The following is the text of a report, prepared for the purpose of incorporation in this listing document, received from the independent reporting accountants of the Company, Ernst & Young, Certified Public Accountants, Hong Kong.

ERNST & YOUNG
安 永

18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

27 November 2009

The Board of Directors
China XLX Fertiliser Ltd.
Cazenove Asia Limited

Dear Sirs,

We set out below our report on the financial information relating to China XLX Fertiliser Ltd. (the "**Company**") and its subsidiary (hereinafter collectively referred to as the "**Group**") for each of the three years ended 31 December 2006, 2007 and 2008, and the seven-month period ended 31 July 2009 (the "**Relevant Periods**") and the seven-month period ended 31 July 2008 (the "**31 July 2008 Financial Information**"), prepared on the basis set forth in note 2 of Section II "Notes to Financial Information" below, for inclusion in the listing document of the Company dated 27 November 2009 (the "**Listing Document**") in connection with the proposed listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") by way of introduction.

The Company was incorporated in Singapore on 17 July 2006 under the Singapore Companies Act and listed on the Singapore Exchange Securities Trading Limited (the "**SGX-ST**") on 20 June 2007. The principal activity of the Company is investment holding. The Group is principally engaged in the production and sales of urea, compound fertiliser, methanol, liquid ammonia and ammonia solutions.

The financial information set out in this report, including the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flow of the Group for each of the Relevant Periods and the consolidated statements of financial position of the Group and the statements of financial position of the Company as at 31 December 2006, 2007 and 2008 and 31 July 2009, together with the notes thereto (collectively referred to as the "**Financial Information**"), has been prepared based on the audited consolidated financial statements of the Group, or where appropriate, unaudited management accounts of the Group, prepared in accordance with Singapore Financial Reporting Standards ("**SFRSs**") (which include all Singapore Financial Reporting Standards and Singapore Financial Reporting Interpretations) issued by the Singapore Accounting Standards Council. The consolidated financial statements of the Group for the three years ended 31 December 2006, 2007 and 2008 were audited by Ernst & Young Singapore, Certified Public Accountants in Singapore. No audited financial statements of the Group for the seven-month period ended 31 July 2009 have been prepared.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND REPORTING ACCOUNTANTS

The directors of the Company are responsible for the preparation and the true and fair presentation of the Financial Information in accordance with SFRSs. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the Financial Information, that is free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In preparing the Financial Information which gives a true and fair view, it is fundamental that appropriate accounting policies are selected and consistently applied, that the judgements and estimates made are prudent and reasonable.

It is our responsibility to form an independent opinion, based on our examination, on the Financial Information, for the Relevant Periods and to report our opinion to you.

The 31 July 2008 Financial Information has been prepared solely for the purpose of this report. The directors of the Company are responsible for preparing this comparative financial information. It is our responsibility to form an independent review conclusion, based on our review on the comparative financial information and to report our conclusion to you.

PROCEDURES PERFORMED IN RESPECT OF THE RELEVANT PERIODS

For the purpose of this report, we have carried out an independent examination on the Financial Information for the Relevant Periods in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"), and have carried out such additional procedures as are necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA. Adjustments have been made, for the purpose of this report, to restate the consolidated statements of comprehensive income of the Group for the years ended 31 December 2006, 2007 and 2008 and the consolidated statements of financial position of the Group as at 31 December 2006, 2007 and 2008 to conform with accounting policies as referred to in note 3 of Section II "Notes to Financial Information" below.

PROCEDURES PERFORMED IN RESPECT OF THE 31 JULY 2008 FINANCIAL INFORMATION

For the purpose of this report, we have also performed a review of the 31 July 2008 Financial Information for which the directors are responsible, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures to the financial information and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the 31 July 2008 Financial Information.

OPINION IN RESPECT OF THE RELEVANT PERIODS

In our opinion, the Financial Information for the Relevant Periods, for the purpose of this report, gives a true and fair view of the consolidated results and consolidated cash flows of the Group for each of the Relevant Periods and of the state of affairs of the Company and of the Group as at 31 December 2006, 2007 and 2008 and 31 July 2009.

REVIEW CONCLUSION IN RESPECT OF THE 31 JULY 2008 FINANCIAL INFORMATION

Based on our review which does not constitute an audit, for the purpose of this report, nothing has come to our attention that causes us to believe that the 31 July 2008 Financial Information is not prepared, in all material aspects, in accordance with SFRSs.

I. FINANCIAL INFORMATION

Consolidated Statements of Comprehensive Income

The following is a summary of the consolidated statements of comprehensive income of the Group for each of the Relevant Periods and the seven-month period ended 31 July 2008, prepared on the basis set out in note 2 of Section II, after making such adjustments as we considered appropriate and necessary for the purpose of this report:

		Year ended 31 December			Seven-month period ended 31 July	
		2006	2007	2008	2008	2009
	Notes	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
REVENUE	6	890,175	1,541,422	2,084,943	1,191,688	1,221,399
Cost of sales		(678,607)	(1,125,001)	(1,603,073)	(886,255)	(1,056,295)
Gross profit		211,568	416,421	481,870	305,433	165,104
Other income and gains	6	13,495	31,761	13,664	7,128	6,417
Selling and distribution expenses		(9,712)	(20,166)	(20,722)	(12,952)	(9,494)
General and administrative expenses		(41,487)	(76,635)	(91,290)	(44,837)	(60,009)
Other expenses		—	(64,343)	(6,963)	(2,906)	(1,479)
Finance costs	8	(21,447)	(18,062)	(26,791)	(13,261)	(16,633)
PROFIT BEFORE TAX	7	152,417	268,976	349,768	238,605	83,906
Tax	11	(23,333)	(1,417)	(18,094)	(11,612)	(16,192)
Net profit attributable to equity holders of the parent		129,084	267,559	331,674	226,993	67,714
Other comprehensive income						
Gain/(loss) on hedging instruments	22	—	—	19,807	—	(19,087)
Total comprehensive income attributable to equity holders of the parent		129,084	267,559	351,481	226,993	48,627
Earnings per share attributable to equity holders of the parent (RMB cents per share)						
Basic and diluted	14	20.68	31.65	33.17	22.70	6.77

Consolidated Statements of Financial Position

The following is a summary of the consolidated statements of financial position of the Group as at the end of each of the Relevant Periods, prepared on the basis set out in note 2 of Section II, after making such adjustments as we considered appropriate and necessary for the purpose of this report:

		As at 31 December			As at 31 July
		2006	2007	2008	2009
	Notes	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS					
NON-CURRENT ASSETS					
Property, plant and equipment	15	216,780	974,266	1,616,011	2,157,610
Prepaid land lease payments	16	—	47,448	72,628	73,390
Prepayments	20	15,820	63,296	277,882	30,927
Total non-current assets		232,600	1,085,010	1,966,521	2,261,927
CURRENT ASSETS					
Inventories	18	118,006	178,525	234,965	182,469
Trade and bills receivables	19	23,990	7,321	26,247	20,249
Prepayments	20	16,889	44,999	28,156	34,866
Deposits and other receivables	20	5,461	4,303	6,094	31,566
Due from related companies	21	11,902	1,998	—	—
Derivative financial assets	22	—	—	19,807	720
Income tax recoverable		—	—	—	357
Pledged deposits	23, 25	12,631	3,508	—	16,871
Cash and cash equivalents	23	157,571	506,810	200,114	199,163
Total current assets		346,450	747,464	515,383	486,261
Total assets		579,050	1,832,474	2,481,904	2,748,188
EQUITY AND LIABILITIES					
CURRENT LIABILITIES					
Trade payables	24	28,963	27,685	47,760	44,141
Bills payable	25	18,000	5,000	—	33,740
Accruals and other payables	26	197,810	240,696	259,411	289,399
Due to related companies	21	—	1,682	1,676	2,096
Income tax payable		17,256	930	220	—
Deferred grants	27	—	8,240	9,740	8,995
Convertible loans	28	36,010	—	—	—
Derivative financial liabilities	28	19,588	—	—	—
Interest-bearing bank and other borrowings	29	74,665	287,000	145,000	522,557
Total current liabilities		392,292	571,233	463,807	900,928

	Notes	As at 31 December 2006 RMB'000	As at 31 December 2007 RMB'000	As at 31 December 2008 RMB'000	As at 31 July 2009 RMB'000
Net current assets/ (liabilities)		(45,842)	176,231	51,576	(414,667)
NON-CURRENT LIABILITIES					
Accruals	26	—	—	25,600	50,500
Interest-bearing bank and other borrowings	29	120,094	90,348	522,974	350,043
Deferred tax liabilities	30	—	—	18,617	22,864
Total non-current liabilities		120,094	90,348	567,191	423,407
Total liabilities		512,386	661,581	1,030,998	1,324,335
Net assets		66,664	1,170,893	1,450,906	1,423,853
Equity attributable to equity holders of the parent					
Issued capital	31	1	836,671	836,671	836,671
Statutory reserve fund	32(a)	6,745	40,514	77,770	86,264
Hedging reserve	32(a)	—	—	19,807	720
Retained profits	32(a)	59,918	222,240	440,731	500,198
Proposed final dividend	13	—	71,468	75,927	—
Total equity		66,664	1,170,893	1,450,906	1,423,853
Total equity and liabilities		579,050	1,832,474	2,481,904	2,748,188

Consolidated Statements of Changes in Equity

The movements in the consolidated statements of changes in equity of the Group for each of the Relevant Periods and the seven-month period ended 31 July 2008, prepared on the basis set out in note 2 of Section II, after making such adjustments as we considered appropriate for the purpose of this report, are as follows:

	Notes	Issued capital (note 31) RMB'000	Statutory reserve fund (note 32(a)) RMB'000	Hedging reserve (note 22) RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000	Total equity RMB'000
At 1 January 2006		45,876	14,479	—	123,942	—	184,297
Increase in share capital	31	1	—	—	—	—	1
Total comprehensive income for the year		—	—	—	129,084	—	129,084
Net assets of the Predecessor subsequently acquired by the Group	2, 33	(45,876)	(14,479)	—	(173,756)	—	(234,111)
Transfer to statutory reserve fund	32(a)	—	6,745	—	(6,745)	—	—
Dividends	13	—	—	—	(12,607)	—	(12,607)
At 31 December 2006 and 1 January 2007		1	6,745	—	59,918	—	66,664
Total comprehensive income for the year		—	—	—	267,559	—	267,559
Issuance of new ordinary shares pursuant to conversion of the convertible loans	31(b)	122,236	—	—	—	—	122,236
Issuance of new ordinary shares pursuant to the listing of the shares on the SGX-ST	31(c)	770,000	—	—	—	—	770,000
Share issue expenses	31(c)	(55,566)	—	—	—	—	(55,566)
Transfer to statutory reserve fund	32(a)	—	33,769	—	(33,769)	—	—
Proposed final 2007 dividend	13	—	—	—	(71,468)	71,468	—
At 31 December 2007 and 1 January 2008		836,671	40,514	—	222,240	71,468	1,170,893
Total comprehensive income for the year		—	—	19,807	331,674	—	351,481
Final 2007 dividend declared	13	—	—	—	—	(71,468)	(71,468)
Transfer to statutory reserve fund	32(a)	—	37,256	—	(37,256)	—	—
Proposed final 2008 dividend	13	—	—	—	(75,927)	75,927	—
At 31 December 2008 and 1 January 2009		836,671	77,770	19,807	440,731	75,927	1,450,906
Total comprehensive income for the period		—	—	(19,087)	67,714	—	48,627
Transfer to statutory reserve fund	32(a)	—	8,494	—	(8,494)	—	—
Transfer from proposed final 2008 dividend to retained profits	13	—	—	—	247	(247)	—
Final 2008 dividend declared	13	—	—	—	—	(75,680)	(75,680)
At 31 July 2009		836,671	86,264	720	500,198	—	1,423,853
(Unaudited)							
At 1 January 2008		836,671	40,514	—	222,240	71,468	1,170,893
Total comprehensive income for the period		—	—	—	226,993	—	226,993
Transfer to statutory reserve fund	32(a)	—	24,502	—	(24,502)	—	—
Final 2007 dividend declared	13	—	—	—	—	(71,468)	(71,468)
At 31 July 2008		836,671	65,016	—	424,731	—	1,326,418

Consolidated Statements of Cash Flows

The consolidated statements of cash flows of the Group for each of the Relevant Periods and the seven-month period ended 31 July 2008, prepared on the basis set out in note 2 of Section II, after making such adjustments as we considered appropriate for the purpose of this report, are as follows:

		Year ended 31 December			Seven-month period ended 31 July	
		2006	2007	2008	2008	2009
	Notes	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES						
Profit before tax		152,417	268,976	349,768	238,605	83,906
Adjustments for:						
Amortisation of prepaid land lease payments	7	182	217	1,388	621	780
Depreciation of property, plant and equipment	7	46,402	43,984	78,465	44,861	62,289
Loss/(gain) on disposal of property, plant and equipment	6, 7	(709)	(23)	1,648	348	15
Write-off of property, plant and equipment	7	—	—	694	—	124
Amortisation of deferred grants	6	(2,941)	—	—	—	(1,545)
Net fair value gain on derivative financial assets	6	—	—	(1,763)	—	—
Provision of inventories	7	—	—	6,000	—	—
Allowance/(write-back) for doubtful trade receivables	7	49	360	(83)	(83)	—
Write-off of trade receivables	7	—	1,030	75	41	—
Interest income	6	(3,124)	(7,997)	(2,872)	(1,923)	(845)
Interest expense	8	21,447	18,062	26,791	13,261	16,633
Fair value loss of derivative financial liabilities	7	—	64,343	—	—	—
		213,723	388,952	460,111	295,731	161,357
Decrease/(increase) in inventories		(52,380)	(60,562)	(62,440)	(104,209)	52,496
Decrease/(increase) in trade and bills receivables		(13,316)	15,279	(18,918)	(13,986)	5,998
Decrease/(increase) in prepayments		(1,621)	(30,813)	17,386	(84,299)	(6,674)
Decrease/(increase) in deposits and other receivables		(2,386)	1,158	(1,791)	242	(25,472)
Decrease/(increase) in amounts due from related companies		18,565	9,904	1,998	(719)	—
Increase/(decrease) in trade and bills payables		34,987	(14,278)	15,075	67,983	30,121
Increase/(decrease) in accruals and other payables		87,428	(83,256)	(19,246)	118,488	12,915
Increase/(decrease) in amounts due to related companies		—	1,682	(6)	(1,012)	420
Cash flows generated from operations		285,000	228,066	392,169	278,219	231,161
Government grant received	27	—	8,240	1,500	250	800
Interest paid	8	(21,447)	(18,062)	(26,791)	(13,261)	(21,633)
Interest received		3,124	7,997	2,872	1,923	845
Tax paid		(23,419)	(17,743)	(187)	(378)	(12,522)
Net cash inflow from operating activities		243,258	208,498	369,563	266,753	198,651

