow in respect of our financing activities increased by approximately 261.8% from approximately RMB131.4 million in 2006 to approximately RMB475.5 million in 2007. The increase was resulted from net cash proceeds of approximately RMB772.3 million from our initial public offering in the Singapore in 2007.

Our net cash inflow in respect of our financing activities decreased by approximately 53.5% from approximately RMB475.5 million in 2007 to approximately RMB220.9 million in 2008. There was less cash flow from financing activities in 2008 as compared to 2007 because we have received the cash proceeds from our listing on the SGX-ST in 2007. There was also a dividend payment of approximately RMB71.5 million and a net increase in bank borrowings by approximately RMB290.6 million in 2008.

Our net cash generated from financing activities was approximately RMB128.9 million for the seven months ended 31 July 2009 as compared to net cash used in financing activities amounting to RMB123.6 million for the seven months ended 31 July 2008. The increase was mainly due to the increase in the proceeds from loans and borrowings of approximately RMB625.2 million for the seven months ended 31 July 2009 from approximately RMB179.9 million for the seven months ended 31 July 2008, while we repaid the loans of approximately RMB232.0 million for the seven months ended 31 July 2008 and approximately RMB420.6 million for the seven months ended 31 July 2009.

Working Capital

In order to maintain sufficient funds for our existing and future cash requirements, we aim to effectively manage our cash flow and capital commitments, and seek bank borrowings and explore alternative means to raise capital. Currently, having considered our long-term relationships with certain PRC commercial banks, we believe that based on our past repayment and credit history, the existing short-term banks loans will be accepted for renewal upon their maturity and the existing credit facilities will be maintained in accordance with the terms and conditions of the relevant bank loan agreements.

Taking into account the financial resources presently available to us, including the available banking facilities and cash flows from our operations, our Directors are of the opinion that we have sufficient working capital for our operations for at least 12 months from the date of this document.

As at 31 October 2009, the date being the latest practicable date for the purpose of indebtedness statement in this document, our net current assets were approximately RMB72.2 million, comprising the following:

	As at 31 October 2009 RMB'000,000 (unaudited)
Current assets	
Inventories	183.7
Trade and bill receivables	33.2
Prepayments	43.1
Deposits and other receivables	33.9
Cash and cash equivalents	239.2
Total current assets	533.1
Current liabilities	
Trade payables	42.4
Bills payable	60.3
Accruals and other liabilities	248.2
Interest-bearing bank and other borrowings	110.0
Total current liabilities	460.9
Net current assets	72.2

Inventory analysis

Our inventories comprised raw materials, parts and spares, work-in-progress and finished goods. The table below sets out the breakdown on our inventories for the periods indicated.

	As at 31 December			As at 31 July
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Raw materials	74,974	113,813	178,379	80,745
Parts and spares	8,073	9,156	13,112	19,045
Work-in-progress	3,112	1,154	2,123	4,008
Finished goods	31,847	54,402	41,351	78,671
Total inventories	118,006	178,525	234,965	182,469

Our inventory increased from approximately RMB118.0 million as at 31 December 2006 to approximately RMB178.5 million as at 31 December 2007. Such increase was mainly due to the operation of our newly constructed Production Plant II. As our production capacity increased, the raw materials required for our production increased accordingly.

Our inventory as at 31 December of 2007 and 2008 increased from approximately RMB178.5 million to approximately RMB235.0 million, primarily due to the increase of approximately RMB64.6 million in raw materials. Such increase was mainly caused by the increase in the prices of raw materials, such as coal, phosphorous and potassium.

Inventory amounting to approximately RMB6.0 million was written down in the year ended 31 December 2008, which relates to the raw material, namely ammonia phosphate, used in the production for compound fertiliser. The weighted average cost of such raw material has fallen below its net realisable value as a large amount was purchased when prices were significantly higher during the first half of the year ended 31 December 2008. As a result, we have written down approximately RMB6.0 million of ammonia phosphate to state the raw material balance at its net realisable value.

For the approximately RMB182 million of inventories as at 31 July 2009, up to 31 October 2009, all of the parts and spares work-in-progress and finished goods were fully used in production or sold to our customers, whereas approximately RMB72.1 million of raw materials have been used for production.

The table below sets out our inventory turnover days during the Track Record Period.

	Year ended 31 December			Seven months ended 31 July
	2006	2007	2008	2009
Inventory turnover days. . .	49	48	47	42

Note: Calculated as the average of the beginning and ending inventory balances for the period, divided by the cost of sales for the period, multiplied by 365 days for the figures as at 31 December 2006, 2007 and 2008 (or 212 days for the figures as at 31 July 2009).

The average inventory turnover days decreased from 49 days in the year ended 31 December 2006 to 48 days in the year ended 31 December 2007, to 47 days in the year ended 31 December 2008 and to 42 days in the seven months ended 31 July 2009, primarily as a result of the rapidly growing market demand for our products that significantly lowered our inventory levels and better inventory control of our raw materials.

Save as the provision of inventory of approximately RMB6 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, over the Track Record Period and thus did not provide for any inventory impairment allowance during the Track Record Period.

Trade receivables analysis

Our trade receivables represent primarily the balances due from our customers, to which certain terms of credit are offered, in the ordinary course of business.

The table below sets forth our gross trade receivables during the Track Record Period:

	As at 31 December			As at 31 July
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables.	14,199	2,202	7,989	2,080
Impairment	(49)	(409)	(322)	(322)
	14,150	1,793	7,667	1,758

Our trade receivables decreased from approximately RMB14.2 million as at 31 December 2006 to approximately RMB1.8 million as at 31 December 2007, primarily due to the implementation of our credit policy which restricted the terms of credit offered to our customers, where our customers were usually required to make payment in advance before we delivered our products to the customers. It enabled us to minimise the amounts of trade receivables and received a higher percentage of payments before delivery. Our trade receivables increased from approximately RMB1.8 million as at 31 December 2007 to approximately RMB7.7 million as at 31 December 2008, primarily due to the increased sales for compound fertiliser to our long-term relationship customers, which usually received a credit term from us, with proven credit history.

For the approximately RMB1.8 million of trade receivables as at 31 July 2009, up to 31 October 2009, approximately 66.6% have been collected. Based on these customers' payment history and financial condition, we believe that the outstanding amounts will be paid in the due course of our business.

The table below sets out our trade receivables turnover days during the Track Record Period.

	Year ended 31 December			Seven months ended 31 July
	2006	2007	2008	2009
Trade receivables turnover days	4	2	1	1

Note: Calculated as the average of the beginning and ending net trade receivable balances for the period, divided by revenue for the period, multiplied by 365 days for the figures as at 31 December 2006, 2007 and 2008 (or 212 days for the figures as at 31 July 2009).

Trade receivables turnover days were between 1 to 4 days in the three years ended 31 December 2006, 2007 and 2008 and seven months ended 31 July 2009. The average net trade receivable turnover days decreased from approximately 4 days in 2006 to 2 days in 2007 and 1 day in 2008 and 31 July 2009, due to our effective credit control and careful selection of customers with better payment ability. Generally, our sales of urea and methanol are settled by cash in advance of delivery. We normally do not extend any credit terms to our customers in relation to sales of urea and methanol. In case we do, the credit terms granted would normally be up to 90 days. For compound fertiliser sales, we generally grant credit terms of up to 90 days. The credit terms will only be granted to our customers with a credit payment history. Furthermore, with the increase in client base, we were able to select customers with better payment ability and thus received a higher percentage of payments with a shorter period after delivery as our products.

The table below sets out an aging analysis of our gross trade receivables, as at the dates indicated.

	As at 31 December			As at 31 July
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 month	12,620	513	6,641	703
1 to 3 months	838	926	1,014	345
3 to 6 months	269	88	9	697
6 to 12 months	123	266	3	10
Over 12 months	300	—	—	3
	14,150	1,793	7,667	1,758

Trade receivables are non-interest-bearing and are normally settled on 30 to 90 days' term. Our trading terms with our compound fertiliser customers are mainly on credit, except for new customers, where payment in advance is normally required. Each customer has a maximum credit limit. We seek to maintain strict control over the outstanding receivables and to minimise credit risk. Overdue balances are reviewed regularly by our senior management. In view of the aforementioned and the fact that our trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk.

The table below sets out the movements in provision for impairment of trade receivables for the periods indicated.

	As at 31 December			As at 31 July
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
At the beginning of the year/ period.	—	49	409	322
Impairment losses recognised/(reversed) . .	49	360	(83)	—
Amount written off as uncollectible	—	—	(4)	—
At the end of the year/ period.	49	409	322	322

The provision of impairment loss for doubtful debts increased from approximately RMB49,000 as at 31 December 2006 to RMB409,000 as at 31 December 2007, and decreased to approximately RMB322,000 and RMB322,000 as at 31 December 2008 and as at 31 July 2009 respectively, primarily because the individually impaired trade receivables relate to customers that were in financial difficulties or in default in repayments and only a portion of the receivables was expected to be recovered. We do not hold any collateral or other enhancements over these balances.