	Notes	Year ended 31 December 2006 RMB'000	2007 RMB'000	2008 RMB'000	Seven-month period ended 31 July 2008 RMB'000 (Unaudited)	2009 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES						
Second Acquisition	2, 33	—	(206,909)	—	—	—
Proceeds from disposal of property, plant and equipment		1,541	519	754	33	430
Purchases of property, plant and equipment	34(i)	(247,514)	(137,510)	(879,998)	(431,411)	(310,529)
Purchases of land use rights		—	—	(21,444)	(18,042)	(1,578)
Proceeds from disposal of short-term investments		1,849	—	—	—	—
Decrease/(increase) in pledged time deposits		(12,631)	9,123	3,508	(21,017)	(16,871)
Net cash outflow from investing activities		(256,755)	(334,777)	(897,180)	(470,437)	(328,548)
CASH FLOWS FROM FINANCING ACTIVITIES						
Proceeds from the issue of new ordinary shares, net of share issue expenses	31	1	772,327	—	—	—
Dividends paid on ordinary shares	13	(12,607)	—	(71,468)	(71,468)	(75,680)
Proceeds from the issue of convertible loans	28	55,598	—	—	—	—
Proceeds from loans and borrowings		171,980	30,255	642,626	179,895	625,182
Proceeds from termination of derivative financial assets		—	—	1,763	—	—
Repayments of loans and borrowings		(83,523)	(327,064)	(352,000)	(232,000)	(420,556)
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
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS						
Cash and bank balances	23	154,573	56,789	189,429	146,025	190,219
Non-pledged time deposits with original maturity of less than three months when acquired	23	2,998	450,021	10,685	33,528	8,944
		157,571	506,810	200,114	179,553	199,163

Company Statements of Financial Position

The following is a summary of the statements of financial position of the Company as at the end of each of the Relevant Periods, prepared on the basis set out in note 2 of Section II:

		As at 31 December			As at 31 July
		2006	2007	2008	2009
	Notes	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS					
NON-CURRENT ASSET					
Investment in a subsidiary	17	107,570	400,000	800,000	800,000
CURRENT ASSETS					
Due from a subsidiary	17	—	—	309,420	314,735
Prepayments	20	1,706	—	—	—
Deposits and other receivables	20	—	551	1,509	554
Derivative financial assets	22	—	—	19,807	720
Cash and cash equivalents	23	3,626	440,332	23,037	26,627
Total current assets		5,332	440,883	353,773	342,636
Total assets		112,902	840,883	1,153,773	1,142,636
EQUITY AND LIABILITIES					
CURRENT LIABILITIES					
Accruals and other payables	26	1,874	4,078	10,563	14,396
Income tax payable		—	930	220	—
Convertible loans	28	36,010	—	—	—
Derivative financial liabilities	28	19,588	—	—	—
Interest-bearing bank and other borrowings	29	54,665	—	—	307,557
		112,137	5,008	10,783	321,953
Net current assets/(liabilities)		(106,805)	435,875	342,990	20,683
NON-CURRENT LIABILITIES					
Interest-bearing bank and other borrowings	29	—	—	307,557	—
Total liabilities		112,137	5,008	318,340	321,953
Net assets		765	835,875	835,433	820,683

	Notes	As at 31 December 2006 RMB'000	As at 31 December 2007 RMB'000	As at 31 December 2008 RMB'000	As at 31 July 2009 RMB'000
Equity attributable to equity holders of the parent					
Issued capital	31	1	836,671	836,671	836,671
Hedging reserve	32(b)	—	—	19,807	720
Retained profits/ (accumulated losses)	32(b)	764	(72,264)	(96,972)	(16,708)
Proposed final dividend	13	—	71,468	75,927	—
Total equity		765	835,875	835,433	820,683
Total equity and liabilities		112,902	840,883	1,153,773	1,142,636

II. NOTES TO FINANCIAL INFORMATION

1. CORPORATE INFORMATION

The Company was incorporated in Singapore on 17 July 2006 under the Singapore Companies Act and listed on the Singapore Exchange Securities Trading Limited (the "**SGX-ST**"). The registered office of the Company is located at 333 North Bridge Road, #08-00 KH KEA Building, Singapore 188721. The principal place of business of the Group is located at Xinxiang Economic and Technology Development Zone, West Zone, Henan Province, the People's Republic of China ("**PRC**"). The principal activity of the Company consists of investment holding.

During the Relevant Periods, the Company and its subsidiary now comprising the Group underwent the reorganisation (the "**Reorganisation**") as set out in the section headed "History and Corporate Structure" in the Listing Document.

At the date of this report, the Company had direct interest in a wholly-owned subsidiary, Henan Xinlianxin Fertiliser Co., Ltd, a private limited liability company, the particulars of which are set out below:

Name	Place and date of registration	Nominal value of registered capital	Percentage of equity interest directly attributable to the Company	Principal activities
Henan Xinlianxin Fertiliser Co., Ltd. ("**Henan XLX**") . . .	PRC 24 July 2006	RMB800,000,000	100%	Manufacturing and trading of urea, compound fertiliser, methanol, liquid ammonia and ammonia solution

The statutory audited financial statements of the subsidiary for the period from its incorporation to 31 December 2008 prepared in accordance with PRC accounting principles and regulations were audited by Henan Huaqin Lianhe Certified Public Accountants registered in the PRC.

2. BASIS OF PRESENTATION

The Group's principal businesses comprise the production and sales of urea, compound fertiliser and methanol (the "**Relevant Business**") which were previously conducted by Henan Xinlianxin Chemicals Co., Ltd. ("**Henan Chemicals**" or the "**Predecessor**"). As part of the Reorganisation, Henan XLX was incorporated on 24 July 2006 by Henan Chemicals as a wholly-owned subsidiary. On the same date, the Relevant Business together with certain assets and liabilities related thereto at the then carrying value of RMB107,570,000 were injected by Henan Chemicals into Henan XLX. Pursuant to the Reorganisation, on 24 July 2006, the Company acquired the entire equity interest in Henan XLX from Henan Chemicals for a cash consideration of US$13.5 million (equivalent to RMB107,570,000), representing the valuation of the net assets then owned by Henan XLX based on the valuation as at 30 June 2006 performed by Henan Yucai Assets Evaluation Co., Ltd., an independent valuer. As a result of this acquisition (the "**First Acquisition**") and pursuant to an approval dated 28 July 2006 issued by the Henan Commerce Department, Henan XLX was converted into a wholly foreign-owned enterprise and became the wholly-owned subsidiary of the Company. Henan XLX is the Group's only and major operating company. The ultimate beneficiary shareholders of Henan Chemicals and the Company immediately before and after the Reorganisation were identical pursuant to the trust arrangement as referred in more details in the section headed "History and Corporate Structure" of the Listing Document.

During the Reorganisation, certain assets and liabilities related to the Relevant Business were not injected into Henan XLX by Henan Chemicals for the formation of Henan XLX. Such assets were collectively referred to as the "Net assets not transferred" and were leased to the Group by Henan Chemicals. The Group was given a right to acquire them from Henan Chemicals at any time during the lease periods from 1 August 2006 to 14 September 2009. The "Net assets not transferred" were acquired by Henan XLX on 12 October 2007 (the "**Second Acquisition**"). Details of the assets and liabilities acquired in the First Acquisition and the Second Acquisition, and the "Net assets not transferred" are set out in note 33 to the Financial Information.

For the purpose of this accountants' report, the Financial Information in respect of the financial year ended 31 December 2006 has been prepared in accordance with the principles of merger accounting as if the Reorganisation had been completed at the beginning of the Relevant Periods, as the exercise is a reorganisation of businesses under common control whereby the businesses conducted by the Predecessor immediately before the Reorganisation and by the Group immediately after the Reorganisation were ultimately controlled by the same group of ultimate controlling shareholders of the Company. Accordingly, assets and liabilities involved in the First Acquisition were included in the consolidated statement of financial position as at 1 January 2006.

The Financial Information for the Relevant Periods has been presented as if the Relevant Business had been conducted by the Group even before the First Acquisition such that the related costs, including depreciation charges, for the Net assets not transferred, prior to the First Acquisition, were also included in the Financial Information, while only the annual rental payments referred to above for the Net assets not transferred subsequent to the First Acquisition but prior to the Second Acquisition were included in the costs of conducting of the Relevant Business for that period.

The Financial Information which is prepared based on the audited consolidated financial statements of the companies now comprising the 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 the Group, as if the current group structure had been in existence throughout the Relevant Periods. All significant intra-group transactions and balances have been eliminated on consolidation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The Financial Information has been prepared in accordance with Singapore Financial Reporting Standards ("**SFRSs**") (which include all Singapore Financial Reporting Standards and Singapore Financial Reporting Interpretations ("**INT SFRS**")) issued by the Accounting Standards Council of Singapore throughout the Relevant Periods.

The Financial Information has been prepared on a historical cost basis except as set out in the accounting policies below. The Financial Information is presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand ("**RMB'000**") except when otherwise indicated.

Impact of new and revised Singapore Financial Reporting Standards

For the purpose of preparing and presenting the Financial Information, the Group has adopted all the new and revised SFRSs that require retrospective application that are relevant to the Group's operations as of the beginning of the Relevant Periods. Although the revised SFRS 23 *Borrowing Costs* is effective for annual periods beginning on or after 1 January 2009, the Group has elected to early adopt it with effect from 1 August 2008. The adoption of these new and revised SFRSs, except for SFRS 1 *Presentation of Financial Statements* and SFRS 23 *Borrowing Costs*, as described below, had no material effect on the results and financial position of the Financial Information which have been prepared and presented.

SFRS 1 Presentation of Financial Statements

Based on the requirements of the revised standard, the Group:

- separated the presentation of owner and non-owner changes in equity. The consolidated statements of changes in equity include only details of transactions with owners, with all non-owner changes in equity presented as a single line as "Total comprehensive income attributable to equity holders of the parent for the year".

- elected to present all items of income and expense, including those accounted for directly in equity, in the consolidated statements of comprehensive income.

SFRS 23 Borrowing Costs

SFRS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. In accordance with the transitional provisions in the revised standard, the Group applied this revised standard to capitalise the borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 August 2008 instead of the original effective date of 1 January 2009 in the case for the Group. This change in accounting policy had no material effect on how the results for the year ended 31 December 2008 have been prepared and presented. The early adoption has resulted in capitalisation of borrowing costs of RMB5,000,000 for the seven-month period ended 31 July 2009 (note 8).

The Group has not early adopted the following SFRS and INT SFRS that have been issued but will only become effective for annual periods beginning on or after 1 July 2009:

SFRS 27 Amendments	Consolidated and Separate Financial Statements
SFRS 39 Amendments	Financial Instruments: Recognition and Measurement — Amendments relating to Eligible Hedged Items
SFRS 103 (Revised)	Business Combinations
SFRS 105 Amendments	Non-current Assets Held for Sale and Discontinued Operations
INT SFRS 117	Distributions of Non-cash Assets to Owners
SFRS 38 Amendments	Intangible Assets
SFRS 102 Amendments	Share-based Payment
SFRS 108 Amendments	Operating Segments
INT SFRS 109 Amendments . .	Reassessment of Embedded Derivatives
INT SFRS 116 Amendments . .	Hedges of a Net Investment in a Foreign Operation

The adoption of the above pronouncements is expected to have no material impact on the financial statements in the period of initial application.

Functional and foreign currency

(a) Functional currency

The Group's principal operations are conducted in the PRC. Management has determined the currency of the primary economic environment in which the Group operates, i.e., functional currency, to be Renminbi (RMB). Sales prices and major costs of providing goods and services including major operating expenses are primarily influenced by fluctuations in RMB. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

(b) Foreign currency transactions

Transactions in foreign currencies are measured and recorded in RMB at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the respective reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

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

Exchange differences arising on the settlement of monetary items or on translating monetary items at the reporting date are recognised in the consolidated statements of comprehensive income except for exchange differences arising on monetary items that form part of the Group's net investment in foreign operations, which are recognised initially in equity as foreign currency translation reserve in the consolidated statements of financial position and recognised in the consolidated statements of comprehensive income on disposal of the foreign operation.

Subsidiaries

A subsidiary is an entity over which the Group has the power to govern the financial and operating policies so as to obtain benefits from its activities. The Group generally has such power when it directly or indirectly, holds more than 50% of the issued share capital, or controls more than half of the voting power, or controls the composition of the board of directors.

The results of the subsidiary are included in the Company's statement of comprehensive income to the extent of dividends received and receivable. The Company's investment in a subsidiary is stated at cost less any impairment losses.

Basis of consolidation

The consolidated financial information comprises the financial information of the Company and its subsidiary as at the reporting date. The financial information of the subsidiary are prepared for the same reporting date as the parent company. Consistent accounting policies are applied for like transactions and events in similar circumstances.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intragroup transactions that are recognised in assets, are eliminated in full.

The consolidated financial information of the Group for the financial year ended 31 December 2006 were prepared in accordance with the principles of merger accounting. Under this method, the Relevant Business acquired by the subsidiary from XLX Chem has been deemed to be operating under the Group throughout the Relevant Periods presented rather than from the date of completion of the Reorganisation. Similarly, the Company has been treated as the holding company of its subsidiary throughout the Relevant Periods presented rather than from the date of completion of the Reorganisation. Accordingly, the consolidated results of the Group for the year ended 31 December 2006 include the results of the Relevant Business and the subsidiary for the entire year under review.

Pursuant to this:

— Assets and liabilities are consolidated at their carrying amounts;

— No amount is recognised for goodwill; and

— The Group's share capital represents the Company's paid-up share capital.

Consolidation of the subsidiary in the PRC is based on the subsidiary's financial information prepared in accordance with SFRS. Profits reflected in the financial information prepared in accordance with SFRS may differ from those reflected in the PRC statutory financial statements of the subsidiary, prepared for PRC financial reporting purposes. In accordance with the relevant laws and regulations, profits available for distribution by the PRC subsidiary are based on the amounts stated in the PRC statutory financial statements.

Related parties

A party is considered to be related to the Group if:

(a) directly, or indirectly through one or more intermediaries, the party:

(i) controls, is controlled by, or is under common control with, the entity (this includes parents, subsidiaries and fellow subsidiaries);

(ii) has an interest in the entity that gives it significant influence over the entity; or

(iii) has joint control over the entity;

(b) the party is an associate (as defined in SFRS 28 Investments in Associates) of the entity;

(c) the party is a joint venture in which the entity is a venturer (as defined in SFRS 31 Interests in Joint Ventures);

(d) the party is a member of the key management personnel of the entity or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of employees of the entity, or of any entity that is a related party of the entity.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of comprehensive income in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

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

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each reporting date.

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 on disposal or retirement recognised in the statement of comprehensive income in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings and plant and machinery under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment or investment properties when completed and ready for use.

Prepaid land lease payments

Prepaid land lease payments are initially measured at cost. Following initial recognition, prepaid land lease payments are measured at cost less accumulated amortisation and accumulated impairment losses. The prepaid land lease payments are amortised on a straight-line basis over the lease term of 50 years.

The amortisation period and method are reviewed at each financial year end. The amortisation expense is recognised in the statement of comprehensive income.

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment assessment for an asset is required, the Group makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Impairment losses of continuing operations are recognised in the statement of comprehensive income.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset previously. Such reversal is recognised in the statement of comprehensive income and the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Financial assets

Financial assets are recognised on the statement of financial position when, and only when, the 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.

All regular way purchases and sales of financial assets are recognised or derecognised on the trade date i.e., the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace concerned.

(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

Non-derivative 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, less any allowance for impairment. 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) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative 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 assets 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 statement of comprehensive income. 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.

(d) Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the reporting date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models or other valuation models.

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

(a) Assets carried at amortised cost

If there is objective evidence that an impairment loss on a financial asset carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognised in the statement of comprehensive income.

When the asset becomes uncollectible, the carrying amount of an impaired financial asset is reduced directly or if an amount was charged to the allowance account, the amounts charged to the allowance account are written off against the carrying value of the financial asset.

To determine whether there is objective evidence that an impairment loss on financial assets has been incurred, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date. The amount of reversal is recognised in the statement of comprehensive income.

(b) Assets carried at cost

If there is objective evidence (such as significant adverse changes in the business environment where the issuer operates, probability of insolvency or significant financial difficulties of the issuer) that an impairment loss on financial assets carried at cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed in subsequent periods.

(c) Available-for-sale financial assets

Significant or prolonged decline in fair value below cost, significant financial difficulties of the issuer or obligor, and the disappearance of an active trading market are considerations to determine whether there is objective evidence that investment securities classified as available-for-sale financial assets are impaired.

If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of comprehensive income, is transferred from equity to the statement of comprehensive income. Reversals in respect of equity instruments classified as available-for-sale are not recognised in the statement of comprehensive income. Reversals of impairment losses on debt instruments are reversed through the statement of comprehensive income if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the statement of comprehensive income.

Financial liabilities at amortised cost (including interest-bearing loans and borrowings)

Financial liabilities including trade and other payables, amounts due to related companies and interest-bearing loans and borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognised within "Finance costs" in the statement of comprehensive income.

Gains and losses are recognised in the statement of comprehensive income when the liabilities are derecognised as well as through the amortisation process.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of comprehensive income. The net fair value gain or loss recognised in the statement of comprehensive income does not include any interest charged on these financial liabilities.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial liabilities may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

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.

Cash and cash equivalents

For the purpose of the consolidated statements of cash flows, cash and cash equivalents comprise unpledged bank deposits and cash and bank balances and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statements of financial position, cash and cash equivalents comprise cash on hand and at banks, including short-term deposits, which are not restricted as to use.

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.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, it is probable that an outflow of economic resources will be required to settle the obligation and the amount of the obligation can be estimated reliably.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Government grant

Government grant is received from the local PRC government on a discretionary basis as determined by the government. It is recognised at its fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised in the statement of comprehensive income as an item under "Other income" over the period necessary to match them on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is recognised as deferred capital grant on the statement of financial position and is amortised to the statement of comprehensive income over the expected useful life of the relevant asset by equal annual instalments.

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 the Group will not be able to collect the debt. Bad debts are written off when identified.

Borrowing costs

Borrowing costs are generally recognised in the statement of comprehensive income as incurred. Borrowing costs are capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset. Capitalisation of borrowing costs commences when the activities to prepare the assets for its intended use or sale are in progress and the expenditures and borrowing costs are incurred. Borrowing costs are capitalised until the assets are ready for their intended use or sale.

In transiting to SFRS 23 (Amendments), the Group has designated to apply SFRS 23 (Amendments) on 1 August 2008 to borrowing costs relating to all qualifying assets with the commencement date for capitalisation on or after that date.

Employee benefits — pension benefits

The employees of the Group's subsidiary which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The subsidiary is required to contribute a certain percentage of their payroll costs as stipulated by the PRC regulations to a pension fund managed by government agencies, which are responsible for administering these amounts for the subsidiary's employees.

The Company makes contributions to the Central Provident Fund Scheme in Singapore, a defined contribution pension scheme. Contributions to national pension schemes are recognised as an expense in the period in which the related service is performed.

Pension contributions are recognised as an expense as they become payable in accordance with the rules of the relevant schemes.

Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under the operating leases are charged to the statement of comprehensive income on the straight-line basis over the lease terms.

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 risks 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.

Income taxes

Income tax comprises current and deferred tax. Income tax is recognised in the statement of comprehensive income, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

(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.

(b) Deferred tax

Deferred tax is provided using the liability method on all 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 the 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.

*(c) Value-added-tax ("**VAT**")*

The Group's sales of goods in the PRC are generally subject 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 the government subsidies for the fertiliser industry, full VAT exemption is given to urea and compound fertiliser sales.

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.

Segment reporting

For management purposes, the Group is organised into operating segments based on its products and the segment results are reported to the management of the Company who regularly reviews the segment results in order to allocate resources to the segments and to assess the segment performance. Additional disclosures on each of these segments are shown in note 5, including the factors used to identify the reportable segments and the measurement basis of segment information.

Share capital and share issue expenses

Under SFRSs, proceeds from issuance of ordinary shares are recognised as share capital in equity. Incremental costs directly attributable to the issuance of ordinary shares are deducted against share capital.

Under International Financial Reporting Standards ("IFRSs") (which include all International Financial Reporting Standards, International Accounting Standards and Interpretations), share issue expenses incurred by the Company that are related jointly to more than one transaction (for example, costs of a concurrent offering of some shares and a stock exchange listing of other shares) would be allocated to those transactions using a basis of allocation based on the proportion of the number of newly issued shares compared to the total number of shares sold through the offering (i.e., including the shares of existing shareholders who are selling shares as part of the offering).

Further information about the difference between the Financial Information of the Group prepared under SFRSs and IFRSs in respect to the above are detailed in note 43.

Contingencies

A contingent liability or asset is a possible obligation or asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of uncertain future event(s) not wholly within the control of the Group.

Contingent liabilities and assets are not recognised on the statement of financial position of the Group.

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 statement of comprehensive income 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 statement of comprehensive income 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 Amendments to SFRS 107 Financial Instruments: Disclosures — Improving Disclosures about Financial Instruments.

Hedge accounting

For the purpose of hedge accounting, hedges are classified as:

— Fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment; or

— Cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or the foreign currency risk in an unrecognised firm commitment; or

— Hedges of a net investment in a foreign operation; or

— Economic hedges that economically hedge monetary assets and liabilities denominated in foreign currencies.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

Cash flow hedges

Changes in the fair value of the hedging instrument designated as a cash flow hedge are recognised directly in equity as a hedging reserve to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised immediately in the statement of comprehensive income.

Amounts recognised in equity is transferred to the statement of comprehensive income in the period that the hedged item affects the statement of comprehensive income, such as when the hedged financial income or financial expense is recognised or when a forecast sale occurs.

When the hedged item is a non-financial asset, the amount recognised in equity is transferred to the carrying amount of the asset when it is recognised. If the forecast transaction or firm commitment is no longer expected to occur, amounts previously recognised in equity are transferred to the statement of comprehensive income. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains in equity until the forecast transaction or firm commitment occurs.

Derivatives that are not designated or do not qualify for hedge accounting

Fair value changes on these derivatives are recognised in the statement of comprehensive income when the changes arise.

Hedging reserve

Hedging reserve records the portion of the fair value changes on derivatives that are designated as hedging instruments in cash flow hedges that are determined to be effective.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the Group's financial information 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.

Judgements made in applying accounting policies

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Income taxes

The Group has exposure to income taxes in the PRC. Significant judgement is involved in determining the provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for expected tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. The carrying amounts of the Group's income tax payable and deferred tax liabilities at 31 December 2006, 2007 and 2008 and 31 July 2009 were RMB17,256,000 and Nil, RMB930,000 and Nil and RMB220,000 and RMB18,617,000, and Nil and RMB22,864,000, respectively.

Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:

Useful lives of plant and machinery

The cost of plant and machinery for the production of fertilisers is depreciated on a straight-line basis over the estimated useful life of the assets. Management estimates the useful life of the production lines to be 8 to 15 years. Changes in the expected level of usage and technological developments could impact the economic useful lives of the plant and machinery, therefore depreciation charges could be revised in line with revisions to expected economic useful lives. The carrying amounts of the Group's plant and machinery as at 31 December 2006, 2007, 2008 and 31 July 2009 were RMB167,472,000, RMB704,237,000, RMB669,736,000 and RMB1,628,989,000.

Fair value of the convertible loans

The convertible loans have been valued based on the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics. This valuation requires the Group to make estimates about future cash flows and discount rates, risk-free interest rate and other factors relevant to the convertible loans, and hence they are subject to uncertainty. Further details are included in note 28 to the Financial Information.

Management has estimated the potential effect of using reasonably possible alternatives as inputs to the valuation model, and considered that the fair values using less or more favourable assumptions are not significantly different from the carrying value.

5. SEGMENT INFORMATION

Segment information is presented by way of the Group's primary segment reporting basis, by business segment. In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets. No further geographical segment information is presented as the Group's customers and operations are located in Mainland China.

For management purposes, the Group is organised into business units based on its products, and has three reportable operating segments as follows:

(i) Urea

Urea is an effective, neutral nitrogen-based fertiliser which is suitable for various crops and land. It will not leave any residue in the soil, and provides nitrogen to crops and serves as a raw material for agricultural fertilisers, plastic, resin, coating materials and pharmaceuticals industries.

(ii) Compound fertiliser

Compound fertiliser is a type of round, hard, colourful granulated fertiliser and has various distinctive characteristics such as high concentration, high absorption rate by crops, and enhancement of resistance of crops to diseases, insects, droughts and lodges. The use of compound fertiliser generally improves the quality of crops and the productivity of the land. It can be used as ground fertiliser or added fertiliser and is suitable for the growing of wheat, paddy, corn, peanuts, tobacco, fruit trees, vegetables and cotton.

(iii) Methanol

Methanol is a colourless, tasteless, highly volatile, and flammable liquid alcohol that is toxic if swallowed. It is an important organic chemical raw material which is mainly used to produce formaldehyde, which is a vital raw material for producing various kinds of resin. Methanol is also a good fuel and has been used as an energy resource in some power stations. Methanol is also widely used in the industrial production of synthetic fibre, plastic, pharmaceutical, pesticides, dye and synthetic protein.

In addition to the three main operating segments, the Group is also involved in the production of liquid ammonia and ammonia solution.

Allocation basis and transfer pricing

Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly other operating income, operating expenses, financial income and expenses and tax expense.

Group assets and liabilities cannot be directly attributable to individual segments as it is impracticable to allocate them to the segments. Assets of the Group are utilised interchangeably between the different segments and there is no reasonable basis to allocate liabilities of the Group between the different segments. Accordingly, it is not meaningful to disclose assets, liabilities and capital expenditure by operating segments.

Basis for intersegment sales

The intersegment sales were made based on the conditions offered to third parties.

Information about the major customer

During the years ended 31 December 2007 and 2008, sales to the Group's major customer amounted to RMB205,198,000 (or 13.3% of the total sales) and RMB237,031,000 (or 11.4% of the total sales), respectively.

Segment profit definition

The directors of the Company are of the opinion that the segment profit/(loss) is the gross profit/(loss).