Impairment of trade receivables of approximately RMB49,000 was made in the year ended 31 December 2006, which relates to an amount outstanding from a customer as at 31 December 2006. Impairment of trade receivables of approximately RMB360,000 was made in the financial year ended 31 December 2007, of which approximately RMB273,000 relates to the remaining trade receivable balance due from the same customer for the year ended 31 December 2006 that has not been provided for as at 31 December 2006, and approximately RMB87,000 relates to trade receivables from four customers which were outstanding for more than a year and were assessed to be doubtful by our management as at 31 December 2007.

Impairment of trade receivables of approximately RMB83,000 was reversed in 2008, because one of the four customers mentioned above in 2007 has settled the trade receivables of approximately RMB83,000 in 2008.

Approximately RMB4,000 of impairment of trade receivables was written off in 2008, relates to impairment made in 2007 on the amount outstanding from the other three customers of the four customers mentioned above. The amounts were written off from impairment of trade receivables as it is long outstanding and management has assessed them to be uncollectible.

Trade payables analysis

Our trade payables represent amounts payable in connection with the purchase of materials necessary for our production and other raw materials from various supplies.

The table below sets out our trade payables turnover days during the Track Record Period.

	Year ended 31 December			Seven months ended 31 July
	2006	2007	2008	2009
Trade payables turnover days	11	9	9	16

Note: Calculated as the average of the beginning and ending trade payables balances of the period, divided by cost of sales for the period, and multiplied by 365 days for the figures as at 31 December 2006, 2007 and 2008 (or 212 days for the figures as at 31 July 2009).

Trade payables turnover days were between 9 to 16 days in the years ended 31 December 2006, 2007 and 2008 and seven months ended 31 July 2009. In general, our suppliers grant us credit terms of between 30 and 90 days. Credit terms from our suppliers may vary depending on factors such as our relationship with the suppliers. We usually pay approximately 90% of the invoiced amount before our equipment suppliers deliver the goods to us and invoice us. We will usually withhold the remaining 10% of the invoiced amount so as to ensure the timeliness and quality of future deliveries.

Our trade payables primarily relate to the purchase of raw materials, which are non-interest bearing and are usually settled on 30 to 90 days. As at 31 December 2006, 2007 and 2008, and 31 July 2009, our trade payables were approximately RMB29.0 million, RMB27.7 million, RMB47.8 million and RMB44.1 million.

The table below sets out an aging analysis of our trade payables, as at the dates indicated.

	As at 31 December			As at 31 July
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 month	22,361	20,532	37,960	33,335
1 to 3 months	948	2,218	3,669	6,684
3 to 6 months	2,488	251	2,149	1,920
6 to 12 months	685	1,581	910	1,233
Over 12 months	2,481	3,103	3,072	969
	28,963	27,685	47,760	44,141

The trade payables are non-interest-bearing and are normally settled on 30 to 90 days terms.

Accruals and other payables analysis

The table below sets forth our accruals and other payables during the Track Record Period:

	As at 31 December			As at 31 July
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
NON-CURRENT				
Accruals				
Accruals for contracting charges and purchases of property, plant and equipment	—	—	25,600	50,500
CURRENT				
Accruals				
Accrued expenses	9,987	26,064	32,017	36,302
Accruals for contracting charges and purchases of property, plant and equipment	7,749	35,131	73,092	90,165
	17,736	61,195	105,109	126,467
Other payables				
Advance payments from customers	172,509	169,997	144,533	155,738
VAT and other operating tax payables	4,015	3,269	1,707	77
Tender deposits	75	1,082	4,427	3,779
Staff deposits	14	46	375	536
Others	3,461	5,107	3,260	2,802
	180,074	179,501	154,302	162,932
	197,810	240,696	259,411	289,399

The accruals, mainly represents accrued expenses, such as utilities and wages, and accruals for purchase of property, plant and equipment, which increased from approximately RMB17.7 million as at 31 December 2006 to approximately RMB61.2 million as at 31 December 2007, and further increased to approximately RMB105.1 million and RMB126.5 million as at 31 December 2008 and 31 July 2009 respectively. Such increase in balance is mainly due to the commencement of construction of our Production Plant III in 2008, our new compound fertiliser line in 2009, where we purchased property and equipment for urea and methanol production lines in Production Plant III and for new compound fertiliser line in 2008 and 2009.