Group

Year ended 31 December 2006	**Urea**	**Compound fertiliser**	**Methanol**	**Others**	**Elimination**	**Total**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
REVENUE						
Sales to external customers	509,431	262,983	106,973	10,788	—	890,175
Intersegment sales	92,436	—	—	3,469	(95,905)	—
Total revenue	601,867	262,983	106,973	14,257	(95,905)	890,175
Segment profit/(loss)	140,132	41,384	30,924	(872)	—	211,568
Unallocated expenses, net.						(40,828)
Financial expenses, net						(18,323)
Profit before tax						152,417
Income tax expense						(23,333)
Net profit attributable to equity holders of the parent						129,084

Year ended 31 December 2007	**Urea**	**Compound fertiliser**	**Methanol**	**Others**	**Elimination**	**Total**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
REVENUE						
Sales to external customers	928,315	400,521	205,891	6,695	—	1,541,422
Intersegment sales	105,820	—	—	7,460	(113,280)	—
Total revenue	1,034,135	400,521	205,891	14,155	(113,280)	1,541,422
Segment profit/(loss)	292,866	58,715	66,745	(1,905)	—	416,421
Unallocated expenses, net.						(137,379)
Financial expenses, net						(10,066)
Profit before tax						268,976
Income tax expense						(1,417)
Net profit attributable to equity holders of the parent						267,559

Group

Year ended 31 December 2008	**Urea**	**Compound fertiliser**	**Methanol**	**Others**	**Elimination**	**Total**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
REVENUE						
Sales to external customers	1,155,540	708,268	214,836	6,299	—	2,084,943
Intersegment sales	152,297	—	—	4,162	(156,459)	—
Total revenue	1,307,837	708,268	214,836	10,461	(156,459)	2,084,943
Segment profit/(loss)	269,261	173,762	42,401	(3,554)	—	481,870
Unallocated expenses, net.						(108,183)
Financial expenses, net						(23,919)
Profit before tax						349,768
Income tax expense						(18,094)
Net profit attributable to equity holders of the parent						331,674

Seven-month period ended 31 July 2009	**Urea**	**Compound fertiliser**	**Methanol**	**Others**	**Elimination**	**Total**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
REVENUE						
Sales to external customers	941,531	193,365	81,745	4,758	—	1,221,399
Intersegment sales	92,083	—	—	2,591	(94,674)	—
Total revenue	1,033,614	193,365	81,745	7,349	(94,674)	1,221,399
Segment profit/(loss)	196,636	(3,022)	(25,315)	(3,195)	—	165,104
Unallocated expenses, net.						(65,410)
Financial expenses, net						(15,788)
Profit before tax						83,906
Income tax expense						(16,192)
Net profit attributable to equity holders of the parent						67,714

Group

Seven-month period ended 31 July 2008 (Unaudited)	Urea	Compound fertiliser	Methanol	Others	Elimination	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
REVENUE						
Sales to external customers	659,996	386,830	140,956	3,906	—	1,191,688
Intersegment sales	95,309	—	—	2,311	(97,620)	—
Total revenue.	755,305	386,830	140,956	6,217	(97,620)	1,191,688
Segment profit/(loss).	190,858	68,136	47,725	(1,286)	—	305,433
Unallocated expenses, net.						(55,490)
Financial expenses, net. . .						(11,338)
Profit before tax						238,605
Income tax expense						(11,612)
Net profit attributable to equity holders of the parent						226,993

6. **REVENUE, OTHER INCOME AND GAINS**

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after deduction of relevant taxes and allowances for returns and trade discounts and the value of services rendered.

An analysis of the Group's revenue, other income and gains for each of the Relevant Periods and the seven-month period ended 31 July 2008 is as follows:

	Year ended 31 December			Seven-month period ended 31 July	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
REVENUE					
Sale of goods.	890,175	1,541,422	2,084,943	1,191,688	1,221,399
OTHER INCOME AND GAINS					
Bank interest income	769	7,997	2,872	1,923	845
Interests from related companies	2,234	—	—	—	—
Other interest income	121	—	—	—	—
Sale of by-products.	2,278	3,717	5,564	3,283	841
Management fees from related parties . . .	300	—	—	—	—
Service fee income from related parties . .	295	72	82	44	39
Other service fee income	755	11	—	—	—
Amortisation of deferred grants	2,941	—	—	—	1,545
Net fair value gain on derivative financial assets	—	—	1,763	—	—
Realised exchange gain	—	7,487	—	—	16
Unrealised exchange gain	2,183	11,116	—	—	—
Gain on disposal of property, plant and equipment	709	23	—	—	—
Subsidy income	—	—	1,355	1,355	1,915
Others.	910	1,338	2,028	523	1,216
	13,495	31,761	13,664	7,128	6,417

7. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Year ended 31 December			Seven-month period ended 31 July	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Cost of inventories sold	678,607	1,125,001	1,597,073	886,255	1,056,295
Provision of inventories	—	—	6,000	—	—
	678,607	1,125,001	1,603,073	886,255	1,056,295
Depreciation	46,402	43,984	78,465	44,861	62,289
Amortisation of prepaid land lease payments	182	217	1,388	621	780
Minimum lease payments under operating leases:					
Land	1,241	773	1,248	802	1,113
Buildings	1,780	4,103	597	399	503
Plant and machinery	11,110	30,137	—	—	—
Motor vehicles	45	84	—	—	—
	14,176	35,097	1,845	1,201	1,616
Auditors' remuneration	36	1,371	1,276	1,234	4,039
Employee benefit expenses (including directors' remuneration *(note 9)*):					
Salaries and bonuses	34,042	70,593	74,827	44,437	43,638
Contribution to defined contribution plans	4,035	5,588	8,309	3,865	7,995
Welfare expenses	3,380	1,690	2,549	1,907	2,080
	41,457	77,871	85,685	50,209	53,713
Less: Write-back of accrued welfare expenses	—	—	(6,595)	—	—
	41,457	77,871	79,090	50,209	53,713
Impairment/(reversal of impairment) of trade receivables	49	360	(83)	(83)	—
Write-off of trade receivables	—	1,030	75	41	—
Research expenses	1,694	993	41	27	125
Realised exchange loss*	—	—	1,667	—	—
Unrealised exchange loss*	—	—	1,436	1,265	860
Loss on disposal of property, plant and equipment*	—	—	1,648	348	15
Write-off of property, plant and equipment*	—	—	694	—	124
Fair value loss of derivative financial liabilities *(note 28)**	—	64,343	—	—	—

* Included in "Other expenses" disclosed in the consolidated statements of comprehensive income.

8. FINANCE COSTS

The Group's finance costs are analysed as follows:

	Year ended 31 December			Seven-month period ended 31 July	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Interest on bank loans, overdrafts and other loans, wholly repayable within five years	19,054	16,662	26,387	13,063	21,436
Interest on convertible loans	1,150	1,145	—	—	—
Interest on government loans	875	255	404	198	197
Interest on discounted bills receivable	368	—	—	—	—
	21,447	18,062	26,791	13,261	21,633
Less: Interest capitalised *(note 34 (ii))*	—	—	—	—	(5,000)
	21,447	18,062	26,791	13,261	16,633

9. DIRECTORS' REMUNERATION

Details of directors' remuneration are as follows:

	Year ended 31 December			Seven-month period ended 31 July	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Fees	—	700	700	408	408
Other emoluments:					
Salaries, allowances and benefits in kind	856	8,106	7,708	4,901	2,355
Pension scheme contributions	27	39	39	21	30
	883	8,145	7,747	4,922	2,385
	883	8,845	8,447	5,330	2,793

(a) Independent non-executive directors

The fees paid to independent non-executive directors were as follows:

	Year ended 31 December			Seven-month period ended 31 July	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Ong Kian Guan	—	250	250	146	146
Li Shengxiao	—	225	225	131	131
Ong Wei Jin	—	225	225	131	131
	—	700	700	408	408

There were no other emoluments payable to the independent non-executive directors during the Relevant Periods and the seven-month period ended 31 July 2008.

(b) Executive directors

	Fees	Salaries, allowances and benefits in kind	Performance related bonuses	Pension scheme contribution	Total remuneration
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2006					
Liu Xingxu	—	55	516	9	580
Yan Yunhua	—	39	44	9	92
Li Buwen	—	47	155	9	211
	—	141	715	27	883

	Fees	Salaries, allowances and benefits in kind	Performance related bonuses	Pension scheme contribution	Total remuneration
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2007					
Liu Xingxu	—	887	2,455	13	3,355
Yan Yunhua	—	707	1,665	13	2,385
Li Buwen	—	707	1,685	13	2,405
	—	2,301	5,805	39	8,145

	Fees	Salaries, allowances and benefits in kind	Performance related bonuses	Pension scheme contribution	Total remuneration
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2008					
Liu Xingxu	—	887	2,163	13	3,063
Yan Yunhua	—	707	1,622	13	2,342
Li Buwen	—	707	1,622	13	2,342
	—	2,301	5,407	39	7,747

	Fees	Salaries, allowances and benefits in kind	Performance related bonuses	Pension scheme contribution	Total remuneration
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Seven-month period ended 31 July 2008 (Unaudited)					
Liu Xingxu	—	518	1,423	7	1,948
Yan Yunhua	—	413	1,067	7	1,487
Li Buwen	—	413	1,067	7	1,487
	—	1,344	3,557	21	4,922

	Fees	Salaries, allowances and benefits in kind	Performance related bonuses	Pension scheme contribution	Total remuneration
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Seven-month period ended 31 July 2009					
Liu Xingxu	—	515	408	10	933
Yan Yunhua	—	410	306	10	726
Li Buwen	—	410	306	10	726
	—	1,335	1,020	30	2,385

There were no arrangements under which a director waived or agreed to waive any remuneration during the Relevant Periods and the seven-month period ended 31 July 2008.

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the Relevant Periods and the seven-month period ended 31 July 2008 included three directors, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining two non-director, highest paid employees are as follows:

	Year ended 31 December			Seven-month period ended 31 July	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Salaries, allowances and benefits in kind	94	502	457	346	287
Performance bonuses	311	390	441	36	—
Pension scheme contributions	18	65	142	41	40
	423	957	1,040	423	327

The number of non-director, highest paid employees whose remuneration fell within the following bands are as follows:

	Year ended 31 December			Seven-month period ended 31 July	
	2006	2007	2008	2008 (Unaudited)	2009
Nil to RMB500,000	2	1	1	2	2
RMB500,001 to RMB1,000,000	—	1	1	—	—
	2	2	2	2	2

11. TAX

The Company is incorporated in Singapore and accordingly, is subject to an income tax rates of 20% for the year ended 31 December 2006 and 18% for the years ended 31 December 2007 and 2008 and the seven-month periods ended 31 July 2008 and 2009.

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the country in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

The Company's subsidiary in Mainland China was subject to income tax of 33% (comprising 30% state income tax and 3% local income tax) for the first nine months ended 30 September 2006. On 28 July 2006, the subsidiary became a wholly-foreign-owned enterprise and was entitled to exemption of the local income tax of 3%. However, as the local income tax exemption is effective on a quarterly basis, the subsidiary was still subject to an income tax rate of 33% until 30 September 2006. The reduced income tax rate of 30% was effective on 1 October 2006.

Based on the "Income Tax Law of the PRC for Enterprises with Foreign Investments and Foreign Enterprises", the subsidiary is entitled to full exemption from income tax for the first two years and a 50% reduction in income tax for the following three years. In accordance with the new Enterprise Income Tax Law of the PRC, with effect from 1 January 2008, a unified income tax rate of 25% was applied to both domestic and foreign investment enterprises.

The subsidiary had elected the financial year ended 31 December 2007 as the first profitable year for the purpose of determining the tax holiday period. Accordingly, the subsidiary was exempted from income tax during the years ended 31 December 2007 and 2008 and during the seven-month period ended 31 July 2008. For the seven-month period ended 31 July 2009, the subsidiary was in its third profitable year and hence became subject to a concessionary rate of 12.5%.

Group

	Year ended 31 December			Seven-month period ended 31 July	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Current — Singapore					
Charge for the year/period	—	930	—	—	—
Over provision in prior years	—	—	(523)	(639)	—
Current — PRC					
Charge for the year/period	50,244	—	—	—	11,945
Under/(over) provision in prior years	—	487	—	—	—
Tax credit	(26,911)	—	—	—	—
Deferred *(note 30)*	—	—	18,617	12,251	4,247
Total tax charge for the year/period	23,333	1,417	18,094	11,612	16,192

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries in which the Company and its subsidiary are domiciled to the tax charge at effective rate for the Relevant Periods and the seven-month period ended 31 July 2008 is as follows:

	Year ended 31 December			Seven-month period ended 31 July	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Profit before tax	152,417	268,976	349,768	238,605	83,906
Tax at statutory tax rates	48,277	80,693	93,083	60,098	21,886
Expenses not deductible for tax	1,967	19,059	4,518	1,438	2,545
Effect of withholding tax at 5% on the distributable profits of the PRC subsidiary	—	—	18,617	12,251	4,247
Tax credit	(26,911)	—	—	—	—
Effect of tax holiday	—	(98,822)	(97,601)	(61,536)	(12,111)
Adjustments in respect of current tax of previous periods	—	487	(523)	(639)	—
Others	—	—	—	—	(375)
Tax charge at effective rate	23,333	1,417	18,094	11,612	16,192

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, effective on 1 July 1999, any enterprise which invests in the project of technology innovation and complies with PRC industrial policies will be entitled to income tax credits used to offset income tax payable. Specifically, in the event that there is an increase in the income tax payable in current financial year over the income tax payable in the previous financial year, then 40% of the purchase price of any state-manufactured machines and equipment purchased during that financial year may be used to offset such increase in income tax payable. Accordingly, to the notice from the PRC tax authority, the Group was awarded tax credits of RMB26,911,000 for the year ended 31 December 2006 relating to purchases of locally manufactured machines and equipment for approved technology innovation projects.

12. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The consolidated profit attributable to equity holders of the parent for the years ended 31 December 2006, 2007 and 2008, and the seven-month periods ended 31 July 2008 and 2009 include profit of RMB764,000, loss of RMB1,560,000 and profit of RMB51,219,000, and profit of RMB65,596,000 and RMB80,017,000, respectively, which has been dealt with in the financial statements of the Company (note 32(b)).

13. DIVIDENDS

	Year ended 31 December			Seven-month period ended 31 July	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Declared and paid:					
Dividends declared to the then shareholders of the Predecessor prior to Reorganisation	12,607	—	—	—	—
Final dividend for 2007 (SGD1.4 cents per ordinary share)	—	—	71,468	71,468	—
Final dividend for 2008 (SGD1.6 cents per ordinary share)	—	—	—	—	75,680*
Proposed final dividend per ordinary share (2006: Nil; 2007: SGD1.4 cents; 2008: SGD1.6 cents; periods ended 31 July 2008 and 2009: Nil)	—	71,468	75,927*	—	—

* The difference between the proposed and declared final 2008 dividend represents the exchange difference of RMB247,000 arising from the appreciation of Renminbi against Singapore dollar which was realised upon payment and was transferred to the retained profits as at 31 July 2009.

14. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

Earnings per share for each of the Relevant Periods and the seven-month period ended 31 July 2008 is calculated by dividing the Group's net profit attributable to shareholders for the year/period by the weighted average number outstanding for the Relevant Periods and the seven-month period ended 31 July 2008.

Pursuant to an extraordinary general meeting on 11 May 2007, the shareholders of the Company approved the subdivision of the 100 shares in the issued share capital of the Company into 624,320,000 shares (the "**Share Split**") (note 31(a)). Following the Share Split, the Company issued 175,680,000 shares and 200,000,000 shares pursuant to the conversion of convertible loans (note 31(b)) and initial public offering of the Company in the SGX-ST (note 31(c)), respectively.

The weighted average number of shares used to calculate the basic earnings per share for the year ended 31 December 2006 includes the pro forma share issued to reflect the sub-division of 100 ordinary shares of the Company into 624,320,000 ordinary shares of the Company during the year ended 31 December 2007.

The weighted average number of 845,374,247 ordinary shares outstanding for the year ended 31 December 2007 is used for the calculation of the earnings per share.

Subsequently, the weighted average number of 1,000,000,000 ordinary shares outstanding for the year ended 31 December 2008 and periods ended 31 July 2008 and 2009 is used for the calculation of earnings per share.

There were no potential dilutive ordinary shares in existence during the Relevant Periods and the seven-month period ended 31 July 2008 and therefore diluted earnings per share amounts are the same as basic earnings per share.

15. PROPERTY, PLANT AND EQUIPMENT

Group

31 December 2006	Notes	Buildings	Other fixtures and constructions	Plant and machinery	Office equipment and furniture	Motor vehicles	Construction-in-progress	Total
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:								
At 1 January 2006		27,626	12,246	254,914	10,067	2,960	68,332	376,145
Net assets not transferred	2, 33	(30,715)	(562)	(57,926)	(1,297)	(2,972)	(131,735)	(225,207)
Additions		219	4,887	60,951	5,116	1,725	125,590	198,488
Reclassifications		3,059	8,615	32,994	7,699	—	(52,367)	—
Disposals		(189)	(82)	(504)	(102)	(481)	(40)	(1,398)
At 31 December 2006		—	25,104	290,429	21,483	1,232	9,780	348,028
Accumulated depreciation:								
At 1 January 2006		8,476	2,804	82,868	2,311	1,312	—	97,771
Net assets not transferred	2, 33	(10,254)	(5)	(7)	(467)	(1,626)	—	(12,359)
Depreciation charged for the year		1,879	1,523	40,448	1,775	777	—	46,402
Disposals		(101)	(7)	(352)	(22)	(84)	—	(566)
At 31 December 2006		—	4,315	122,957	3,597	379	—	131,248
Net carrying amount:								
At 31 December 2006		—	20,789	167,472	17,886	853	9,780	216,780

31 December 2007	Notes	Buildings	Other fixtures and constructions	Plant and machinery	Office equipment and furniture	Motor vehicles	Construction-in-progress	Total
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:								
At 1 January 2007		—	25,104	290,429	21,483	1,232	9,780	348,028
Second Acquisition	2, 33	83,642	62,889	525,620	1,288	1,476	3,968	678,883
Additions		368	2,258	21,784	4,780	3,464	90,429	123,083
Transfers		—	4,746	26,427	1,401	—	(32,574)	—
Disposals		—	—	(508)	—	(172)	—	(680)
At 31 December 2007		84,010	94,997	863,752	28,952	6,000	71,603	1,149,314
Accumulated depreciation:								
At 1 January 2007		—	4,315	122,957	3,597	379	—	131,248
Depreciation charged for the year		553	3,188	36,578	3,180	485	—	43,984
Disposals		—	—	(20)	—	(164)	—	(184)
At 31 December 2007		553	7,503	159,515	6,777	700	—	175,048
Net carrying amount:								
At 31 December 2007		83,457	87,494	704,237	22,175	5,300	71,603	974,266

31 December 2008	Buildings	Other fixtures and constructions	Plant and machinery	Office equipment and furniture	Motor vehicles	Construction-in-progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:							
At 1 January 2008	84,010	94,997	863,752	28,952	6,000	71,603	1,149,314
Additions	2,776	701	26,097	4,064	2,497	687,171	723,306
Transfers	574	3,570	3,739	—	—	(7,883)	—
Disposals/write-off	(221)	(324)	(7,109)	(6)	(319)	—	(7,979)
At 31 December 2008	87,139	98,944	886,479	33,010	8,178	750,891	1,864,641
Accumulated depreciation:							
At 1 January 2008	553	7,503	159,515	6,777	700	—	175,048
Depreciation charged for the year	4,514	7,918	61,672	3,098	1,263	—	78,465
Disposals/write-off	(13)	(278)	(4,444)	(6)	(142)	—	(4,883)
At 31 December 2008	5,054	15,143	216,743	9,869	1,821	—	248,630
Net carrying amount:							
At 31 December 2008	82,085	83,801	669,736	23,141	6,357	750,891	1,616,011

31 July 2009	Buildings	Other fixtures and constructions	Plant and machinery	Office equipment and furniture	Motor vehicles	Construction-in-progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:							
At 1 January 2009	87,139	98,944	886,479	33,010	8,178	750,891	1,864,641
Additions	76,718	103,958	131,950	6,787	1,983	283,061	604,457
Transfers	43,572	25,104	878,856	11,317	—	(958,849)	—
Disposals/write-off	(3)	(177)	(1,825)	(147)	(41)	(356)	(2,549)
At 31 July 2009	207,426	227,829	1,895,460	50,967	10,120	74,747	2,466,549
Accumulated depreciation:							
At 1 January 2009	5,054	15,143	216,743	9,869	1,821	—	248,630
Depreciation charged for the period	2,348	4,184	51,414	3,399	944	—	62,289
Disposals/write-off	—	(144)	(1,686)	(138)	(12)	—	(1,980)
At 31 July 2009	7,402	19,183	266,471	13,130	2,753	—	308,939
Net carrying amount:							
At 31 July 2009	200,024	208,646	1,628,989	37,837	7,367	74,747	2,157,610

16. PREPAID LAND LEASE PAYMENTS

Group

		As at 31 December			As at 31 July
		2006	2007	2008	2009
	Notes	RMB'000	RMB'000	RMB'000	RMB'000
Carrying amount at 1 January		14,842	—	48,474	74,197
Net assets not transferred	2, 33	(14,660)	—	—	—
Second Acquisition	2, 33	—	48,691	—	—
Addition		—	—	27,111	1,578
Recognised during the year/period		(182)	(217)	(1,388)	(780)
Carrying amount at end of the year/period		—	48,474	74,197	74,995
Current portion included in prepayments	20	—	(1,026)	(1,569)	(1,605)
Non-current portion		—	47,448	72,628	73,390

The Group's leasehold land is held under medium term leases and situated in Mainland China where the Group's manufacturing and storage facilities reside.

As at 31 December 2006, 2007 and 2008, the Group was in the process of applying for the title certificates of certain of its land use rights in the PRC with aggregate carrying amounts of approximately nil, RMB48,474,000 and RMB74,197,000, respectively. In May 2009, the Group had obtained the relevant title certificates of these land use rights.

17. INTEREST IN A SUBSIDIARY

Company

	As at 31 December			As at 31 July
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Unlisted shares, at cost	107,570	400,000	800,000	800,000

Particulars of the subsidiary of the Company are set out in note 1 above.

The amount due from a subsidiary is unsecured, interest-free and repayable in seven quarterly instalments from 31 March 2010 or at an earlier date as determined by the Company.

18. INVENTORIES

Group

	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
	118,006	178,525	234,965	182,469

19. TRADE AND BILLS RECEIVABLES

Group

	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
Bills receivable	9,840	5,528	18,580	18,491
	23,990	7,321	26,247	20,249

Trade receivables are non-interest-bearing and are normally settled on 30 to 90 days' term. The Group's bills receivable are non-interest-bearing and are normally settled on 90 to 180 days' term. Trade and bills receivables are denominated in Renminbi.

The Group's trading terms with its customers are mainly payment in advance or on credit for certain customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk.

An aged analysis of the Group's trade receivables as at the reporting dates, based on the invoice date and net of provisions, is as follows:

	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

The movements in provision for impairment of trade receivables were as follows:

	As at 31 December			As at 31 July
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
At beginning of year/period	—	49	409	322
Impairment losses recognised/(reversed) *(note 7)*	49	360	(83)	—
Amount written off as uncollectible	—	—	(4)	—
At end of year/period	49	409	322	322

The individually impaired trade receivables relate to customers that were in financial difficulties or in default in repayments and were not expected to be recovered. The Group does not hold any collateral or other enhancements over these balances.

The aged analysis of the Group's trade receivables that are not considered to be impaired is as follows:

	As at 31 December			As at 31 July
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Neither past due nor impaired	13,458	1,439	7,655	1,048
Less than 3 months past due	269	88	9	697
More than 3 months past due	423	266	3	13
	14,150	1,793	7,667	1,758

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Group

	Note	As at 31 December			As at 31 July
		2006	2007	2008	2009
		RMB'000	RMB'000	RMB'000	RMB'000
NON-CURRENT					
Prepayments					
Prepayments for purchases of plant and equipment		15,820	57,629	277,882	30,927
Prepayments for prepaid land lease payments		—	5,667	—	—
		15,820	63,296	277,882	30,927
CURRENT					
Prepayments					
Advanced deposits to suppliers		15,080	43,601	25,268	31,056
Current portion of prepaid land lease payments	16	—	1,026	1,569	1,605
Other prepayments		1,809	372	1,319	2,205
		16,889	44,999	28,156	34,866
Deposits and other receivables					
Deposits		1,639	—	17	—
Advances to employees		2,590	1,061	1,560	—
Interest receivables		—	551	1,492	—
VAT receivables		—	—	—	26,800
Others		1,232	2,691	3,025	4,766
		5,461	4,303	6,094	31,566
Total prepayments, deposits and other receivables		22,350	49,302	34,250	66,432

Company

	As at 31 December			As at 31 July
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Prepayments	1,706	—	—	—
Deposits and other receivables				
Deposits	—	—	17	—
Interest receivable	—	551	1,492	—
Others	—	—	—	554
	—	551	1,509	554
Total prepayments, deposits and other receivables	1,706	551	1,509	554

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

21. BALANCES WITH RELATED COMPANIES

The Group's balances with related companies are unsecured, interest-free and repayable on demand, except for the balance due to Henan Chemicals for which interest expense was charged based on a fixed interest rate of 6.804% per annum on the balance due to it as detailed in note 38 (xii) to the Financial Information.

Related companies comprise Henan Chemicals and its subsidiaries. The Company's shareholders are common with the shareholders of Henan Chemicals and the Company's executive directors and executive officers have an aggregate of 24% equity interest in Henan Chemicals.

Year ended 31 December 2006	31 December 2006	Maximum amount outstanding during the year	1 January 2006	Security held
	RMB'000	RMB'000	RMB'000	
Henan Chemicals	7,717	53,243	2,512	—
Henan Shenzhou Heavy Sealing Co., Ltd.	4,037	22,068	22,068	—
Xinxiang Xinlianxin Gas Products Co., Ltd.	81	1,734	1,734	—
Xinxiang Yuyuan Chemical Co., Ltd.	62	26,637	26,637	—
Xinxiang Xinlianxin Lifting Equipment Co., Ltd.	5	1,182	1,182	—
	11,902		54,133	

Year ended 31 December 2007	31 December 2007	Maximum amount outstanding during the year	1 January 2007	Security held
	RMB'000	RMB'000	RMB'000	
Henan Chemicals	1,998	54,655	7,717	—
Henan Shenzhou Heavy Sealing Co., Ltd.	—	4,037	4,037	—
Xinxiang Xinlianxin Gas Products Co., Ltd.	—	395	81	—
Xinxiang Yuyuan Chemical Co., Ltd.	—	432	62	—
Xinxiang Xinlianxin Lifting Equipment Co., Ltd.	—	413	5	—
	1,998		11,902	

Year ended 31 December 2008	31 December 2008	Maximum amount outstanding during the year	1 January 2008	Security held
	RMB'000	RMB'000	RMB'000	
Henan Chemicals	—	1,998	1,998	—

There was no amount due from related companies as at 1 January 2009, during the seven-month period ended 31 July 2009 and as at 31 July 2009.

As at 31 July 2009, the amount due to a related company is non-trade in nature and the Directors have confirmed that such balance will be settled before the listing of the Company's share on the Stock Exchange.

22. DERIVATIVE FINANCIAL ASSETS

The Company and the Group entered into derivative financial instruments to hedge its interest rate risk exposures.

During the year ended 31 December 2008, the Group entered into two non-deliverable interest rate swaps which pay a fixed interest of approximately 2.55% per annum and receive a variable interest equal to USD LIBOR + 2.25% per annum on the notional amount on a quarterly basis. The swaps are being used to hedge for cash flow interest rate risks arising from its floating rate USD bank loan amounting to USD45,000,000 (note 29(c)). The floating rate bank loan and the interest rate swaps have the same critical terms.

The fair value and notional amount of the interest rate swaps of the Group were as follows:

Group and Company

	As at 31 December			As at 31 July
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Fair value of net interest rate swaps	—	—	19,807	720
Notional amount of net interest rate swaps	—	—	263,816*	263,816*

* Equivalent to USD38,600,000

The above fair value changes on derivatives that are designated as hedging instruments in cash flow hedges to the extent that the hedge is effective are recognised directly in equity as a hedging reserve (note 32).

In addition, the Group had entered into various non-deliverable interest rate swaps to manage its interest rate exposures which did not meet the criteria for hedge accounting. Changes in the fair value of non-hedging swaps amounting to RMB1,763,000 were credited to the income statement during the year ended 31 December 2008 (note 6).

23. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

Group

	As at 31 December			As at 31 July
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Time deposits	15,629	453,529	10,685	25,815
Less: Pledged time deposits for bills payable *(note 25)*	(12,631)	(3,508)	—	(16,871)
	2,998	450,021	10,685	8,944
Cash at banks and on hand	154,573	56,789	189,429	190,219
Cash and cash equivalents	157,571	506,810	200,114	199,163

Company

	As at 31 December			As at 31 July
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Cash at banks and on hand	628	5,254	12,352	17,683
Time deposits	2,998	435,078	10,685	8,944
Cash and cash equivalents	3,626	440,332	23,037	26,627

At the reporting dates, the cash and bank balances of the Group denominated in Renminbi ("**RMB**") amounted to RMB166,576,000, RMB53,664,000, RMB36,006,000 and RMB188,185,000 as at 31 December 2006, 2007 and 2008 and 31 July 2009, respectively. The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

24. TRADE PAYABLES

An aged analysis of the Group's trade payables as at the reporting dates, based on the invoice date, is as follows:

	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.

25. BILLS PAYABLE

The Group's 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, bills payable were secured by time deposits of RMB12,631,000, RMB3,508,000, nil and RMB16,871,000, respectively (note 23).

26. ACCRUALS AND OTHER PAYABLES

Group

	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

Company

	As at 31 December			As at 31 July
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Accruals	—	4,078	10,563	14,396
Other payables	1,874	—	—	—
	1,874	4,078	10,563	14,396

Other payables are non-interest-bearing and have an average term of three months.

27. DEFERRED GRANTS

Group

		As at 31 December			As at 31 July
		2006	2007	2008	2009
	Notes	RMB'000	RMB'000	RMB'000	RMB'000
Cost:					
At beginning of the year/period		20,000	—	8,240	9,740
Net assets not transferred	2, 33	(20,000)	—	—	—
Received during the year/period		—	8,240	1,500	800
At end of year/period		—	8,240	9,740	10,540
Accumulated amortisation:					
At beginning of the year/period		4,325	—	—	—
Amortisation during the year/period		2,941	—	—	1,545
Net assets not transferred	2, 33	(7,266)	—	—	—
At end of year/period		—	—	—	1,545
Net carrying amount:					
Current		—	8,240	9,740	8,995

As at 31 December 2007 and 2008 and 31 July 2009, deferred grants related to government grants given to the Group for installation and building of machinery with the aim to implement energy-saving production methods and reduce production cost. The grant is subject to final approval by the government upon the completion of the project.

28. CONVERTIBLE LOANS AND DERIVATIVE FINANCIAL LIABILITIES

On 16 October 2006, the Company entered into a convertible loan agreement (the "**Convertible Loan Agreement**") with certain investors whereby the investors agreed to grant the Company convertible loan facilities of an aggregate amount of USD7.12 million (equivalent to RMB55,598,000) in consideration for the right to convert the full sum of the convertible loans (the "**Convertible Loans**") into fully paid new ordinary shares of the Company (the "**Conversion Right**"). The Convertible Loans would be repayable on the earlier of 30 June 2008 or the termination of the proposed listing of the Company. The Convertible Loans would be automatically converted into fully paid new shares of the Company upon the approval of listing granted by the SGX-ST. In the event the proposed listing of the Company 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 loan drawdown date to the repayment date, were payable by the Company to the investors. The convertible loan facilities were fully drawn down by the Company on 16 October 2006.

The Conversion Right, which exhibits characteristics of an embedded derivative, is separated from its liability component. On initial recognition, the derivative component of the Convertible Loans is measured at fair value and presented as derivative financial instruments until conversion. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component and is carried as a liability on the amortised cost basis until conversion. The derivative financial liabilities are remeasured at each reporting date and any gains or losses arising from change in the fair value are recognised in the consolidated statement of comprehensive income. During the year ended 31 December 2007, a fair value loss on the derivative financial liabilities of RMB64,343,000 was recognised in the consolidated statement of comprehensive income (note 7).

On 11 May 2007, the Convertible Loans were automatically converted into 175,680,000 fully paid new ordinary shares of the Company for cash of RMB57,893,000 upon the approval of listing was granted by the SGX-ST (note 31).

29. INTEREST-BEARING BANK AND OTHER BORROWINGS

Group

	As at 31 December									As at 31 July		
	2006			2007			2008			2009		
	Contractual interest rate	Maturity	RMB'000	Contractual interest rate	Maturity	RMB'000	Contractual interest rate	Maturity	RMB'000	Contractual interest rate	Maturity	RMB'000
Current												
Bank loans												
— secured	USD LIBOR +7.5%	2007	54,665 (b)	Floating rate at 15% above PBOC prime lending rate	2008	37,300 (a)	—	—	—	—	—	—
— unsecured			—	6.39% to 7.52%	2008	249,700	6.14% to 7.47%	2009	145,000	4.80% to 5.31%	2009 to 2010	215,000
Syndicated bank loan												
— unsecured	—	—	—	—	—	—	—	—	—	USD LIBOR +2.25%	2011	307,557 (d)
Current portion of long-term bank loans												
— secured	Floating rate at 15% above the People's Bank of China ("PBOC") prime lending rate	2008	20,000 (a)	—	—	—	—	—	—	—	—	—
			74,665			287,000			145,000			522,557
Non-current												
Bank loans												
— secured	Floating rate at 15% to not more than 30% above PBOC prime lending rate	2009 to 2010	110,000 (a)	—	—	—	—	—	—	5.4%	2012	120,000 (a)
— unsecured	—	—	—	Floating rate at 15% to not more than 30% above PBOC prime lending rate	2009 to 2010	80,000	Floating rate at not more than 30% above PBOC prime lending rate	2010 to 2011	115,000	5.4%	2011 to 2012	220,000
Syndicated bank loan												
— unsecured	—	—	—	—	—	—	USD LIBOR +2.25%	2010 to 2011	307,557 (d)	—	—	—
Loan from the government												
— unsecured	Floating rate at 0.3% above market prime lending rate	— (e)	10,094	Floating rate at 0.3% above market prime lending rate	— (e)	10,348	Floating rate at 0.3% above market prime lending rate	— (e)	10,417	Floating rate at 0.3% above market prime lending rate	— (e)	10,043
Entrusted loans due to a related party												
— unsecured	—	—	—	—	—	—	6.804%	2011	90,000	—	—	—
			120,094			90,348			522,974			350,043
			194,759			377,348			667,974			872,600

Company

	As at 31 December									As at 31 July		
	2006			2007			2008			2009		
	Contractual interest rate	Maturity	RMB'000	Contractual interest rate	Maturity	RMB'000	Contractual interest rate	Maturity	RMB'000	Contractual interest rate	Maturity	RMB'000
Current												
Syndicated bank loans												
— secured	USD LIBOR +7.5%	2007	54,665 (b)	—	—	—	—	—	—	USD LIBOR +2.25%	2011	307,557 (d)
Non-current												
Bank loans												
— unsecured	—	—	—	—	—	—	USD LIBOR +2.25%	2010 to 2011	307,557	—	—	—
			54,665			—			307,557			307,557

Group

	As at 31 December			As at 31 July
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Analysed into:				
Bank loans repayable:				
Within one year or on demand	74,665	287,000	145,000	522,557
In the second year	—	—	123,023	—
In the third to fifth years, inclusive	110,000	80,000	299,534	340,000
	184,665	367,000	567,557	862,557
Other borrowings repayable:				
Within one year or on demand	—	—	—	—
In the second year	10,094	10,348	10,417	10,043
In the third to fifth years, inclusive	—	—	90,000	—
	10,094	10,348	100,417	10,043
	194,759	377,348	667,974	872,600

Company

	As at 31 December			As at 31 July
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Analysed into:				
Bank loans repayable:				
Within one year or on demand	54,665	—	—	307,557
In the second year	—	—	123,023	—
In the third to fifth years, inclusive	—	—	184,534	—
	54,665	—	307,557	307,557

Notes:

(a) During the Relevant Periods, certain bank loans of the Group and of the Company were guaranteed by independent third parties.

(b) A bank loan of USD7,000,000 (equivalent to RMB54,665,000) of the Group and of the Company as at 31 December 2006 was secured by:

(i) a pledge of the entire equity interests in the subsidiary held by the Company;

(ii) an assignment of all funding (including shareholders loans, if any) provided by the Company to the subsidiary;

(iii) subordination of the Convertible Loans;

(iv) personal guarantees from certain directors of the Company;

(v) an undertaking given by the directors to distribute to the Company the maximum amount of dividends permitted by the applicable laws (up to the loan amount outstanding at the relevant time); and

(vi) an undertaking not to change the management team of the Company and the subsidiary.

The above securities were released upon the repayment of that loan in 2007.

(c) Except for the syndicated bank loan with interest at LIBOR + 2.25% which is denominated in United States dollars, all borrowings are in RMB. This syndicated bank loan has a principal sum of USD45,000,000 and its foreign currency and interest rate risk exposures have been hedged by two interest rate swaps entered into by the Group and the Company (note 22).

(d) Pursuant to a loan agreement between the Company and a bank relating to the syndicated loan amounted to USD45,000,000 (equivalent to RMB307,557,000) and with original maturity term in 2011, a termination event would arise if the Group fails to meet the financial covenants as stipulated in the loan agreement. As at 31 July 2009, two of the covenants were breached by the Company and according to the loan agreement, the loan has become immediately repayable. Accordingly, the entire loan of RMB307,557,000 has been classified as a current liability as at 31 July 2009, the loan was repaid in September 2009.

(e) The loan from government bears interest at a floating rate of 0.3% above the market prime lending rate and is not due to be repaid within the next 12 months.

The fair values of the Group's and the Company's interest-bearing bank and other borrowings approximated to their carrying values.

30. DEFERRED TAX LIABILITIES

Group

	Withholding tax
	RMB'000
At 1 January 2006, 31 December 2006, 1 January 2007, 31 December 2007 and 1 January 2008	—
Deferred tax charged to the consolidated statement of comprehensive income during the year *(note 11)*	18,617
At 31 December 2008 and at 1 January 2009	18,617
Deferred tax charged to consolidated statement of comprehensive income *(note 11)*	4,247
At 31 July 2009	22,864

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5%. The Group is therefore liable to withholding taxes on dividends distributed by the subsidiary established in Mainland China in respect of earnings generated from 1 January 2008.

31. SHARE CAPITAL

	Number of shares				Amount			
	As at 31 December			As at 31 July	As at 31 December			As at 31 July
	2006	2007	2008	2009	2006	2007	2008	2009
	'000	'000	'000	'000	RMB'000	RMB'000	RMB'000	RMB'000
Issued and fully paid	1	1,000,000	1,000,000	1,000,000	1	836,671*	836,671*	836,671*

* Equivalent to SGD165,677,000.

During the Relevant Periods, the movements in share capital were as follows:

	Notes	Number of shares in issue	Issued capital RMB'000
At incorporation on 17 July 2006 and at 31 December 2006 and 1 January 2007		100	1
Sub-division of 100 shares into 624,320,000 ordinary shares	(a)	624,319,900	—
Conversion of the Convertible Loans into 175,680,000 new ordinary shares pursuant to the Convertible Loan Agreement *(note 28)*	(b)	175,680,000	122,236
Issuance of 200,000,000 new ordinary shares pursuant to the initial public offering of the Company on the SGX-ST	(c)	200,000,000	770,000
Less: share issue expenses		—	(55,566)
At 31 December 2007, 1 January 2008, 31 December 2008, 1 January 2009 and 31 July 2009		1,000,000,000	836,671

At the written resolutions of the Shareholders passed on 11 May 2007, the Shareholders approved, inter alia, the following:

(a) The sub-division of 100 ordinary shares in the issued capital of the Company into 624,320,000 ordinary shares in the issued share capital of the Company;

(b) Following the share split on 11 May 2007, the Convertible Loans in the aggregate amount of RMB55,598,000 together with the accrued interests thereon amounting to RMB2,295,000 and the fair value of the derivative financial instruments of RMB64,343,000 were converted into 175,680,000 new ordinary shares at SGD0.14 (equivalent to RMB0.7) per share on average pursuant to the Convertible Loan Agreement, resulting in the total amount of RMB122,236,000 credited to the issued capital;

(c) The allotment and issue of 200,000,000 ordinary shares at SGD0.77 per share in connection with the Company's initial public offering in the SGX-ST on 20 June 2007 for a total cash consideration, before expenses, of SGD141,510,000 (equivalent to RMB770,000,000). The ordinary shares, when fully paid, allotted and issued, rank pari passu in all respects with the existing issued and fully paid shares.

The holders of ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restrictions and have no par value.

32. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the Relevant Periods and the seven-month period ended 31 July 2008 are presented in the consolidated statements of changes in equity in Section I above.