Other payables represents advanced payments from customers, deferred revenue, VAT and other operating tax payables, tender deposits, staff deposits and others. The total amount of other payables decreased from approximately RMB180.1 million as at 31 December 2006 to approximately RMB179.5 million as at 31 December 2007, and further decreased to approximately RMB154.3 million as at 31 December 2008, but then increased to approximately RMB162.9 million as at 31 July 2009. Such decrease in balance in 2007 and 2008 was mainly because the decrease in VAT and other operating tax payables; while the increase in balance as at 31 July 2009 was mainly because of the increase in advance payments from our customers.

The tender deposits were approximately RMB0.1 million, RMB1.1 million, RMB4.4 million and RMB3.8 million as at 31 December 2006, 2007 and 2008 and 31 July 2009 respectively. The increase was primarily due to the expansion of our production plants as we required our suppliers to pay the tender deposits before they could undergo the tender process for our projects.

The staff deposits were approximately RMB14,000, RMB46,000, RMB375,000 and RMB536,000 as at 31 December 2006, 2007 and 2008 and 31 July 2009 respectively, and such increase was primarily due to employment of more staff to cope with our business expansions.

INDEBTEDNESS

Our bank and other borrowings represent secured and unsecured bank loans, loans from related party and loans from government. The table below sets out the breakdown of our bank and other borrowings as at 31 December 2006, 2007 and 2008, 31 July 2009 and 31 October 2009, the later being the latest practicable date for purpose of this indebtedness statement.

	As at 31 December			As at 31 July	As at 31 October
	2006	2007	2008	2009	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Current bank loans:					
— Secured[1]	54,665	37,300	—	—	—
— unsecured[2]	—	249,700	145,000	215,000	110,000
Syndicated bank loans					
— unsecured[3]	—	—	—	307,557	—
Current portion of long term bank loans:					
— secured	20,000	—	—	—	—
Non-current bank loans:					
— secured[4]	110,000	—	—	120,000	120,000
— unsecured[5]	—	80,000	422,557	220,000	705,000
Loans from government[6]	10,094	10,348	10,417	10,043	10,108
Loans from related parties[7]	—	—	90,000	—	—
Total	194,759	377,348	667,974	872,600	945,108

Notes:

(1) As at 31 December 2006, our Company had an outstanding bank loan of approximately RMB54.7 million which was secured by (i) pledge of the entire equity interests in Henan XLX Fertiliser; (ii) assignment of all funding (including shareholders loans, if any) provided by our Company to Henan XLX Fertiliser; (iii) subordination of the convertible loan; (iv) personal guarantees from certain directors of our Company; (v) undertaking by the directors to distribute to the Company the maximum amount of dividends permitted by applicable laws (up to the loan amount outstanding at the relevant time); and (vi) undertaking not to change the management team of our Company and our subsidiary. Those securities were released upon the repayment of such bank loan in 2007.

(2) Our Group obtained these short-term unsecured loans from the banks which bear a fixed interest rate of between 4.80% and 7.56% per annum.

(3) Pursuant to a syndicated long-term bank loan entered into between our Company and ABN AMRO Bank N.V. and other banks dated 30 September 2008, ABN AMRO Bank N.V. and other banks agreed to provide a principal sum of USD45 million (equivalent to approximately RMB307.6 million) to our Company, the interest rate of which was a floating rate of USD LIBOR + 2.25% per annum and the applicable rate would be revised

quarterly. The loan principal is to be repaid in 7 quarterly instalments commencing 18 months from 30 September 2008. As our Company was not able to meet certain financial covenants under the syndicated loan agreement, the borrowers had the rights to require our Company to repay the syndicated loan anytime. Thus, approximately RMB307.6 million was classified as current liabilities as at 31 July 2009.

(4) These short-term & long term loans are secured by corporate guarantees from unrelated parties of our Group, Xinya Paper Group Ltd. and Henan Kelong Group respectively.

(5) As at 31 December 2008, the unsecured long-term bank loans consisted of (i) the syndicated bank loans in the principal sum of approximately RMB307.6 million referred to in (3) above and (ii) a loan from China Construction Bank Limited in the principal sum of RMB100 million at a fixed rate of 7.56% per annum. Such loans are repayable in full in 2010.

(6) The loan from government bears interest at a floating rate of 0.3% above the market prime lending rate, which is a long term loan and will not be payable within the next 12 months.

(7) According to the two entrusted loan agreements dated 8 January 2008 and 21 January 2008 respectively between XLX Chem as the principal, Industrial and Commercial Bank of China Limited (Henan Branch) as the trustee, and Henen XLX Fertiliser as the borrower, XLX Chem provided the total entrusted loans of RMB90 million to Henan XLX Fertiliser through Industrial and Commercial Bank of China Limited (Henan Branch) for thirty-six months at the rate of 6.804% per annum. Henan XLX Fertiliser was to repay the principal of RMB90 million together with the interest by 7 January 2011. The purpose of the entrusted loans was for working capital. In May 2009, Henan XLX Fertiliser had fully repaid and settled the principal of RMB90 million together with the interest due to XLX Chem. For details of the loans from XLX Chem, please refer to the section headed "Relationships with Controlling Shareholders and XLX Chem Group" in this document.

As at 31 October 2009, the credit facilities granted by various banks and the government authority to our Group amounted to approximately RMB1,265 million, of which approximately RMB945 million were used and approximately RMB320 million remained unused.

The table below sets forth the amount of our bank and other borrowings as at 31 October 2009.

Carrying amount payable:	Total	Within 1 year	1–2 years	3–5 years	More than 5 years
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
• Bank loans	935,000	110,000	555,000	270,000	—
• Loan from government	10,108	—	10,108	—	—

The bank loans carry average interest rates of 8.9%, 4.8% and 4.0% per annum for each of the year ended 31 December of 2006, 2007 and 2008, respectively. All of our bank loans were denominated in RMB and USD during the Track Record Period.

Contingent liabilities

Our Directors confirmed that there has not been any material change in the indebtedness and contingent liabilities of our Group since 31 July 2009.

Disclaimer

Save as disclosed under the paragraph headed "Indebtedness" in this section, as at 31 October 2009, which is the latest practicable date for ascertaining information for disclosure in this section, we did not have any outstanding mortgages, charges, pledges, debentures, loan capital, bank loans and overdrafts, debt securities or other similar indebtedness, finance leases or hire purchase commitments, acceptance liabilities, acceptance credits, any guarantees or other material contingent liabilities.

ANALYSIS ON MAJOR ITEMS OF STATEMENT OF FINANCIAL POSITION

Property, plant and equipment

Our net carrying value of property, plant and equipment increased from approximately RMB216.8 million in 2006 to RMB974.3 million in 2007. Such increase was due to the acquisition of our Production Plant I and Production Plant II.

Our net carrying value of property, plant and equipment then increased to approximately RMB1.6 billion in 2008. Such increase was mainly due to the construction of our Production Plant III which increased the value of the construction-in-progress account.

As at 31 July 2009, our net carrying value of property, plant and equipment was approximately RMB2.2 billion. The amount was mainly due to the construction of our Production Plant III and the upgrades of production facilities in our Production Plant I and Production Plant II.

Prepayments, deposits and other receivables

Our prepayments increased from approximately RMB32.7 million as at 31 December 2006 to approximately RMB108.3 million as at 31 December 2007. Such increase was mainly caused by the increase of our prepayments regarding acquisitions of property, plant and equipment, payments to suppliers of raw materials, and acquisitions of our Production Plant II in 2007. Our prepayments then increased to approximately RMB306.0 million as at 31 December 2008. This was largely caused by the construction of our Production Plant III in 2008, and such prepayments were mostly settled in 2009. As at 31 July 2009, our total prepayment decreased to approximately RMB65.8 million.

The fluctuations in the amount of deposits and other receivables as at 31 December 2006, 2007 and 2008, and 31 July 2009 were mainly attributable to (i) the advances to the employees which accounted for approximately RMB2.6 million, RMB1.1 million, RMB1.6 million as at 31 December of 2006, 2007 and 2008, respectively, (ii) deposits which accounted for approximately RMB1.6 million and RMB0.02 million as at 31 December 2006 and 2008 respectively, (iii) interest receivable which accounted for approximately RMB0.6 million and RMB1.6 million as at 31 December 2007 and 2008 respectively; (iv) VAT receivables which accounted for RMB26.8 million as at 31 July 2009 and (v) others which accounted for approximately RMB1.2 million, RMB2.7 million and RMB3.0 million as at 31 December of 2006, 2007 and 2008.

Amounts due from/to related parties

As at 31 December 2006 and 2007, we had amounts due from related parties totalling approximately RMB11.9 million and RMB2.0 million respectively, while as at 31 December 2007 and 2008, and 31 July 2009, amounts due to related parties totalling RMB1.7 million, RMB1.7 million and RMB2.1 million respectively. These amounts were comprised of trading and non-trading amounts due from/to our related parties.

The trading amounts due from/to related parties represented balances granted to/by related parties involving trading activities and transactions. During the Track Record Period, we supplied utilities, namely electricity, water and steam, and provided calibration and testing services to related parties, while those related parties supplied equipment and raw materials, and provided lifting services to us. Our Directors are of the view that each of such related parties transactions was conducted in the ordinary and usual course of business and on normal commercial terms between the relevant parties. Our Directors further confirm that, save as the related parties transactions in respect of the supply of utilities, provision of calibration and testing services, purchase of equipment and provision of lifting services constitute the continuing connected transactions and will continue after the Listing, the outstanding trading amounts due from/to the related parties have been settled and such related parties transactions have been discontinued before Listing. For details of amounts due from/to related parties that involved trading activities, please refer to the section headed "Connected transactions" in this document.

The non-trading amounts due to related parties comprise the consideration for purchase of land use rights of Production Plant I and Production Plant II from XLX Chem and the entrusted loans provided by XLX Chem used for funding the construction of our Production Plant III during the Track Record Period, which have already been settled before the Listing. For details of the entrusted loans provided by XLX, please refer to the section headed "Relationship with the Controlling Shareholders and XLX Chem Group. Our Directors confirm that the outstanding non-trading amounts due to the related parties have been settled in full prior to the Listing. Save as disclosed above, we had not made any other advances to the related parties during the Track Record Period.

Derivative financial assets

As at 31 December 2008, we had derivative financial assets of RMB19.8 million because we entered into derivative financial instruments to hedge our foreign currency and interest rate risk exposures.

During the year ended 31 December 2008, we entered into two non-deliverable interest rate swap agreements (不交收利率調期合約). Pursuant to the first non-deliverable interest rate swap agreement dated 20 October 2008, we paid a fixed interest rate of 2.55% per annum for USD28.6 million non-deliverable swap and received a variable interest rate equal to USD LIBOR ＋2.25% per annum on the notional amount on a quarterly basis. Pursuant to the second non-deliverable interest rate swap agreement dated 11 November 2008, we paid a fixed interest rate of 2.5% per annum for USD10 million and received a variable interest rate equal to USD LIBOR＋2.25% per annum on the notional amount on a quarterly basis. The swaps are being used to hedge cash flow interest rate and foreign exchange rate risks arising from its floating rate USD syndicated bank loan. The fair value gains and losses arising from changes in the fair value of the derivative financial instruments constitute our other comprehensive income in the consolidated statements of comprehensive income. We recorded a derivative financial asset of RMB19.8 million as at 31 December 2008, which was reduced to RMB0.7 million as at 31 July 2009. Due to the nature of the derivative financial instruments, the fair value gains or losses on the swap and other derivative financial instruments will be beyond our control in the future and our operation results may be affected by the gain or loss from such derivative financial instruments.

Bills payable

Our bills payable have an average maturity period of 90 to 180 days and are interest-free. As at 31 December 2006, 2007 and 2008, and 31 July 2009, our bills payable were RMB18.0 million, RMB5.0 million, nil and RMB33.7 million respectively. During the Track Record Period, bills payable were secured by time deposits of approximately RMB12.6 million, RMB3.5 million, nil and RMB16.9 million respectively, which were in line with the fluctuations in the amount of bills payable as noted above as the deposits are pledged in the draw down of bills payable.

Derivative financial liability

On 16 October 2006, the Company entered into a convertible loan agreement with some investors (the "**Convertible Loan Agreement**") whereby the investors agreed to grant the Company a convertible loan facility of an aggregate amount of USD7.12 million (equivalent to approximately RMB55.6 million) in consideration for the right to convert the full sum of the convertible loan into fully paid Shares of the Company (the "**Conversion Right**"). The term of the convertible loan facility commenced from the drawdown date and expired on the earlier of 30 June 2008 or the termination of the proposed listing of the Company. Pursuant to the Convertible Loan Agreement, the convertible loan was to be automatically converted into fully paid new shares of the Company shortly after the approval of listing was granted by the SGX-ST; on the other hand, in the event the proposed listing of the Company on the SGX-ST was not successful, compensation costs at the compound annual rate of 10% per annum on the full principal amount, calculated on the basis of the actual days elapsed and a 365-day year, commencing from the funding date to the repayment date, were payable by the Company to the investors.

The Conversion Right, with embedded derivative features are split into liability and derivative component according to their fair values for measurement purposes. On initial recognition, the fair value of the derivative component was determined based on valuation; and this amount was carried as a derivative component of a liability until extinguished on conversion. The remainder of the proceeds was allocated to the liability component and is carried as a liability on the amortised cost basis until extinguished on conversion. The derivative component is remeasured at each reporting date and any gains or losses arising from change in fair value are recognised in the consolidated statements of comprehensive income. On 11 May 2007, the convertible loans were automatically converted into 175,680,000 fully paid new ordinary shares of the Company upon the approval of listing granted by the SGX-ST. As a result, we recorded a fair value loss of RMB64.3 million for the year ended 31 December 2007. For details of issuance and allotment of the Shares to those investors under the Convertible Loan Agreement, please refer to the section headed "History and corporate structure" in this document.

Deferred grants

As at 31 December 2007 and 2008, and 31 July 2009, the deferred grants were approximately RMB8.2 million, RMB9.7 million and RMB9.0 million respectively. There were no deferred grants as at 31 December 2006. Deferred grants related to non-recurrent government grants given to our Group for installation and building of machinery with an aim to implement energy-saving production methods and reduce production cost. The government grants increased from approximately RMB8.2 million as at 31 December 2007 to RMB9.7 million as at 31 December 2008, but then decreased to approximately RMB9.0 million, primarily because the amounts of grants were different depending on the nature of the projects and the use of funds for specific purposes, which were also subject to final inspection and approval by the government upon completion of the relevant projects.

CAPITAL EXPENDITURES

Our capital expenditures primarily relate to (i) acquisition of land use rights relating to the land at Xinxiang Economic and Technology Development Zone, Xiaoji Town, Henan Province, PRC, and the buildings located thereon and land use rights relating to the land at Xinxiang Economic and Technology Development Zone, Qing Long Road Central, Henan Province, PRC, and certain vehicles and equipment from XLX Chem (the "**XLX Chem Assets**"), (ii) repayment of liabilities relating to acquisition of XLX Chem Assets in 2006, (iii) acquisition of property, plant and equipment for expansion of our Production Plant I and Production Plant II in 2007, and (iv) acquisition of land use rights for construction of our Production Plant III in 2008. We have funded our historical capital expenditures through cash flows generated from our operating activities and bank borrowings. The table below sets out the breakdowns on our capital expenditures during the periods indicated.

	Year ended 31 December			Seven months ended 31 July	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Acquisition of XLX Chem Assets	—	206,909	—	—	—
Acquisition of property, plant and equipment	247,514	137,510	879,998	431,411	310,529
Acquisition of land use rights	—	—	21,444	18,042	1,578
Total	247,514	344,419	901,442	449,453	312,107

Our capital expenditures for the years ended 31 December 2006, 2007 and 2008 and the seven months ended 31 July 2009 were approximately RMB247.5 million, RMB344.4 million, RMB901.4 million and RMB312.1 million respectively.

Capital commitments and operating lease commitments

(a) We had the following capital and other commitments at the dates indicated:

	As at 31 December			As at 31 July
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Capital commitments:				
Contracted, but not provided for:				
Buildings	21,447	19,008	28,835	9,018
Plant and machinery	7,612	85,414	300,782	29,484
	29,059	104,422	329,617	38,502
Authorised, but not contracted for:				
Buildings	13,207	75,129	13,341	2,360
Plant and machinery	159,886	301,813	109,093	7,160
	173,093	376,942	122,434	9,520
	202,152	481,364	452,051	48,022
Other commitments:				
Purchase of raw materials	14,647	21,193	262,572	410,794

The Company had no material commitment as at 31 December 2006, 2007 and 2008, and 31 July 2009.

Regarding our capital and other commitments of an aggregate of approximately RMB458.8 million as at 31 July 2009, of which the capital commitment of approximately RMB48.0 million will be funded by a mix of internal generated funds and bank loans. The remaining approximately RMB410.8 million is other commitments for purchase of raw materials, which increased from approximately RMB262.6 million as at 31 December 2008 primarily due to the increases in our estimated annual production capacities of our urea and compound fertilisers upon the trial operations of our Production Plant III and new compound fertiliser line in our Production Plant II commenced in 2009, will be sourced from our internal generated funds. Our Directors believe that our cash flows from operating activities, as well as our bank relationships and future financings will enable us to meet our capital commitments and other commitments.

(b) In 2007, we have exercised our option to acquire certain buildings, plant and equipment, and vehicles pursuant to the operating lease agreements with XLX Chem. As a result there was a significant reduction in the amount of future minimum lease payments under non-cancellable operating leases in 2007. The table below sets out the future minimum rentals payable under non-cancellable operating leases as at the dates indicated:

	As at 31 December			As at 31 July
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	43,875	122	1,507	2,277
In the second to fifth years, inclusive	78,461	488	5,550	9,097
After five years.	2,592	548	39,248	58,863
	124,928	1,158	46,305	70,237

Our Group had operating lease agreements for buildings, plant and equipment, motor vehicle, staff quarters and canteen in the PRC. Certain of these leases have options for renewal.

RELATED PARTY TRANSACTIONS

With respect to the related party transactions set out in our consolidated financial information included in the Accountants' Report set out in Appendix I to this document, our Directors confirm that these transactions were conducted on normal commercial terms and/or that such terms were no less favourable to our Group than terms available to independent third parties and were fair and reasonable and in the interest of our Shareholders as a whole. For a discussion of related party transactions, see Appendix I to this document.

OFF BALANCE SHEET TRANSACTIONS

We have not entered into any material off-balance sheet transactions or arrangements save as disclosed under "Capital commitments and operating lease commitments" in this section.

PROPERTY INTERESTS

Jones Lang LaSalle Sallmanns Limited, an independent property valuer, has valued the property interests attributable to us, as at 30 September 2009 at approximately RMB382.6 million. The text of its letter, summary of values and valuation certificates are set out in "Appendix III — Property Valuation" in this document.

Property interests include the land use rights to parcels of land and the building ownership rights of the completed buildings and structures.

A reconciliation of the net book value of the relevant property interest, as at 31 July 2009, to their market value as at 30 September 2009 as stated in "Appendix III — Property Valuation" in this document is as follows:

	RMB (in million)
Net book value of our Group's property interest as at 31 July 2009	
— Buildings and other fixtures	283.1
— Prepaid land	75.0
	358.1
Less: Depreciation for the period from 1 August 2009 to 30 September 2009	(2.3)
Net book value as at 30 September 2009	355.8
Valuation surplus as at 30 September 2009	26.8
Valuation as at 30 September 2009 as per Appendix III in this document	382.6

DIVIDEND POLICY

The Company did not declare or pay any dividend for the year ended 31 December 2006. The Company paid dividends of approximately RMB71.5 million in 2008 for the year ended 31 December 2007. The Company paid dividends of approximately RMB75.7 million in 2009 for the year ended 31 December 2008.

We intend to recommend and distribute dividends of not less than 20% of our net profit attributable to our Shareholders in each financial year. Nevertheless, the amount of dividends that may be declared in future will be subject to, among other factors, the discretion of our Directors, the availability of distributable profits, our earnings, financial conditions, capital requirements, cash requirements, our development plans and other factors as deemed relevant at such time by our Directors. Therefore, prospective investors should not use our dividend payout history as a reference or basis to predict our future dividend payouts.

Any declaration and payment as well as the amount of dividends will be subject to the Group's constitutional documents, the Singapore Companies Act, the relevant listing rules and laws in Hong Kong as well as the approval of our Shareholders.

DISTRIBUTABLE RESERVES

The Company had no reserves available for distribution to our Shareholders as at 31 July 2009.

NET TANGIBLE ASSETS

The following statement shows the consolidated net tangible assets attributable to equity holders of the Company as at 31 July 2009 as extracted from the Accountants' Report, the text of which is set out in Appendix I to this document.

Audited consolidated net tangible assets attributable to equity holders of the Company as at 31 July 2009	RMB1,350,463,000
Audited net tangible asset value per Share(1)	RMB1.35

Note:

(1) The audited net tangible asset value per Share is calculated on the basis of 1,000,000,000 Shares in issue and outstanding as at 31 July 2009.

NO MATERIAL ADVERSE CHANGE

Our Directors are not aware of any material adverse change (i) in our financial or trading position or prospects; and (ii) in our indebtedness and contingent liabilities since 31 July 2009 (being the date to which the latest audited financial statements of our Group were made up).

DISCLOSURE UNDER RULE 13.09(2) OF THE LISTING RULES

We are required to publish quarterly reports containing the unaudited financial statements on the SGX-ST in accordance with the Listing Manual. Our Directors confirm that, in order to comply with Rule 13.09(2) of the Listing Rules, we will publish the full text of our quarterly reports in Hong Kong at the same time when such reports are published in Singapore, which shall include a reconciliation of our financial statements in accordance with IFRS and the narrative descriptions of the major differences in a form that facilitate investors' understanding of our financial performance.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors confirm that as at the Latest Practicable Date, they were not aware of any circumstances which would give rise to a disclosure obligation under Rules 13.13 to 13.19 of the Listing Rules.