In accordance with the Wholly Foreign Owned Enterprise Law applicable to the subsidiary in the PRC, the subsidiary is required to make appropriations to the Statutory Reserve Fund (the "**SRF**"). At least 10% of the statutory after tax profits as determined in accordance with the applicable PRC accounting standards and regulations must be allocated to the SRF until the cumulative total of the SRF reaches 50% of the subsidiary's registered capital. Subject to approval from the relevant PRC authorities, the SRF may be used to offset any accumulated losses or increase the registered capital of the subsidiary. The SRF is not available for dividend distribution to shareholders.

(b) Company

	Note	Hedging reserve RMB'000	Retained profits/ (accumulated losses) RMB'000	Proposed final dividend RMB'000	Total RMB'000
At 1 January 2006		—	—	—	—
Total comprehensive income for the year		—	764	—	764
At 31 December 2006 and 1 January 2007		—	764	—	764
Total comprehensive expense for the year		—	(1,560)	—	(1,560)
Proposed 2007 final dividend	13	—	(71,468)	71,468	—
At 31 December 2007 and 1 January 2008		—	(72,264)	71,468	(796)
Total comprehensive income for the year		19,807	51,219	—	71,026
Final 2007 dividend declared	13	—	—	(71,468)	(71,468)
Proposed 2008 final dividend	13	—	(75,927)	75,927	—
At 31 December 2008 and 1 January 2009		19,807	(96,972)	75,927	(1,238)
Total comprehensive income for the year		720	80,017	—	80,737
Final 2008 dividend declared	13	—	—	(75,680)	(75,680)
Transfer from proposed final 2008 dividend to retained profits	13	—	247	(247)	—
Change in fair value of derivative financial assets recognised directly in equity		(19,807)	—	—	(19,807)
At 31 July 2009		720	(16,708)	—	(15,988)
(Unaudited)					
At 1 January 2008		—	(72,264)	71,468	(796)
Total comprehensive income for the period		—	65,596	—	65,596
Final 2007 dividend declared		—	—	(71,468)	(71,468)
At 31 July 2008		—	(6,668)	—	(6,668)

33. ACQUISITION OF ASSETS AND LIABILITIES

As explained in note 2, pursuant to the Reorganisation on 24 July 2006, the assets and liabilities acquired by the Company from Henan Chemicals through the First Acquisition and the Net assets not transferred were as follows:

	Notes	Net assets acquired by the Group RMB'000	Net assets not transferred RMB'000
Property, plant and equipment	15	225,617	212,848
Prepaid land lease payments	16	—	14,660
Cash and bank balances		45,010	55,995
Other current assets		147,886	263,572
		418,513	547,075
Less: Other payables		(170,943)	(92,844)
Less: Deferred grants	27	—	(12,734)
Less: Interest-bearing loans		(140,000)	(314,956)
Net assets		107,570*	126,541*
Cash consideration paid for the First Acquisition by drawing down of bank loans and issuance of the Convertible Loans		107,570	

* The aggregate amount of RMB234,111,000 represents the total value of net assets of the Predecessor subsequently acquired by the Group.

As explained in note 2, pursuant to the shareholders' approval on 10 October 2007, the Group completed the Second Acquisition from Henan Chemicals on 12 October 2007 which included the acquisition of the Net assets not transferred and also certain other net assets which were acquired by Henan Chemicals since 24 July 2006 for the Relevant Business. The net cash outflow in relation thereto is as follows:

	Notes	RMB'000
Property, plant and equipment	15	678,883
Prepaid land lease payments	16	48,691
Time deposits		3,000
Other current assets		1,895
		732,469
Less: Other payables		(98,760)
Less: Interest-bearing loans		(423,800)
Cash consideration paid for the Second Acquisition		209,909
Less: Time deposits acquired		(3,000)
Net cash outflow in relation to the Second Acquisition		206,909

The carrying amounts of the assets and liabilities represented the fair values of the assets and liabilities acquired as determined based on the valuation performed by an independent valuer.

34. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

Major non-cash transactions

(i) Purchases of property, plant and equipment

	Year ended 31 December			Seven-month period ended 31 July	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Additions to property, plant and equipment *(note 15)*	198,488	123,083	723,306	261,781	604,457
Less: Prepayments made in the prior period included in Net assets not transferred	(12)	—	—	—	—
Less: Prepayments made in the prior period *(note 20)*	(160,470)	(15,820)	(57,629)	(57,629)	(277,882)
Less: Payable to creditors	(7,749)	(35,131)	(98,692)	(49,679)	(140,665)
Less: Interest capitalised *(note 8)*	—	—	—	—	(5,000)
	30,257	72,132	566,985	154,473	180,910
Add: Prepayments made in the current period included in Net assets not transferred	188,794	—	—	—	—
Add: Prepayments made in the current period	15,820	57,629	277,882	241,807	30,927
Add: Payments for the prior period purchases	12,643	7,749	35,131	35,131	98,692
	247,514	137,510	879,998	431,411	310,529

(ii) Interest capitalisation

During the seven-month period ended 31 July 2009, the Group capitalised interest expense of RMB5,000,000 in property, plant and equipment (note 8).

(iii) Conversion of Convertible Loans into new ordinary shares

During the year ended 31 December 2007, the Convertible Loans were converted into 175,680,000 fully paid new ordinary shares of the Company of which RMB64,343,000 were not settled for cash due to the recognition of fair value on the derivative financial liabilities of the Convertible Loans.

35. CONTINGENT LIABILITIES

As at 31 December 2006, 2007 and 2008 and 31 July 2009, neither the Group nor the Company had any significant contingent liabilities.

36. OPERATING LEASE ARRANGEMENTS

The Group had operating lease agreements for buildings, plant and equipment and motor vehicle in Mainland China. Certain of these leases have options for renewal. Future minimum rentals payable under non-cancellable operating leases as at the reporting dates are as follows:

	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

The Company had no operating lease arrangements as at 31 December 2006, 2007, 2008 and 31 July 2009.

37. COMMITMENTS

In addition to the operating lease commitments detailed in note 36 above, the Group had the following capital and other commitments at the reporting dates:

	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				
Purchases of raw materials	14,647	21,193	262,572	410,794

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

38. RELATED PARTY TRANSACTIONS

(a) The Group had the following transactions with related parties during the Relevant Periods and the seven-month period ended 31 July 2008:

		Year ended 31 December			Seven-month period ended 31 July	
		2006	2007	2008	2008	2009
	Notes	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Continuing transactions						
Sales of water, electricity and steam to:	(i)					
— Henan Shenzhou Heavy Sealing Co., Ltd. #		366	764	869	509	426
— Henan Xinxin Jingxi Chemical Co., Ltd. #		—	34	—	—	—
— Xinxiang Xinlianxin Gas Products Co., Ltd. #		912	1,050	1,149	651	558
— Xinxiang Xinlianxin Lifting Equipment Co., Ltd. #		2	2	2	1	1
— Xinxiang Xinlianxin Chemical Equipment Co., Ltd. #		67	105	181	117	63
— Xinxiang Yuyuan Chemical Co., Ltd. #		740	781	475	273	335
— Xinhua Petrol Station #			1	—	—	—
— Xinxiang Xinlianxin Hotel Co., Ltd. #		—	—	50	24	27
Service fee income for provision of calibration and testing services from:	(ii)					
— Henan Shenzhou Heavy Sealing Co., Ltd. #		264	24	28	16	14
— Henan Xinxin Jingxi Chemical Co., Ltd. #		—	7	—	—	—
— Xinxiang Xinlianxin Gas Products Co., Ltd. #		2	3	2	1	1
— Xinxiang Xinlianxin Lifting Equipment Co., Ltd. #		1	1	—	—	—
— Xinxiang Xinlianxin Chemical Equipment Co., Ltd. #		7	6	8	4	7
— Xinxiang Yuyuan Chemical Co., Ltd. #		20	31	44	23	17
— Xinhua Petrol Station #		1	—	—	—	—
Purchases of equipment and consumables from:	(iii)					
— Henan Shenzhou Heavy Sealing Co., Ltd. #		—	30	30	—	—
— Henan Xinxin Jingxi Chemical Co., Ltd. #		—	2	—	—	—
— Xinxiang Xinlianxin Gas Products Co., Ltd. #		—	233	387	275	384
— Xinxiang Xinlianxin Chemical Equipment Co., Ltd. #		3,294	2,366	14,648	5,284	5,208
— Xinxiang Yuyuan Chemical Co., Ltd. #		—	2	—	—	—
— Xinhua Petrol Station #		—	48	—	—	—

	Notes	Year ended 31 December 2006 RMB'000	2007 RMB'000	2008 RMB'000	Seven-month period ended 31 July 2008 RMB'000 (Unaudited)	2009 RMB'000
Service fee expenses for provision of lifting services to:	(iv)					
— Xinxiang Xinlianxin Lifting Equipment Co., Ltd.		—	760	1,020	773	1,541
Discontinued transactions						
Sale of property, plant and equipment to:	(v)					
— Henan Chemicals		78	—	—	—	—
Sale of finished goods to:	(vi)					
— Henan Xinlianxin Mixed Fertiliser Service Co., Ltd. #		1,389	319	—	—	—
Sales of raw materials and consumables to:	(vi)					
— Henan Shenzhou Heavy Sealing Co., Ltd. #		123	61	—	—	—
— Henan Xinxin Jingxi Chemical Co., Ltd. #		—	1	—	—	—
— Xinxiang Xinlianxin Gas Products Co., Ltd. #		96	5	—	—	—
— Xinxiang Xinlianxin Lifting Equipment Co., Ltd. #		8	5	—	—	—
— Xinxiang Xinlianxin Chemical Equipment Co., Ltd. #		104	20	—	—	—
— Xinxiang Yuyuan Chemical-Co., Ltd. #		111	44	—	—	—
— Henan Xinlianxin Mixed Fertiliser Service Co., Ltd. #		11	—	—	—	—
— Xinhua Petrol Station #		3	1	—	—	—
Management fee income from:	(vii)					
— Henan Shenzhou Heavy Sealing Co., Ltd. #		157	—	—	—	—
— Xinxiang Xinlianxin Lifting Equipment Co., Ltd. #		17	—	—	—	—
— Xinxiang Xinlianxin Chemical Equipment Co., Ltd. #		31	—	—	—	—
— Xinxiang Yuyuan Chemical Co., Ltd. #		95	—	—	—	—
Interest income from:	(viii)					
— Henan Chemicals		540	—	—	—	—
— Henan Shenzhou Heavy Sealing Co., Ltd. #		691	—	—	—	—
— Xinxiang Xinlianxin Gas Products Co., Ltd. #		80	—	—	—	—
— Xinxiang Xinlianxin Lifting Equipment Co., Ltd. #		21	—	—	—	—
— Xinxiang Xinlianxin Chemical Equipment Co., Ltd. #		23	—	—	—	—
— Xinxiang Yuyuan Chemical Co., Ltd. #		849	—	—	—	—

	Notes	Year ended 31 December 2006 RMB'000	2007 RMB'000	2008 RMB'000	Seven-month period ended 31 July 2008 RMB'000 (Unaudited)	2009 RMB'000
— Xinhua Petrol Station #		30	—	—	—	—
Purchases of finished goods from:	(ix)					
— Henan Chemicals		—	728	—	—	—
Service fee expenses to:	(x)					
— Henan Shenzhou Heavy Sealing Co., Ltd. #		—	6	—	—	—
— Xinxiang Xinlianxin Lifting Equipment Co., Ltd. #		496	—	—	—	—
— Xinxiang Xinlianxin Hotel Co., Ltd. #		—	—	1,393	387	1,188
Operating lease expenses to:	(xi)					
— Henan Chemicals		13,512	34,360	492	292	280
Interest expense to:	(xii)					
— Henan Chemicals		—	—	5,835	3,233	2,735
Payment on behalf of:	(xiii)					
— Henan Chemicals		—	1,998	—	—	—
Purchases of property, plant and equipment from:	(xiv)					
— Henan Chemicals		225,617	678,883	—	—	—

These companies are subsidiaries of Henan Chemicals, which has common shareholders with the Company. The Company's executive director and executive officers have an aggregate of 24% equity interest in Henan Chemicals.

Notes:

(i) The sale of water was made according to mutually agreed fee. The sale of electricity was made according to unit cost of electricity announced by Henan Province Development and Reform Committee (河南省發展和改革委員會). The sale of steam was made according to a mark-up of 10% above cost.

(ii) The service fee income was charged to related parties according to mutually agreed terms with reference to the actual costs incurred.

(iii) The purchases of equipment and consumables were charged based on the published price and conditions offered to third parties by the related parties.

(iv) The service fee expenses were charged based on mutually agreed terms with reference to the actual costs incurred.

(v) The sale of property, plant and equipment was made according to the net book value of the property, plant and equipment at the date of purchase.

(vi) The sales to related parties were based on a mark-up of 10% above cost. These transactions were terminated in August 2007.

(vii) The management fee income was received from related parties according to mutually agreed terms with reference to the actual costs incurred.

(viii) The interest income was received based on a fixed interest rate of 6.903% per annum on balance due from related companies. This transaction was terminated on 31 December 2006.

(ix) The purchases of finished goods were charged based on the published prices and conditions offered to third parties by the related companies.

(x) The service fee expenses were charged based on mutually agreed terms with reference to the actual costs incurred.

(xi) The operating lease expenses for the years ended 31 December 2006 and 2007 were charged based on mutually agreed fees and that for the six-month ended 30 June 2008 was charged at a fixed monthly amount of RMB42,000. Starting from 1 July 2008, the Group paid a reduced fixed monthly rental of RMB40,000.

(xii) The interest expense was charged based on a fixed interest rate of 6.804% per annum on the balance due to related companies.

(xiii) The payment on behalf of a related party was interest-free and was non-recurring. The amount was repaid in the year ended 31 December 2008.

(xiv) The Second Acquisition was made based on a valuation of the net fair value of these assets as at 31 December 2006 performed by Henan Guanghua Accountancy Firm Co., Ltd., an independent valuer, and concurred by Sallmanns (Far East) Limited, an independent international valuer.

The related party transactions in respect of items (i), (ii), (iii) and (iv) above constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.

The directors have confirmed that items (i) to (iv) will continue, and items (v) to (xiv) will be discontinued, after the listing of the Company's shares on the Stock Exchange.

(b) Compensation of directors and key management personnel of the Group:

	Year ended 31 December			Seven-month period ended 31 July	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Directors' fee	—	700	700	408	408
Salaries and bonuses	1,590	9,977	9,288	5,165	2,641
Contribution to defined contribution plans	43	89	70	49	69
	1,633	10,766	10,058	5,622	3,118
Comprise amounts paid to:					
— Directors of the Company	883	8,845	8,447	5,330	2,792
— Other key management personnel	750	1,921	1,611	292	326
	1,633	10,766	10,058	5,622	3,118

Further details of the directors' remuneration are included in note 9 to this report.

39. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the reporting dates were as follows:

Group

Financial assets

		Loans and receivables			
		As at 31 December			As at 31 July
		2006	2007	2008	2009
	Notes	RMB'000	RMB'000	RMB'000	RMB'000
Trade and bills receivables	19	23,990	7,321	26,247	20,249
Deposits and other receivables	20	5,461	4,303	6,094	31,566
Due from related companies	21	11,902	1,998	—	—
Pledged deposits	23	12,631	3,508	—	16,871
Cash and cash equivalents	23	157,571	506,810	200,114	199,163
		211,555	523,940	232,455	267,849

		Financial assets at fair value through profit or loss			
		As at 31 December			As at 31 July
		2006	2007	2008	2009
	Note	RMB'000	RMB'000	RMB'000	RMB'000
Derivative financial assets	22	—	—	19,807	720

Financial liabilities

		Financial liabilities at amortised cost			
		As at 31 December			As at 31 July
		2006	2007	2008	2009
	Notes	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables	24	28,963	27,685	47,760	44,141
Bills payable	25	18,000	5,000	—	33,740
Other payables	26	180,074	179,501	154,302	162,932
Due to related companies	21	—	1,682	1,676	2,096
Deferred grants	27	—	8,240	9,740	8,995
Convertible loans	28	36,010	—	—	—
Interest-bearing bank and other borrowings	29	194,759	377,348	667,974	872,600
		457,806	599,456	881,452	1,124,504

		Financial liabilities at fair value through profit or loss			
		As at 31 December			As at 31 July
		2006	2007	2008	2009
	Note	RMB'000	RMB'000	RMB'000	RMB'000
Derivative financial liabilities	28	19,588	—	—	—

Company

Financial assets

		Loans and receivables			
		As at 31 December			As at 31 July
		2006	2007	2008	2009
	Notes	RMB'000	RMB'000	RMB'000	RMB'000
Due from a subsidiary	17	—	—	309,420	314,735
Other receivables	20	—	551	1,509	554
Cash and cash equivalents	23	3,626	440,332	23,037	26,627
		3,626	440,883	333,966	341,916

		Financial assets at fair value through profit or loss			
		As at 31 December			As at 31 July
		2006	2007	2008	2009
	Note	RMB'000	RMB'000	RMB'000	RMB'000
Derivative financial assets	22	—	—	19,807	720

Financial liabilities

		Financial liabilities at amortised cost			
		As at 31 December			As at 31 July
		2006	2007	2008	2009
	Notes	RMB'000	RMB'000	RMB'000	RMB'000
Other payables	26	1,874	—	—	—
Convertible loans	28	36,010	—	—	—
Interest-bearing bank and other borrowings	29	54,665	—	307,557	307,557
		92,549	—	307,557	307,557

		Financial liabilities at fair value through profit or loss			
		As at 31 December			As at 31 July
		2006	2007	2008	2009
	Note	RMB'000	RMB'000	RMB'000	RMB'000
Derivative financial liabilities	28	19,588	—	—	—

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to financial risks arising from its operations and the use of financial instruments. The key financial risks include credit risk, liquidity risk, interest rate risk and foreign currency risk. The Board of Directors reviews and agrees policies and procedures for the management of these risks, which are executed by the Chief Financial Officer and Finance Manager. The Group does not apply hedge accounting apart from the hedging arrangements disclosed in note 22.

The following sections provide details regarding the Group's exposure to the above-mentioned financial risks and the objectives, policies and processes for the management of these risks.

(a) Credit risk

Credit risk is the risk of loss that may arise on outstanding financial instruments should a counterparty default on its obligations. The Group's exposure to credit risk arises primarily from trade and other receivables. For other financial assets such as cash and cash equivalents, bills receivables and deposits and other receivables, the Group minimises credit risk by dealing exclusively with high credit rating counterparties.

The Group's objective is to seek continual revenue growth while minimising losses incurred due to increased credit risk exposure. The Group trades only with recognised and creditworthy third parties. It is the Group's policy that the majority of customers who wish to trade are required to pay cash on delivery or in advance before collecting any goods. A minority of customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

Exposure to credit risk

At the reporting date, the Group's maximum exposure to credit risk is represented by the carrying amount of each class of financial assets recognised in the statements of financial position, including derivatives with positive fair values.

Credit risk concentration profile

The Group determines concentration of credit risk by monitoring on an on-going basis the aged analysis of its trade receivables by each product category. The credit risk concentration profile of the Group's trade receivables at the reporting date is as follows:

	As at 31 December						As at 31 July	
	2006		2007		2008		2009	
	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total
Urea	2,719	19	1,136	63	6,626	86	868	50
Compound fertiliser	10,930	77	521	29	1,036	13	796	45
Methanol	28	1	132	7	—	—	93	5
Others	473	3	4	1	5	1	1	—
Total	14,150	100	1,793	100	7,667	100	1,758	100

At 31 December 2006, 2007 and 2008 and 31 July 2009, approximately 0%, 33%, 53% and 15% of the Group's trade receivables were due from its top 10 customers located in the PRC.

Financial assets that are neither past due nor impaired

Trade and other receivables that are neither past due nor impaired are creditworthy debtors with good payment history with the Group. Cash and cash equivalents and derivatives are placed with or entered into with reputable financial institutions.

Financial assets that are either past due or impaired

Information regarding financial assets that are either past due or impaired is disclosed in note 19.

(b) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting financial obligations due to shortage of funds. The Group's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of stand-by credit facilities.

The Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The table below summarises the maturity profile of the Group's financial liabilities at the reporting date based on contractual undiscounted payments.

Group

	1 year or less	1 to 3 years	3 to 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2006				
Trade payables	28,963	—	—	28,963
Bills payable	18,000	—	—	18,000
Other payables	180,074	—	—	180,074
Convertible loans	36,010	—	—	36,010
Derivative financial liabilities	19,588	—	—	19,588
Interest-bearing bank and other borrowings	138,309	52,135	92,997	283,441
31 December 2007				
Trade payables	27,685	—	—	27,685
Bills payable	5,000	—	—	5,000
Other payables	179,501	—	—	179,501
Due to related companies	1,682	—	—	1,682
Interest-bearing bank and other borrowings	305,810	93,229	11,802	410,841
31 December 2008				
Trade payables	47,760	—	—	47,760
Other payables	154,302	—	—	154,302
Due to related companies	1,676	—	—	1,676
Interest-bearing bank and other borrowings	152,410	562,753	11,989	727,152
31 July 2009				
Trade payables	44,141	—	—	44,141
Bills payables	33,740	—	—	33,740
Other payables	162,932	—	—	162,932
Due to related companies	2,096	—	—	2,096
Interest-bearing bank and other borrowings	530,240	163,748	229,500	923,488

Company

	1 year or less	1 to 3 years	3 to 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2006				
Other payables	1,874	—	—	1,874
Convertible loans	36,010	—	—	36,010
Derivative financial liabilities	19,588	—	—	19,588
Interest-bearing bank and other borrowings	61,554	—	—	61,554

31 December 2007

There is no financial liability of the Company as at 31 December 2007.

	1 year or less	1 to 3 years	3 to 5 years	Total
31 December 2008				
Interest-bearing bank and other borrowings	—	—	331,595	331,595
31 July 2009				
Interest-bearing bank and other borrowings	308,988	—	—	308,988

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of the Group's financial instruments will fluctuate because of changes in market interest rates. The Group's and the Company's exposure to interest rate risk arises primarily from their loans and borrowings. All of the Group's financial assets and liabilities at floating rates are contractually repriced every 12 months.

Sensitivity analysis for interest rate risk

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for fixed rate financial assets and liabilities at fair value through profit or loss. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

For variable rate financial assets and liabilities, the Group has determined that the carrying amounts of cash and short-term deposits based on their notional amounts, reasonably approximate to their fair values because these are mostly short-term in nature or are repriced frequently. For interest-bearing loans and borrowings, a change in interest rate at the reporting date would increase/(decrease) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

		As at 31 December			As at 31 July
	Increase in basis points	2006	2007	2008	2009
		RMB'000	RMB'000	RMB'000	RMB'000
Interest expense					
RMB	+10	(95)	(127)	(125)	(306)
USD	+50	(186)	—	(219)	(191)
Interest income					
RMB	+10	114	54	36	165
SGD	+10	—	457	22	18
USD	+50	11	—	710	32

(d) Foreign currency risk

The Group holds cash and cash equivalents denominated in foreign currencies for working capital purposes. At the reporting date, such foreign currency balances (mainly in SGD and USD) are as follows:

	As at 31 December			As at 31 July
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
SGD	414	456,635	22,077	20,580
USD	3,212	19	142,031	7,270
	3,626	456,654	164,108	27,850

The following table demonstrates the sensitivity to a reasonably possible change in the SGD and USD exchange rates (against RMB), with all other variables held constant, on the Group's profit net of tax and equity.

		As at 31 December			As at 31 July
		2006	2007	2008	2009
		RMB'000	RMB'000	RMB'000	RMB'000
SGD	— strengthened 5% (2008: 5%; 2007: 1%; 2006: 1%)	4	4,566	1,104	1,029
	— weakened 5% (2008: 5%; 2007: 1%; 2006: 1%)	(4)	(4,566)	(1,104)	(1,029)
USD	— strengthened 2% (2008: 2%; 2007: 6%; 2006: 3%)	(96)	(1)	(1,966)	(145)
	— weakened 2% (2008: 2%; 2007: 6%; 2006: 3%)	96	1	1,966	145

41. CAPITAL MANAGEMENT

The primary objectives of the Group's capital management are to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the Relevant Periods.

As disclosed in note 32(a), a subsidiary of the Group is required by the Wholly Foreign Owned Enterprise Law of the PRC to contribute to and maintain a non-distributable statutory reserve fund whose utilisation is subject to approval by the relevant PRC authorities. This externally imposed capital requirement has been complied with by the above-mentioned subsidiary for all the Relevant Periods and the seven-month period ended 31 July 2008.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group's policy is to keep the gearing ratio below 90%.

	As at 31 December			As at 31 July
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables	28,963	27,685	47,760	44,141
Bills payable	18,000	5,000	—	33,740
Accruals and other payables	197,810	240,696	285,011	339,899
Due to related companies	—	1,682	1,676	2,096
Convertible loans	36,010	—	—	—
Derivative financial liabilities	19,588	—	—	—
Current interest-bearing bank and other borrowings	74,665	287,000	145,000	522,557
Non-current interest-bearing bank and other borrowings	120,094	90,348	522,974	350,043
Less: Cash and cash equivalents	(157,571)	(506,810)	(200,114)	(199,163)
Less: Pledged deposits	(12,631)	(3,508)	—	(16,871)
Net debt	324,928	142,093	802,307	1,076,442
Shareholders' equity	66,664	1,170,893	1,450,906	1,423,853
Less: Statutory reserve fund	(6,745)	(40,514)	(77,770)	(86,264)
Less: Hedging reserve	—	—	(19,807)	(720)
Total capital	59,919	1,130,379	1,353,329	1,336,869
Capital and net debt	384,847	1,272,472	2,155,636	2,413,311
Gearing ratio	84.4%	11.2%	37.2%	44.6%

The Group includes within net debt, loans and borrowings, trade and other payables, other liabilities, less cash and cash equivalents. Capital includes equity attributable to the equity holders of the parent less the hedging reserve and the above-mentioned restricted statutory reserve fund.

42. POST REPORTING DATE EVENT

As detailed in note 29(d) to the Financial Information, the Group failed to meet two of the financial covenants as stipulated in the syndicated loan agreement in relation to the loan of USD45,000,000 (equivalent to RMB307,557,000 (note 29(d)) and the loan had became immediately repayable. In September 2009, total loans of RMB300 million were granted by certain banks in Mainland China to finance the Group's repayment of the aforementioned syndicated loan. The syndicated loan was fully repaid on 30 September 2009.

43. RECONCILIATION BETWEEN SFRSs AND IFRSs

The effects of material differences between the Financial Information of the Group prepared under SFRSs and IFRSs are as follows:

		Year ended 31 December			Seven-month period ended 31 July	
		2006	2007	2008	2008	2009
	Note	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Net profit attributable to equity holders of the parent under SFRSs		129,084	267,559	331,674	226,993	67,714
Share issue expenses	(i)	—	(44,453)	—	—	—
Net profit attributable to equity holders of the parent under IFRSs		129,084	223,106	331,674	226,993	67,714

Note:

(i) The difference is caused by the deduction from equity of share issue expenses relating to the listing of both new shares and existing shares in accordance with the Recommended Accounting Practice ("**RAP**") in Singapore while IFRSs require share issue expenses to be allocated to new shares and existing shares and charged to equity and the statement of comprehensive income, respectively.

44. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Group and the Company in respect of any period subsequent to 31 July 2009.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong