



China XLX Fertiliser Ltd.
中國心連心化肥有限公司*

(incorporated in Singapore with limited liability)

Stock Code : 1866



LISTING BY INTRODUCTION



Sponsor

CAZENOVE ASIA

* For identification purpose only

A Standard Chartered group company

IMPORTANT

If you are in any doubt about any of the contents of this document, you should consult your stockbrokers, bank managers, solicitors, professional accountants or other independent professional advisers.



China XLX Fertiliser Ltd.
中國心連心化肥有限公司*
(incorporated in Singapore with limited liability)

**LISTING BY WAY OF INTRODUCTION
ON THE MAIN BOARD OF
THE STOCK EXCHANGE OF HONG KONG LIMITED**

Stock Code: 1866

Sponsor

CAZENOVE ASIA

A Standard Chartered group company

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This document is published in connection with the listing by way of introduction on the Main Board of the Stock Exchange of the entire issued share capital of China XLX Fertiliser Ltd. (the “**Company**”) presently listed on the Singapore Exchange Securities Trading Limited. This document contains particulars given in compliance with the Rules Governing the Listing of Securities on the Stock Exchange and the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) for the purpose of giving information with regard to the Company and its subsidiaries.

This document does not constitute an offer of, nor is it calculated to invite offers for, the shares or other securities of the Company, nor have any such shares or other securities been allotted with a view to any of them being offered for sale to or subscription by members of the public. No shares in the share capital of the Company (the “Shares”) will be allotted and issued in connection with, or pursuant to, the publication of this document.

Information regarding the proposed arrangement for the listing and registration of and for dealings and settlement of dealings in the Shares following the introduction of the Shares on the Stock Exchange is set out in the section headed “Listings, registration, dealings and settlement” of this document.

* For identification purpose only

EXPECTED TIMETABLE

Dealings in the Shares on the Stock Exchange is expected to
commence at 9:30 a.m. on 8 December 2009
(Note)

Note: Refers to Hong Kong local time and date, except as otherwise stated. Details of the Introduction are set out in the section headed “Information about this document and the Introduction” of this document. The Company will issue an announcement in Hong Kong to be published in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) if there is any change in the above expected timetable of the Introduction.

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You should rely only on the information contained in this document to make your investment decision. The Company has not authorised anyone to provide you with information that is different from what is contained in the document. Any information or representation not made in the document must not be relied on by you as having been authorised by the Company, the Sponsor, any of their respective directors, or any other person or party involved in the Introduction.

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SUMMARY

This summary aims to give you an overview of the information contained in this document. As this is a summary, it does not contain all the information that may be important to you. You should read this document and the appendices in its entirety before you decide to invest in the Shares.

Prospective investors and/or Shareholders should refer to “Appendix V — Summary of salient provisions of the laws of Singapore” for details of the salient provisions of the laws of Singapore applicable to the Hong Kong Shareholders.

Singapore laws and regulations differ in some respects from comparable Hong Kong laws and regulations and prospective investors and/or Shareholders should consult their own legal advisers for specific legal advice concerning their legal obligations in Singapore.

OVERVIEW

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

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

Our Production Plant III started its trial production in April 2009. Upon its commencement of full operations by the end of 2009, it is estimated that our total production capacity of urea from our three production plants would increase to approximately 1.25 million tons per annum. The estimated aggregate production capacity of compound fertiliser and methanol are approximately 600,000 tons and 200,000 tons per annum respectively by the end of 2009. With our economy of scale, our products can be produced at a lower cost per unit and enjoy favourable terms of sales

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and purchases. Currently, our urea products are generally sold on advanced payment terms or cash terms, and also we have a long-term relationship with our coal suppliers, which enables us to have a stronger financial position as well as a stable and consistent supply of high quality raw materials.

Coal is the major cost component of our production which accounted for approximately 41% of our total cost of sales in 2008. We possess advanced production technologies which allows us to utilise resources more efficiently and effectively by consuming less coal and electricity. According to the CNCIC Report, our coal consumption per ton of urea production was the lowest among all major coal-based urea producers in the PRC in 2008. We used approximately 650kg of coal to produce one ton of urea on average in 2008, while the average coal consumption per ton of urea production among other coal-based urea producers in the PRC was approximately 850kg. With respect to electricity, we have 3 power generating systems which enable us to generate electricity for our production. This capability offers us the flexibility to either purchase electricity from the market or to generate our own required electricity depending on the market price and availability of power subsidy from the PRC government. Together with our automated industrial process and our continuous effort to improve and computerise our production and industrial processes, our production cost of urea in 2008 was approximately 17% lower than the average production cost per ton among other coal-based urea producers in the PRC according to the CNCIC Report.

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

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

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As at 31 July 2009, we had net current liabilities of approximately RMB414.7 million, for the reasons that we were not able to meet certain financial covenants under the syndicated loan agreement of which the syndicated loan amounted to approximately RMB307.6 million with an original maturity term in 2011, and the lenders had the rights to require us to repay the syndicated loan anytime. Thus, such syndicated loan of approximately RMB307.6 million was classified as current liabilities as at 31 July 2009. In order to avoid this uncertainty, we obtained bank borrowings from other banks with a sum in aggregate of approximately RMB300 million and voluntarily repaid the syndicated loan in advance by the end of September 2009. Furthermore, we extended the bank borrowings of approximately RMB100 million originally due within one year as at 31 July 2009 to terms of over one year and obtained a new long-term bank loan of RMB85 million by the end of October 2009. In light of the extension of terms of the bank borrowings, our Directors believe that such net current liabilities position is temporary in nature and our Group has returned to net current assets position as at 31 October 2009. Our Directors confirm that the lenders under the syndicated loan agreement had not requested us to repay syndicated loan immediately, and further confirm that there was no cross-default on the other loan agreements for the reason that we were not able to meet the financial covenants under such syndicated loan.

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

COMPETITIVE STRENGTHS

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

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

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

High profitability resulting from our cost effectiveness leadership

According to the CNCIC Report, in 2008, in terms of cost competitiveness, our urea production cost was the lowest in Henan Province among 22 coal-based urea producers in Henan Province, and the 4th lowest among all coal-based urea producers in the PRC, and we also ranked the 7th lowest production cost among all urea producers in the PRC

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irrespective of the types of raw material used. Given that urea is a commodity with little product differentiation, we believe cost advantage is the key to success in this industry. One of the key contributors to our cost competitiveness is our advanced technologies and automatic industrial processes. According to the CNCIC Report, we are one of the few urea producers in the PRC that have adopted automatic industrial processes for urea production and 18 advanced technologies recommended by the relevant fertiliser industry associations of the PRC, which enable us to consume resources, including coal and electricity, in our production in a more effective and efficient way. In 2008, the average usage of coal for our urea production was approximately 650kg per ton, which was the lowest among all major coal-based urea producers in the PRC. In 2008, our average production cost of methanol was approximately RMB1,688 per ton, which was approximately RMB212 lower than the average production cost in the methanol industry in PRC. From July 2008 to October 2009, we had been enjoying approximately 32% electricity subsidies from the government. On 18 November 2009, the NDRC promulgated the “Notice of Adjustment of Electricity Price in Central China” that the electricity prices will be adjusted in Central China including Henan Province with effect from 20 November 2009. With our capability to generate a significant portion of our electricity, we are less susceptible to power shortage compared to other fertiliser producers in the PRC without self-power generation capability. Also, we are able to produce fertiliser products at a more competitive cost in the event the government removes the power subsidy in the future.

Strategic locations to raw material suppliers and customers

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

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

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

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

Our experienced and competent management team

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

BUSINESS STRATEGIES

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

Self-development and expansion of our production capacity

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

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

Developing our business through vertical business integration

We will consider to invest in appropriate raw material suppliers, such as coal mines or mining companies, in order to ensure the stable and consistent supply of raw materials at competitive costs for our production. As coal is the principal raw material for our fertiliser production, our potential targets would be coal mines or mining companies which are in proximity to our production hub. As at the Latest Practicable Date, we had not identified any

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specific acquisition target in respect of our vertical business integration and investment. If, after Listing, we identify any specific coal mines or mining companies, we will make investment in such targets (which may or may not be controlled by us) with an aim to maintain stable supply of raw materials instead of operating the mining businesses by ourselves.

Expanding our business through horizontal integration

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

Expanding the business of compound fertiliser

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

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

Improvement of internal management

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

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SUMMARY FINANCIAL INFORMATION

The following tables present a summary financial information of our Group for the years ended 31 December 2006, 2007 and 2008, seven months ended 31 July 2008 and 2009 and three months ended 30 September 2008 and 2009, as extracted from the accountants' report as set out in Appendix I to this document, and from the unaudited interim condensed financial information as set out in Appendix II to this document.

Consolidated Statements of Comprehensive Income

	Year ended 31 December			Seven months ended 31 July		Three months ended 30 September	
	2006	2007	2008	2008	2009	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)		(unaudited)	(unaudited)
REVENUE	890,175	1,541,422	2,084,943	1,191,688	1,221,399	628,523	665,923
Cost of sales	(678,607)	(1,125,001)	(1,603,073)	(886,255)	(1,056,295)	(495,735)	(598,298)
Gross profit	211,568	416,421	481,870	305,433	165,104	132,788	67,625
Other income and gains	13,495	31,761	13,664	7,128	6,417	4,295	2,766
Selling and distribution expenses General and administrative expenses	(9,712)	(20,166)	(20,722)	(12,952)	(9,494)	(4,582)	(4,643)
Other expenses	(41,487)	(76,635)	(91,290)	(44,837)	(60,009)	(17,287)	(31,483)
Finance costs	—	(64,343)	(6,963)	(2,906)	(1,479)	(6,715)	(6,608)
	(21,447)	(18,062)	(26,791)	(13,261)	(16,633)	(6,595)	(9,933)
PROFIT BEFORE TAX	(152,417)	268,976	349,768	238,605	83,906	101,904	17,724
Tax	(23,333)	(1,417)	(18,094)	(11,612)	(16,192)	(5,302)	(5,261)
Net profit attributable to equity holders of the parent	129,084	267,559	331,674	226,993	67,714	96,602	12,463
Other comprehensive income							
Gain/(loss) on hedging instruments	—	—	19,807	—	(19,087)	14,773	(31)
Total comprehensive income attributable to equity holders of the parent	129,084	267,559	351,481	226,993	48,627	111,375	12,432
Earnings per share (RMB cents per share)							
Basic and diluted	20.68	31.65	33.17	22.70	6.77	9.66	1.25
Dividend declared for the relevant periods	—	71,468	75,680	—	—	—	—
Dividend paid for the relevant periods	—	—	71,468	71,468	75,680	—	—
Dividend per share paid for the relevant periods (RMB cents per share)	—	—	7.15	7.15	7.57	—	—

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Consolidated Statements of Financial Position

	As at 31 December			As at
	2006	2007	2008	31 July
	RMB'000	RMB'000	RMB'000	2009
				RMB'000
ASSETS				
Non-current assets				
Property, plant and equipment	216,780	974,266	1,616,011	2,157,610
Prepaid land lease payments	—	47,448	72,628	73,390
Prepayments	15,820	63,296	277,882	30,927
Total non-current assets	<u>232,600</u>	<u>1,085,010</u>	<u>1,966,521</u>	<u>2,261,927</u>
Current assets				
Inventories	118,006	178,525	234,965	182,469
Trade and bills receivables	23,990	7,321	26,247	20,249
Prepayments	16,889	44,999	28,156	34,866
Deposits and other receivables	5,461	4,303	6,094	31,566
Due from related companies	11,902	1,998	—	—
Derivatives financial assets	—	—	19,807	720
Income tax recoverable	—	—	—	357
Pledged deposits	12,631	3,508	—	16,871
Cash and cash equivalents	157,571	506,810	200,114	199,163
Total current assets	<u>346,450</u>	<u>747,464</u>	<u>515,383</u>	<u>486,261</u>
Total assets	<u>579,050</u>	<u>1,832,474</u>	<u>2,481,904</u>	<u>2,748,188</u>
EQUITY AND LIABILITIES				
Current liabilities				
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	259,411	289,399
Due to related companies	—	1,682	1,676	2,096
Income tax payable	17,256	930	220	—
Deferred grants	—	8,240	9,740	8,995
Convertible loans	36,010	—	—	—
Derivative financial liabilities	19,588	—	—	—
Interest-bearing bank and other borrowings	74,665	287,000	145,000	522,557
Total current liabilities	<u>392,292</u>	<u>571,233</u>	<u>463,807</u>	<u>900,928</u>
Net current assets/(liabilities)	(45,842)	176,231	51,576	(414,667)

SUMMARY

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

SUMMARY

RISK FACTORS

Details of the risks involving the Group's operation, the industry in which the Group operates and the dual primary listing are set forth in the section headed "Risk factors" in this document. These risks can be broadly classified as follows:

Risks relating to the Group's business

- Our business and operations may be adversely affected by the current global economic crisis.
- Our business performance is heavily influenced by the supply, pricing and quality of our raw materials.
- The fierce competition in the fertiliser business may materially and adversely affect our financial performance.
- Our business is required to comply with the environmental protection laws and regulations.
- Our production process may be disrupted by various factors.
- We may have insufficient insurance coverage in certain situations.
- Our production plants may be materially and adversely affected by power shortages.
- A substantial amount of our revenue is derived from the sales of a limited number of main products.
- Fluctuation of price of our fertiliser products may materially and adversely affect our financial performance.
- The income tax benefits currently enjoyed by us may be reduced after our tax holiday period, which may materially affect our future financial performance.
- Our operations could be materially and adversely affected by departure of members of our management team and failure to recruit and retain competent employees.
- Our operation results may be affected by the gain or loss from derivative financial instruments.
- We had net current liabilities as at 31 December 2006 and 31 July 2009.

Risks relating to the Group's industry

- Changes in the PRC government policies in relation to the chemical fertiliser industry and agricultural industry may materially and adversely affect our business and financial performance.
- Changes in the import and export taxation policy of chemical fertiliser may materially and adversely affect our financial performance.

SUMMARY

- The revolving nature of the fertiliser industry may cause significant fluctuations to our financial conditions.
- Seasonality and unexpected adverse weather conditions could materially and adversely affect our operation results.
- A significant or prolonged downturn in the PRC agricultural industry could materially and adversely affect our business and financial performance.
- The popularity of urea fertilisers may be reduced by increasing usage of other types of fertilisers resulting in a material and adverse influence on our financial performance.

Risks relating to the Group's operations in the PRC

- The Group's business could be affected by changes in China's economic, political or social conditions or government policies.
- The PRC legal system has inherent uncertainties that could materially and adversely affect us.
- Inflation in China could materially and adversely affect our profitability and growth.
- Changes in foreign exchange regulations and future movements in the exchange rate of Renminbi may adversely affect the financial condition and results of our operations and our ability to pay dividends.
- The PRC Labour Contract Law may increase our labour costs.
- We face risks related to health epidemics and other outbreaks.

Risks relating to the dual primary listing of the Company

- There are different characteristics between the Singapore stock market and Hong Kong stock market.
- The Company, being incorporated in Singapore and listed on the SGX-ST, is concurrently subject to, amongst others, the Singapore Companies Act, the Listing Manual, the Securities and Futures Act and the Singapore Code.
- There may be limited liquidity in the Shares and volatility in the price of the Shares on the Stock Exchange.
- Dividends declared by the Company in the past may not be indicative of the Company's dividend policy in the future.

Risks relating to statements made in this document

- Forward-looking information may prove inaccurate.

DEFINITIONS

In this document, unless the context otherwise requires, the following terms and expressions shall have the following meanings. Certain other terms are explained in the section headed "Glossary of technical terms" in this document.

"affiliate"	any person, directly or indirectly, controlling or controlled by or under direct or indirect common control with a specified person
"Articles" or "Articles of Association"	the articles of association of the Company, adopted on 11 May 2007 and as amended from time to time, a summary of which is set out in Appendix IV to this document
"Board" or "Board of Directors"	the board of Directors of our Company
"business day"	any day (other than a Saturday, Sunday or public holiday) on which banks are generally open for business in Hong Kong
"BVI"	the British Virgin Islands
"CAGR"	compound annual growth rate, a method of assessing the average growth of a value over time
"Camco Advisory"	Camco Advisory Services, China, an international institution in identifying and implementing solutions that help business addressing their climate change risks and opportunities, and they also provide strategic, technical and financial solutions for carbon related issues
"Cazenove Asia Limited" or "Sponsor"	Cazenove Asia Limited (to be renamed Standard Chartered Securities (Hong Kong) Limited on or around 14 December 2009), an entity incorporated in Hong Kong and licensed under the SFO for type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities. Cazenove Asia Limited is a Standard Chartered group company. The mark "Cazenove" and marks containing "Cazenove" are trade marks of Cazenove IP Limited and are used under limited licence. Cazenove Asia Limited and its subsidiaries and associates are now subsidiaries or associates of Standard Chartered Bank (Hong Kong) Limited, and are not affiliated with J.P. Morgan Cazenove Limited, Cazenove Inc., or their subsidiaries
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"CCASS Clearing Participant"	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
"CCASS Custodian Participant"	a person admitted to participate in CCASS as a custodian participant

DEFINITIONS

“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“CCASS Rules”	General Rules of CCASS and CCASS Operational Procedures in effect from time to time
“CDP”	The Central Depository (Pte) Limited
“chief executive”	the chief executive (as defined in the SFO) of the Company
“China” or “PRC”	the People’s Republic of China excluding, for the purpose of this document, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“CNCIC”	China National Chemical Information Centre (中國化工信息中心), an independent third party, which was set up in October 1992, is a comprehensive information collection, information research, information service and computer application technology development centre for China’s chemical industry
“CNCIC Report”	an industry report titled “China’s Fertiliser and Methanol Industry Report” prepared and issued by CNCIC on 20 November 2009
“Companies Ordinance”	the Companies Ordinance, Chapter 32 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
“Company” or “our Company”	China XLX Fertiliser Ltd., a limited liability company incorporated in Singapore on 17 July 2006
“Controlling Shareholder(s)”	has the meaning ascribed to it under the Listing Rules and, in the case of our Company, means Pioneer Top, Go Power, Mr. Liu and Ms. Yan
“Director(s)”	the director(s) of our Company
“Go Power”	Go Power Investments Limited, a company incorporated in the BVI on 18 May 2006, the entire issued share capital of which is directly held by Ms. Yan. As at the Latest Practicable Date, Ms. Yan beneficially owned approximately 12.74% of the equity interest in Go Power and held approximately 87.26% of the equity interest in Go Power on trust for a total of 1,463 beneficiaries under the Trust Agreement 2, comprising current and past employees, as well as past and present customers and suppliers of our Group

DEFINITIONS

“Go Power Trust Confirmation”	a confirmation dated 16 June 2009 entered into between the 1,464 beneficiaries under the Trust Agreement 2 and Ms. Yan, by which the parties thereto confirmed that as at 16 June 2009, Ms. Yan owned approximately 12.73% of the equity interest in Go Power and held approximately 87.27% equity interest in Go Power on trust for 1,464 beneficiaries under the Trust Agreement 2
“Group”, “our Group”, “we”, “our” or “us”	the Company and its subsidiary or, where the context so requires in respect of period before the Company became the holding company of its present subsidiaries, the present subsidiaries of the Company and the businesses carried on by such subsidiaries or (as the case may be) their predecessors
“Henan XLX Fertiliser”	Henan Xinlianxin Fertiliser Co., Ltd.* (河南心連心化肥有限公司), a wholly-owned subsidiary of our Company established in the PRC on 24 July 2006
“HK\$” or “HK dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“Hong Kong”, “HKSAR” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Branch Share Register”	our Company’s branch register of members in Hong Kong operated by the Hong Kong Branch Share Registrar
“Hong Kong Branch Share Registrar”	Tricor Investor Services Limited
“IFA”	International Fertilizer Industry Association, which is a non-profit making organisation representing the global fertiliser industry on issues related to the promotion of plant nutrients, improvement of the operating environment of the fertiliser industry and the collection and compilation of industry information
“IFRS”	International Financial Reporting Standards promulgated by the International Accounting Standards Board, including the International Accounting Standards and their interpretations
“independent third party”	an individual or a company who or which is not connected with (within the meaning of the Listing Rules) any Directors, chief executives or substantial Shareholders (within the meaning of the Listing Rules) of our Company, its subsidiary or any of their respective associates

DEFINITIONS

“Introduction”	the listing of the entire issued share capital of our Company on the Main Board of the Stock Exchange by way of an introduction pursuant to the Listing Rules
“Latest Practicable Date”	23 November 2009, being the latest practicable date for the purpose of ascertaining certain information contained in this document prior to its publication
“LIBOR”	the London Interbank Offered Rate, the rate charged by one bank to another for lending money
“Listing”	listing of the Shares on the Main Board
“Listing Committee”	the Listing Committee of the Stock Exchange
“Listing Date”	the date, expected to be on or about 8 December 2009, on which the Shares are listed and from which dealings in the Shares first commence on the Stock Exchange
“Listing Manual”	listing rules of the SGX-ST which set out the requirements applicable to issuers relating to, <i>inter alia</i> ; (i) the manner in which securities are to be offered and (ii) the continuing obligations of issuers
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange (as amended, supplemented or otherwise modified from time to time)
“Main Board”	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with Growth Enterprise Market operated by the Stock Exchange
“Memorandum”	the memorandum of association of our Company, adopted on 17 July 2006 and as amended from time to time, a summary of which is set out in Appendix IV to this document
“Mr. Liu”	Mr. Liu Xingxu, our chairman, chief executive officer and an executive Director
“Ms. Yan”	Ms. Yan Yunhua, our chief financial officer and an executive Director
“NDRC”	the National Development and Reform Commission of the People’s Republic of China (中華人民共和國國家發展和改革委員會)
“PBOC”	the People’s Bank of China, the central bank of the PRC

DEFINITIONS

“Pioneer Top”	Pioneer Top Holdings Limited, a company incorporated in the BVI on 23 May 2006, the entire share capital of which is directly held by Mr. Liu. Pursuant to the Trust Agreement 1, Mr. Liu beneficially owns approximately 42% of the equity interest in Pioneer Top, and holds approximately 58% of the equity interest in Pioneer Top on trust for 7 beneficiaries, including approximately 16% for Mr. Li Buwen, our executive Director; approximately, 7% for Mr. Li Yushun, 7% for Mr. Ru Zhengtao, 7% for Mr. Wang Nairen and 7% for Mr. Zhang Qingjin, our senior management; and approximately, 7% for Mr. Zhu Xingye and 7% for Mr. Shang Dewei, our employees
“PRC Companies Law”	the Companies Law of China as enacted by the Standing Committee of the Eighth National People’s Congress on 29 December 1993, which became effective on 1 July 1994, as amended, supplemented or otherwise modified from time to time
“PRC government”	the central government of China, including all governmental subdivisions (including provincial, municipal and other regional or local government entities)
“Production Plant I”	the first production base of Henan XLX Fertiliser which owns a production project with the designed annual production capacity of approximately 323,000 tons of urea, 300,000 tons of compound fertiliser and 40,800 tons of methanol located at Xinxiang Economic and Technology Development Zone, Xiaoji Town, Henan Province, PRC
“Production Plant II”	the second production base of Henan XLX Fertiliser which owns the second production project with the designed annual production capacity of approximately 408,000 tons of urea, 300,000 tons of compound fertiliser and 64,600 tons of methanol located at Xinxiang Economic and Technology Development Zone, Qing Long Road East Section, Henan Province, PRC
“Production Plant III”	an extension of Production Plant II, which owns a production project with the designed annual capacity of approximately 527,000 tons of urea and 95,200 tons of methanol located at Xinxiang Economic and Technology Development Zone, Qing Long Road East Section, Henan Province, PRC
“R&D”	research and development
“RMB” or “Renminbi”	the lawful currency of China
“S\$” or “SGD”	Singapore dollars, the lawful currency of Singapore
“SAFE”	the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局), the PRC governmental agency responsible for matters relating to foreign exchange administration

DEFINITIONS

“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
“SFRS”	Singapore Financial Reporting Standards prescribed by the Council on Corporate Disclosure and Governance in Singapore
“SGX-ST”	Singapore Exchange Securities Trading Limited
“Share(s)”	ordinary share(s) in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Singapore Code”	Singapore Code on Takeovers and Mergers
“Singapore Companies Act”	the Companies Act (Chapter 50) of Singapore, as amended, supplemented or otherwise modified from time to time
“Singapore Principal Registrar”	KCK Corpserve Pte. Ltd.
“Singapore Principal Share Register”	the Company’s principal register of members in Singapore operated by the Singapore Principal Registrar
“State Council”	the State Council of the PRC (中華人民共和國國務院)
“Stock Exchange”	the Stock Exchange of Hong Kong Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Track Record Period”	the three years ended 31 December 2008 and the seven months ended 31 July 2009
“Trust Agreement 1”	the trust agreement dated 26 July 2006 entered into between Mr. Liu and 7 beneficiaries, by which Mr. Liu holds approximately 58% of the equity interest in Pioneer Top on trust for those 7 beneficiaries, including approximately 16% for Li Buwen, our executive Director; approximately, 7% for Li Yushun, 7% for Ru Zhengtao, 7% of Wang Nairen and 7% for Zhang Qingjin, our senior management; and approximately, 7% for Zhu Xingye and 7% for Shang Dewei, our employees
“Trust Agreement 2”	the trust agreement dated 26 July 2006 entered into between Ms. Yan and 1,464 beneficiaries, by which Ms. Yan held approximately 87.08% of the equity interest in Go Power at that time on trust for a total of 1,464 beneficiaries, comprising current and past employees, as well as past and present customers and suppliers of the Group

DEFINITIONS

“U.S.” or “United States”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“US\$” or “US dollars” or “USD”	United States dollars, the lawful currency of the United States
“VAT”	value added tax
“Xinxiang Factory”	Henan Xinxiang Chemical Factory* (河南新鄉化肥總廠), which was established in or about 1970 as a state-owned enterprise in Xinxiang County, Henan Province, the PRC
“XLX Chem”	Henan Xinlianxin Chemicals Group Co., Ltd.* (河南心連心化工集團有限公司) (formerly known as Henan Xinlianxin Chemicals Co., Ltd.* (河南心連心化工有限公司)), a limited company incorporated in the PRC, the entire issued share capital of which is owned by 1,473 beneficiaries
“XLX Chem Group”	XLX Chem, its subsidiaries and associates

In this document, the terms “associate(s)”, “connected person(s)”, “connected transaction(s)”, “subsidiary(ies)” and “substantial shareholder(s)” shall have the meanings given to such terms in the Listing Rules, unless the context otherwise requires.

Unless otherwise stated, the following exchange rates which are used in this document are for information only:

US\$1.00 = HK\$7.7501

RMB1.00 = HK\$1.1351

S\$1.00 = HK\$5.5901

No representation is made that any amount in US\$, RMB, HK\$ or S\$ could have been or could be converted at the above rates or at any other rates or at all.

Certain amounts and percentage figures included in this document have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

In this document, if there is any inconsistency between the Chinese names of the entities or enterprises established in China and their English translations, the Chinese names shall prevail. English translation of company names in Chinese or another language which are marked with “” and Chinese translation of company names in English which are marked with “**” are for identification purpose only.*

Unless otherwise indicated, all financial data, whether presented on a consolidated basis or by segment, is presented net of inter-segment transactions. (i.e., inter-segment and other inter-company transactions have been eliminated.)

GLOSSARY OF TECHNICAL TERMS

This glossary of technical terms contains explanation of certain terms used in this document as they relate to the Company and as they are used in this document in connection with the Group and its business. These terms and their given meanings may not correspond to standard industry meaning or usage.

To facilitate a better understanding of our business, the following glossary provides a description of some of the technical terms and abbreviations commonly found in our industry. The terms and their assigned meanings may not correspond to standard industry or common meanings, as the case may be, or usage of these terms:

- “acetic acid” : a colourless, corrosive organic acid, with chemical formula CH_3COOH , used extensively as an intermediate product in the production of other chemicals. Also known as ethanoic acid or vinegar
- “compound fertiliser” : a type of fertiliser composed of at least two of the three primary ingredients of nitrogen (N), phosphorous (P) and potassium (K) mixed intentionally or chemically obtained
- “DME” : dimethyl ether, an organic compound with the formula CH_3OCH_3 . DME is a colourless gas that it is a useful precursor to other organic compounds and an aerosol propellant
- “formaldehyde” : a colourless, poisonous gas, with chemical formula CH_3O , made by the oxidation of methanol
- “furfural” : a colorless, sweet-smelling, mobile liquid, $\text{C}_4\text{H}_3\text{OCHO}$, made from corncobs and used in the synthesis of furan, as a solvent for nitrocellulose, and as a fungicide and weed killer
- “high concentration compound fertiliser” : compound fertiliser with more than 40% of nitrogen, potassium and phosphorous content
- “Kwh” : a basic unit of electric energy equal to an average of one kilowatt of power applied over one hour
- “methanol” : a chemical compound with chemical formula CH_3OH . It is the simplest form of alcohol, and is a light, volatile, colourless, flammable, poisonous liquid with a distinctive odour
- “MTBE” : methyl tert-butyl ether, a chemical compound with chemical formula $\text{C}_5\text{H}_{12}\text{O}$. MTBE is a fuel derived from methanol and an octane booster and oxygenate used for gasoline blending. It is a gasoline additive used to reduce pollution
- “natural gas” : a colourless, highly flammable gaseous hydrocarbon consisting primarily of methane and ethane. It is a type of petroleum that commonly occurs in association with crude oil. Natural gas is often found dissolved in oil at the high pressures existing in a reservoir, and may also be present as a gas cap above the oil

GLOSSARY OF TECHNICAL TERMS

- “nitrogen” : nitrogen (N) is one of the primary plant nutrients essential for plant growth. It is taken up from the soil in the form of nitrates or ammonium. As the essential constituent of proteins, nitrogen is involved in the major processes of plant development and yield formation
- “nitrogen fertiliser” : a fertiliser containing only nitrogen as the main nutrient, common examples include ammonia, urea, ammonium nitrate and ammonium sulphate
- “phosphorus” : phosphorus (P) is one of the primary plant nutrients essential for plant growth. It occurs in natural geological deposits, known as phosphorus rocks. It performs a key role in the transfer of energy and is essential for photosynthesis and other chemico-physiological. It is indispensable for cell differentiation, as well as for the development of the tissues that form a plant’s growing points. Most natural and agricultural soils are phosphorus deficient. When there are problems with phosphorous fixation, this also limits its availability
- “potassium” : potassium (K) is one of the primary plant nutrients essential for plant growth. It is excavated mainly in salt as muriate of potash. It activates more than 60 enzymes, the chemical substances that govern life and play a vital part in carbohydrate and protein synthesis. It improves a plant’s water regime and increases tolerance to drought, frost and salinity. Plants that are well supplied with potassium are less affected by disease
- “pure nutrient” : an multiple of the physical quantity with an average rate of pure nutrient
- “synthesis” : an energy-using process by which organic compounds break down and convert the degradation products into new cell growth
- “synthetic ammonia” : synthetic ammonia is ammonia synthesized under high temperature and pressure with a catalyst. It is usually used as a form of chemical fertiliser, refrigerant and raw material for the chemical industry
- “urea” : a high concentration nitrogen fertiliser with chemical formula $H_2N-CO-NH_2$, formed by reacting ammonia with carbon dioxide at high pressure; an organic compound of carbon, nitrogen, oxygen and hydrogen

RISK FACTORS

You should carefully consider all of the information set out in this document, including the risks and uncertainties described below. You should pay particular attention to the fact that the Company is incorporated in Singapore and that most of the Group's operations are conducted in China and are governed by a legal and regulatory environment that in some respects differs from those that prevail in other countries. The Group's business, financial condition or results of operations could be affected materially and adversely by any of these risks. Additional risks and uncertainties not presently known to the Group or that the Group currently deems immaterial could also harm the business, financial condition or results of operations of the Group.

RISKS RELATING TO THE GROUP'S BUSINESS

Our business and operations may be adversely affected by the current global economic crisis.

The current global economic crisis is materially and adversely affecting the economy in the U.S. and many other parts of the world including those in which we conduct operations. As a result of such economic crisis, the demand for the fertiliser products decreased and the fertiliser products were oversupplied which resulted in decrease in the selling price of the fertiliser products. The average selling price of our major products, namely urea, compound fertiliser and methanol decreased by approximately 3.2%, 18.1% and 43.6% respectively, from approximately RMB1,722, RMB2,314 and RMB2,706 per ton respectively for the seven months ended 31 July 2008 to approximately RMB1,666, RMB1,894 and RMB1,526 per ton respectively, for the seven months ended 31 July 2009. Our overall gross profit margin and net profit margin reduced from approximately 26% and 19% for the seven months ended 31 July 2008 to approximately 14% and 6% for the seven months ended 31 July 2009, respectively. Furthermore, if any of our customers are put into liquidation, or experience financial difficulty, orders placed with us may be reduced or even cancelled.

In addition, the economic crisis may also affect the prices at which we may purchase components from our suppliers. If suppliers are put into liquidation or cease business, we will have to source our supplies from other companies. This may lead to delays in or increased cost of production.

The current economic crisis has also caused financial institutions to reduce credit to borrowers. We may therefore need to re-negotiate its existing facilities, and if we fail to secure new facilities or cannot secure facilities with terms which are favourable to us, or if burdensome collateral is required to secure such facilities, our business, operations, financial and trading position may be materially and adversely affected.

Our business performance is heavily influenced by the supply, pricing and quality of our raw materials.

Coal, phosphorous and potassium are our major raw materials required for the production of our fertiliser products and our cost of raw materials accounted for approximately 89%, 93%, 93% and 90% of our total cost of sales for the three years ended 31 December 2008 and the seven months ended 31 July 2009 respectively. Coal is our largest cost component in producing our fertiliser products, the price of which significantly increased from approximately RMB959.9 per ton for the seven months ended 31 July 2008 to approximately RMB1,114.0 per ton for the seven months ended 31 July 2009. The gross profit margin for our urea, compound fertiliser and

RISK FACTORS

methanol decreased from approximately 29%, 18% and 34% for the seven months ended 31 July 2008 to approximately 21%, (2)% and (31)% for the seven months ended 31 July 2009, respectively. As such, our cost of sales and gross profit margin for our products are heavily influenced by the prices of such raw materials. We do not enter into any long-term agreements with our raw material suppliers and we only enter into non-legally binding memoranda of understanding with the coal suppliers, by which the indicative quantity of raw material will be agreed but the price will be based on prevailing market prices at the time of supply of raw materials. However, there is no guarantee that we will be able to source adequate amount of raw materials from our suppliers at acceptable prices.

In addition, the prices of the raw materials depend on the global and the PRC market demand and supply which could have considerable influence on our production costs. If the prices of the raw materials increase significantly, and we are not able to transfer such increase to our customers or to purchase the raw materials with the same quality from alternative suppliers at competitive prices, our profit margin may be reduced in the future and our financial performance may be materially and adversely affected.

The fierce competition in the fertiliser business may materially and adversely affect our financial performance.

We operate in a competitive industry and frequently encounter competition from existing competitors in the industry. Some of our competitors are capable of competing with us in terms of pricing, scale and capacity of production facilities, goodwill and customer service. There is no guarantee that we can maintain our ability to compete with them successfully in the future. Any failure by us to maintain our competitiveness could materially and adversely affect our financial performance. Where such competition intensifies and causes the market supply of fertilisers to exceed the respective market demand, our business performance, including our profitability, may be materially and adversely affected.

Other than the competition from domestic fertiliser producers, we also face competitions from foreign fertiliser producers in the market in China. We currently consider the competition with foreign urea producers to be less intense as they mainly use natural gas and crude oil as raw materials, and that those foreign urea producers have suffered as the international prices of crude oil and natural gas soared substantially, while the PRC urea producers can enjoy the PRC government's preferential policy on control of the PRC prices of crude oil and natural gas. Consequently, as compared with the PRC urea producers irrespective of the types of raw material used, the cost competitiveness of foreign urea producers has been negatively affected which generally results in relatively higher selling price of their urea and other fertiliser products. Contrarily, where the prices of such raw materials decrease, it may reduce the selling price of the foreign urea producers' products which may increase market competitiveness and hence materially and adversely affect our competitiveness and our business and financial performance.

Our business is required to comply with the environmental protection laws and regulations.

Our compliance with the applicable environmental protection laws and regulations promulgated by the PRC government in relation to the standards of the discharge of waste water, solid wastes, effluent and gases are compulsory. The local PRC government has the authority delegated by the relevant laws and regulations to impose penalties on those companies failing to comply with the relevant laws and regulations of the PRC.

RISK FACTORS

During our usual production process, waste water, waste gas and coal slag are regularly discharged. In order to comply with the relevant laws and regulations in the PRC, we have installed waste treatment facilities in our production plants to handle such discharges. Notwithstanding the above, there is no guarantee that we will be able to, at all times, be in full compliance with the relevant laws and regulations. In the event our business operations result in environmental pollution leading to non-compliance of the applicable PRC environmental protection laws and regulations, we will be required to rectify such non-compliance and to compensate the entities or individuals who suffered from direct losses causing by such non-compliance, and may be subject to fines and remedial measures. This may materially and adversely affect our business and financial performance.

Furthermore, the PRC government is moving towards more rigorous enforcement of applicable environmental laws and regulations and more stringent environmental standards. In addition to the existing environmental protection laws and regulations, the PRC government may promulgate new environmental protection laws and regulations towards the chemical fertiliser industry in the future. It will be compulsory for us, as well as all other chemical fertiliser producers, to comply with the existing environmental laws and regulations as well as the new environmental protection laws and regulations, if any. As a result, additional costs in our production and operation may be incurred and our budgeted spending in respect of environmental regulatory compliance may not be sufficient. We may need to allocate additional funds for such purpose, which may materially and adversely affect our operation and financial performance.

Our production process may be disrupted by various factors.

Our production process may be disrupted by events such as fires, floods, natural disasters or power failures, which may cause substantial damage to our production facilities and inventories. Where we are unable to repair the damaged equipment or resume our production timely, our operation and our financial performance could be materially and adversely affected. In addition, our production process involves considerable flaming processes and one of our major products, methanol, is highly flammable. If any fire or explosion accident happens in our production facilities and inventories, our business operation could be materially and adversely affected.

We may have insufficient insurance coverage in certain situations.

We have obtained insurance coverage for our certain fixed assets. Nevertheless, many of our raw materials, production processes and certain finished products are potentially destructive and dangerous in unexpected, uncontrolled or catastrophic situations, including fires, explosions, operating hazards, natural disasters and major equipment failures where we are unable to obtain insurance coverage at a reasonable cost or at all. In the event an accident or natural disaster occurs in the future, it may cause substantial property damage and disruption to our operations and personal injuries, and our insurance coverage may be insufficient to cover such loss. Any uninsured loss or loss in excess of insured limits may render us suffer from damage to our production capacity and any future revenues which could materially and adversely affect our business and financial performance.

In addition, we currently do not obtain any insurance coverage against loss of key personnel and product liability claims. If any of such events occurs, our business and financial performance might also be materially and adversely affected.

RISK FACTORS

Our production plants may be materially and adversely affected by power shortages.

The operation of our production plants relies heavily on electricity. We purchase electricity from external power suppliers, and we also generate electricity internally from our power generating systems. During the Track Record Period, approximately 63.4%, 73.6%, 53.9% and 79.6% of electricity consumed by our Group were purchased from the external power suppliers. We may experience occasional and temporary power shortages due to poor weather conditions or natural disasters, which are out of our control. In addition, the PRC authorities may impose restrictions on the consumption of electricity due to power shortages. If we purchase the electricity from external power suppliers, the increase in the price of electricity may also increase our production costs. These factors may disrupt our production and thus materially and adversely affect the operation of our production plants.

A substantial amount of our revenue is derived from the sales of a limited number of main products.

Most of our revenue is derived from the sales of our major products, namely urea, compound fertiliser and methanol. Our three major products accounted for approximately 98.8%, 99.6%, 99.7% and 99.6% of our total revenue for the years ended 31 December of 2006, 2007 and 2008 and the seven months ended 31 July 2009 respectively. Revenue generated from sales of urea was the largest contributor to our total revenue, representing approximately 57.2%, 60.2%, 55.4% and 77.1% of our total revenue for the years ended 31 December 2006, 2007 and 2008 and the seven months ended 31 July 2009 respectively. In the event of a decline in selling prices of these three major products due to increased market supply of, or decreased market demand for these products, our business, financial condition and results of operations could be materially and adversely affected.

Fluctuation of price of our fertiliser products may materially and adversely affect our financial performance.

There are numbers of factors affecting the prices of our three major products, such as general economic conditions, cyclical trends in end-user markets, supply and demand imbalances, weather conditions, and seasonal nature of fertiliser application, and therefore their selling prices will fluctuate accordingly. Our average selling price of our compound fertiliser and methanol decreased from approximately RMB2,314 and RMB2,706 per ton for the seven months ended 31 July 2008 to approximately RMB1,894 and RMB1,526 per ton for the seven months ended 31 July 2009, respectively. The gross profit margin for our urea, compound fertiliser and methanol decreased from approximately 29%, 18% and 34% for the seven months ended 31 July 2008 to approximately 21%, (2)% and (31)% for the seven months ended 31 July 2009 respectively.

Furthermore, methanol is one of our three major products where its average selling price has experienced vigorous fluctuations from approximately RMB1,600 per ton in February 2006 to approximately RMB3,300 per ton in June 2008 resulting from its unstable market supplies and demands. There is no guarantee that the price of methanol will be stable in the future. In the event the price of methanol continues to fluctuate in the future, our financial performance may be materially and adversely affected.

RISK FACTORS

The income tax benefits currently enjoyed by us may be reduced after our tax holiday period, which may materially affect our future financial performance.

The rate of income tax chargeable on companies in the PRC varies depending on the availability of preferential tax treatment or subsidies based on the company's industry or location. On 28 July 2006, upon the reorganisation of our Group, Henan XLX Fertiliser became our subsidiary and a wholly-foreign-owned enterprise and hence was entitled to exemption of the local income tax of 3%. However, as the local income tax exemption is effective on a quarterly basis, Henan XLX Fertiliser was still subject to an income tax rate of 33% until 30 September 2006. The reduced income tax rate of 30% became applicable to Henan XLX Fertiliser on 1 October 2006. Henan XLX Fertiliser is entitled to full exemption from income tax for the first two years and a 50% reduction in income tax for the next three years thereafter. Henan XLX Fertiliser has elected the financial year ending 31 December 2007 as the first profitable year for the purposes of determining tax holiday period. Accordingly, Henan XLX Fertiliser were entitled to full exemption from income tax for the years ended 31 December 2007 and 2008, and will be entitled to a 50% reduction in income tax for the years ending 31 December 2009, 2010 and 2011.

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

Our operations could be materially and adversely affected by departure of members of our management team and failure to recruit and retain competent employees.

Our success is attributed to the leadership and contributions of our management team comprising Mr. Liu and the rest of our executive Directors and senior management, who are responsible for our overall corporate development and business strategies as well as implementing our business plans and driving our growth. As such, the experience and contributions of our management team are crucial to our success. Competition for such personnel may be intense. Any departure of the members of our management team could materially and adversely interrupt our business if we are unable to recruit the replacement personnel with equivalent qualifications timely.

Our Directors believe that an integral part of our success relies on the ability to recruit and retain experienced staff for our business operations. In particular, we hire and retain employees with expertise and knowledge in the chemical fertiliser industry to maintain continuous development of the Group's operations. However, there is no assurance that we will be able to recruit and/or retain suitable employees in the future.

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Our operation results may be affected by the gain or loss from derivative financial instruments.

We entered into a convertible loan agreement with some investors on 16 October 2006, by which the investors agreed to grant us a convertible loan facility of an aggregate amount of USD7.12 million in consideration for the right to convert the full sum of the convertible loan into fully paid Shares of the Company (the “**Conversion Right**”). Such convertible loan was converted into the fully paid new Shares in May 2007. The Conversion Right, with embedded derivative features was split into liability and derivative component according to their fair values for measurement purposes. On initial recognition, the fair value of the derivative component was determined based on valuation; and this amount was carried as a derivative component of a liability until extinguished on conversion. The remainder of cost basis until extinguished on conversion. The derivative component is remeasured at each reporting date and upon its conversion on 11 May 2007, a fair value loss of approximately RMB64.3 million was recognised in the consolidated statements of comprehensive income for the year ended 31 December 2007.

During the year ended 31 December 2008, we entered into two non-deliverable interest rate swap agreements (不交收利率調期合約). Pursuant to the non-deliverable interest rate swap agreement dated 21 October 2008, we paid a fixed interest rate of 2.55% per annum for USD28.6 million non-deliverable swap and received a variable interest rate equal to USD LIBOR + 2.25% per annum on the notional amount on a quarterly basis. Pursuant to the non-deliverable interest rate swap agreement dated 11 November 2008, we paid a fixed interest rate of 2.5% per annum for USD10 million and received a variable interest rate equal to USD LIBOR + 2.25% per annum on the notional amount on a quarterly basis. The swaps are being used to hedge cash flow interest rate risks arising from its floating rate USD syndicated bank loan. The fair value gains and losses arising from changes in the fair value of the derivative financial instruments constitute our other comprehensive income in the consolidated statements of comprehensive income. We recorded fair value gain of approximately RMB19.8 million for the year ended 31 December 2008 and fair value loss of approximately RMB19.1 million for the seven months ended 31 July 2009 on these derivative financial instruments. Due to the nature of the derivative financial instruments, the fair value gains or losses on the swap and other derivative financial instruments will be beyond our control in the future and our operation results may be affected by the gain or loss from such derivative financial instruments.

We had net current liabilities as at 31 December 2006 and 31 July 2009.

As at 31 December 2006 and 31 July 2009, we had net current liabilities of approximately RMB45.8 million and RMB414.7 million respectively. This was primarily because approximately RMB307.6 million of the syndicated loan was classified as current liabilities as at 31 July 2009 as a result that we were not able to meet two financial covenants under a syndicated loan agreement being (a) the ratio of our Group’s consolidated total borrowings to the earnings before interest, taxes, depreciation and amortisation shall not be higher than 1.65 to 1 for the year ending 31 December 2009, and (b) the aggregate amount of all financial indebtedness of our subsidiary shall not exceed RMB450,000,000. As a consequence, the lenders had the rights to require us to repay the syndicated loan at anytime. Our Directors confirm that the lenders of the syndicated loan agreement had not requested us to repay the syndicated loan immediately. Our Directors further confirm that there was no cross-default on the Group’s other loan agreements for the reason that we were not able to meet the financial covenants under such syndicated loan.

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In order to avoid this uncertainty, we had obtained bank borrowings from other banks with a sum in aggregate of approximately RMB300 million with term longer than one year and voluntarily repaid the syndicated loan in advance by the end of September 2009. Furthermore, other banks have agreed to extend the bank borrowings of approximately RMB100 million to terms of over one year and obtained a new long-term bank loan of RMB85 million by the end of October 2009. In this regard, our Directors believe that such net current liabilities position is temporary in nature and that our Group had returned to net current asset position as at 31 October 2009. Our net current liabilities position exposes us to liquidity risk, and we may have net current liabilities in the future, which will be affected by our future operating performance, prevailing economic conditions, financial, business and other factors, many of which are beyond our control.

RISKS RELATING TO THE GROUP'S INDUSTRY

Changes in the PRC government policies in relation to the chemical fertiliser industry and agricultural industry may materially and adversely affect our business and financial performance.

The PRC government has been subsidising and regulating the chemical fertiliser industry through a series of government policies. In order to ensure the stability of the price of chemical fertilisers and to protect the livelihood of the farmers in the PRC, the PRC government used to impose a price ceiling for urea. To reduce the impact on chemical fertiliser producers in the PRC caused by such price ceiling, the PRC government has introduced certain preferential policies to subsidize the chemical fertiliser producers to reduce their production costs by issuing the “Notice Regarding Reform of Fertiliser’s Pricing Policies” (《關於改革化肥價格形成機制的通知》) (發改價格[2009]268號) (the “**NDRC’s Notice**”) by the NDRC and the Ministry of Finance PRC on 24 January 2009. Since then, the price of chemical fertilisers has been formed based on market-adjusted prices instead of government guided prices.

There are currently two main preferential policies provided to the PRC chemical fertiliser producers which are beneficial to our Group, including the preferential VAT policy and the electricity subsidies.

According to the “Notice of Temporary Exemption of VAT for Urea” (《關於暫免徵收尿素產品增值稅的通知》) jointly issued by the Ministry of Finance PRC and the State Administration of Taxation on 23 May 2005, fertiliser producers, including our Group, are entitled to full VAT exemption on urea products. In addition, according to the “Notice on Exemption of VAT for Agricultural Materials” (《關於若干農業生產資料徵免增值稅政策的通知》) jointly issued by the Ministry of Finance PRC and the State Administration of Taxation on 20 July 2001, fertiliser producers, including our Group, are also entitled to full VAT exemption on compound fertiliser and ammonia solution.

According to the “Notice on Electricity Price in Production for Fertiliser Enterprises” (《關於化肥企業生產用電價格的通知》) issued on 13 April 2004, the “Notice on Perfecting Production, Supplying of Fertiliser and Enforcing the Administration of Price” (《關於做好化肥生產供應工作加強價格監管的通知》) issued on 17 November 2004 by the NDRC, the “Notice on Adjustment to the Electricity Rates of the Province” (《關於全省電價調整的通知》) issued on 3 July 2006 by the Development and Reform Committee of Henan Province and the “Notice on Increment of the Electricity Price in Central China” (《關於提高華中電網電價的通知》) issued on 29 June 2008 by NDRC, we had been enjoying a reduced rate of between RMB32 cents and RMB37 cents per Kwh

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of electricity for electricity purchased from the grid during the period between July 2008 and October 2009, compared to the national rate of RMB49 cents per Kwh of electricity for industrial power usage of same level as of October 2009.

According to the NDRC's Notice, the abovementioned preferential VAT policies and electricity subsidies will be retained until further policies are announced by the PRC government. These policies significantly assist us in achieving higher net profit. If there are any unfavourable changes in such policies or any additional unfavourable policies towards the industries, our net profit attributable to the Shareholders will be reduced considerably and our business and financial performance will be materially and adversely affected.

In addition, the PRC government currently provides certain incentives, including free schooling and taxes rebates, to farmers in the PRC in order to increase the purchasing power of the farmers to purchase fertilisers. If such incentives are reduced or removed, the purchasing power of the farmers will be reduced accordingly and the profitability of our business will be materially and adversely affected as well.

Changes in the import and export taxation policy of chemical fertiliser may materially and adversely affect our financial performance.

The PRC government may change its import and export taxation policy in order to control the chemical fertiliser import and export in the PRC. Prior to 2008, the PRC export tax rate in respect of compound fertiliser was zero. In early 2008, in order to ensure the export of compound fertiliser would not adversely affect its supply in the PRC, a special export tax of 100% was imposed on the export of compound fertiliser. As a result, the quantity of export of compound fertiliser decreased significantly in 2008 compared to 2007. In the future, the PRC government may change its import and export taxation policies in respect of other chemical fertiliser products, such as urea, to control their import and export. In this regard, our financial performance may be materially and adversely affected.

The revolving nature of the fertiliser industry may cause significant fluctuations to our financial conditions.

Our three main products, namely urea, compound fertiliser and methanol, have contributed a substantial portion to our sales volumes and revenues. Our future performance could be affected by the general global and domestic economic conditions, the revolving trends in end-user markets and the industry supply and demand. The supply of fertilisers varies by the increase or decrease of the production capacity and inventory levels. The domestic price of fertilisers is mainly affected by the demand for agricultural products, the affordability by farmers and the PRC government policies. During a period where the demand for fertiliser products is high, such high demand leads to the high capacity of utilisation and the increase of profit margins. Thus, new plant investments and productions increase accordingly until their supply surpasses such demand. The high demand period is then replaced by a low supply period until such cycle repeats.

Seasonality and unexpected adverse weather conditions could materially and adversely affect our operation results.

The price of fertilisers could be affected by weather conditions and the seasonal nature of fertiliser applications. Different crops are grown in different regions in the PRC at a particular season, different regions would exhibit various seasoned demands for fertiliser products. The demand for our urea products as well as our revenues and operation results are also influenced by

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the above sales pattern. Accordingly, due to the weather-related shifts in planting schedules and the said sales pattern, our quarterly performance may vary dramatically from one quarter to the next quarter. The unexpected adverse weather conditions could materially and adversely affect the sales of our fertiliser products and thus affect our operation results.

A significant or prolonged downturn in the PRC agricultural industry could materially and adversely affect our business and financial performance.

Production and sales of fertiliser products to the agricultural industry are our major businesses. As a result, our business performance is affected by the level of business activities of such industry, which is in turn affected by the global economic conditions and the markets they serve. Our business will be less profitable if such level of business activities declines.

The popularity of urea fertilisers may be reduced by increasing usage of other types of fertilisers resulting in a material and adverse influence on our financial performance.

Currently, urea fertilisers, our major products, are the mainstream in the chemical fertiliser industry in the PRC. If urea fertilisers face substantial competition from other types of fertiliser causing its popularity to fall, the demand of urea fertilisers would decrease and thus our revenue and profit would be materially and adversely affected.

RISKS RELATING TO THE GROUP'S OPERATIONS IN THE PRC

The Group's business could be affected by changes in China's economic, political or social conditions or government policies.

The PRC economy differs from the economies of most developed countries in many aspects, including its:

- structure;
- amount of government involvement;
- level of development;
- growth rate;
- control of foreign exchange;
- capital reinvestment;
- rate of inflation;
- trade balance position; and
- allocation of resources.

While the PRC economy has experienced significant growth in the past 25 years, such growth has been uneven, both geographically and among various sectors of the economy. The PRC government has implemented various economic reforms and measures to encourage economic growth and to guide the allocation of resources. Some of these reforms and measures benefit the overall PRC economy, but such may also have a material adverse effect on us. For

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example, the financial condition and results of operation may be materially and adversely affected by the government control over capital investments or changes in tax regulations that are applicable to the Group.

The PRC economy has been transitioning from a planned economy to a more market-oriented economy. Although in recent years the PRC government has implemented measures emphasizing the utilisation of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of sound corporate governance in business enterprises, a substantial portion of the productive assets in China is still owned by the PRC government. The continued control of these assets and other aspects of the national economy by the PRC government could materially and adversely affect the Group's business. For example, the PRC government could limit the extent of government-controlled entities in choosing which private enterprise to service their human resource requirements. The PRC government could also develop and support government-owned or controlled human resource enterprises in direct competition with us. In addition, the PRC government continues to play a significant role in regulating the industry development by imposing relevant policies. It also exercises significant control over PRC economic growth through allocation of resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies.

The PRC legal system has inherent uncertainties that could materially and adversely affect us.

The PRC legal system is based upon written statutes. Prior court decisions may be cited for reference but are not binding on subsequent cases and have limited value as precedents. Since 1979, the PRC legislative bodies have promulgated laws and regulations dealing with economic matters such as foreign investment, corporate organisation and governance, commerce, taxation and trade. However, the PRC has not developed a fully integrated legal system and the array of new laws and regulations may not be sufficient to cover all aspects of economic activities in the PRC. In particular, because these laws and regulations are relatively new, and because of the limited volume of published decisions and their non-binding nature, the interpretation and enforcement of these laws and regulations involve uncertainties. In addition, published government policies and internal rules may have retroactive effects and, in some cases, the policies and rules are not published at all. As a result, the Group may be unaware of the violation of these policies and rules until some time later.

You may experience difficulties in effecting service of legal process, enforcing foreign judgments or bringing original actions in the PRC based on foreign laws against us, our management or the experts named in this document.

We conduct substantially all of our operations in China and substantially all of our assets are located in China. In addition, the majority of our directors and executive officers and some of the experts named in this document reside within China. As a result, it may not be possible to effect service of process outside China upon these directors or executive officers or some of the experts named in this document. Moreover, our PRC legal advisers, Haihua Yongtai Law Firm, have advised us that the PRC does not have treaties with many developed countries, including the United States, the United Kingdom, Japan, or many other countries providing for the reciprocal recognition and enforcement of judgment of courts.

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Furthermore, the PRC government is moving towards more rigorous enforcement of applicable environmental laws and regulations and more stringent environmental standards. In addition to the existing environmental protection laws and regulations, the PRC government may promulgate new environmental protection laws and regulations towards the chemical fertiliser industry in the future. It will be compulsory for us, as well as all other chemical fertiliser producers, to comply with the existing environmental laws and regulations as well as the new environmental protection laws and regulations, if any. As a result, additional costs in our production and operation may be incurred and our budgeted spending in respect of environmental regulatory compliance may not be sufficient. We may need to allocate additional funds for such purpose, which may materially and adversely affect our operation and financial performance.

Inflation in China could materially and adversely affect our profitability and growth.

While the PRC economy has experienced rapid growth, such growth has been uneven among various sectors of the economy and in different geographical areas of the country. Rapid economic growth can lead to growth in the money supply and rising inflation. If prices for our products and services rise at a rate that is insufficient to compensate for the rise in our costs, our business may be materially and adversely affected. In order to control inflation in the past, the PRC government has imposed controls on bank credits, limits on loans for fixed assets and restrictions on state bank lending. Such an austerity policy can lead to a slowing of economic growth. A slowdown in the PRC economy could also materially and adversely affect our business and prospects.

Changes in foreign exchange regulations and future movements in the exchange rate of Renminbi may adversely affect the financial condition and results of our operations and our ability to pay dividends.

Conversion of Renminbi is limited by the relevant government regulation in the PRC. Currently, Renminbi is freely exchangeable in current account transactions, but is controlled in capital accounts. Renminbi is our principal currency for accounting records and domestic sales, but our revenue derived from export sales is denominated in foreign currencies. As a result, our operations are exposed to fluctuations in the exchange rate of Renminbi against these foreign currencies. Following the Listing, we will be able to pay dividends in foreign currencies without prior approval from the SAFE, by complying with certain procedural requirements. However, there is no assurance that these foreign exchange policies in relation to payment of dividends in foreign currencies will continue in the future.

The value of Renminbi may fluctuate due to certain factors. On 21 July 2005, the PRC Government reformed the Renminbi exchange rate mechanism so that the Renminbi was no longer pegged to the US dollars but to a basket of currencies. A revaluation of Renminbi resulted in the appreciation of Renminbi against the US dollars and Hong Kong dollars by approximately 2%. The relaxation of the Renminbi-US dollar peg may contribute to volatility or increased fluctuations in the value of Renminbi. Further appreciation of Renminbi may have an adverse impact on our export sales. Contrarily, the depreciation of Renminbi would adversely affect the value of dividends, if any, payable on the Shares by us in foreign currencies.

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The PRC Labour Contract Law may increase our labour costs.

On 29 June 2007, the Labour Contract Law of the PRC (《中華人民共和國勞動合同法》) (the “**PRC Labour Contract Law**”) was promulgated by the Standing Committee of the National’s People’s Congress, which became effective on 1 January 2008. The PRC Labour Contract Law imposes the requirement of severance payment, the time limits for probation periods and non-fixed term employment contracts, which may increase our labour costs. It also requires that social insurance should be paid on behalf of employees, otherwise employees are entitled to unilaterally terminate the labour contract. Fines may be imposed for any breach of the PRC Labour Contract Law.

As a result of the requirements imposed by the PRC Labour Contract Law, our historical labour costs may not be indicative of its labour costs going forward. Compliance with the relevant laws and regulations may substantially increase the Group’s operating costs, thus may have a material adverse effect on our financial condition or results of operations.

We face risks related to health epidemics and other outbreaks.

Our business could be materially and adversely affected by the effects of Severe Acute Respiratory Syndrome (or SARS), avian influenza, Influenza A (H1N1, or widely known as swine influenza) or another epidemic or outbreak on the economic and business climate. China reported a number of cases of SARS in April 2004, avian influenza has been reported in western China and several countries in Southeast Asia in 2005 and swine influenza has resulted in numerous human deaths in several provinces in the PRC in 2005. The recent outbreak of Influenza A has caused deaths worldwide. Restrictions on travel resulting from a reoccurrence of SARS or another epidemic or outbreak could adversely affect our ability to market and service new and existing customers throughout China.

Our business operations could be disrupted if one of our employees is suspected of having SARS, avian influenza or swine influenza, since it could require us to quarantine some or all of our employees and/or disinfect our offices. In addition, our results of operations could be adversely affected in the event that SARS, avian influenza, swine influenza or another outbreak harms the Chinese economy in general.

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RISKS RELATING TO THE DUAL PRIMARY LISTING OF THE COMPANY

There are different characteristics between the Singapore stock market and Hong Kong stock market.

The Shares have been listed and dealing on the SGX-ST has commenced since 20 June 2007 (the “**Singapore Shares**”). Following the Listing, it is our current intention that the Singapore Shares will continue to be traded on the SGX-ST, and the Shares subject to the Introduction to be registered by the Hong Kong Branch Share Registrar (the “**Hong Kong Shares**”) will be traded on the Stock Exchange. As there is no direct trading or settlement between the stock markets of Singapore and Hong Kong, time required to shunt shares between the CDP and Hong Kong Branch Share Registrar may vary and there is no certainty when shunted shares will be available for trading or settlement.

The SGX-ST and the Stock Exchange have different trading hours, trading characteristics (including trading volume and liquidity), trading and listing rules and investor bases (including different levels of retail and institutional participation). As a result, the trading price of the Singapore Shares and the Hong Kong Shares may not be the same. Further, fluctuations in the price of the Singapore Shares could materially and adversely affect the price of the Hong Kong Shares and vice versa. Moreover, fluctuations in the exchange rate between Singapore dollars and Hong Kong dollars could materially and adversely affect the prices of the Singapore Shares and the Hong Kong Shares. Due to the different characteristics of the stock markets of Singapore and Hong Kong, the historical prices of Singapore Shares may not be indicative of the performance of the Hong Kong Shares after the Listing. Investors should therefore not place undue reliance on the prior trading history of the Singapore Shares when evaluating an investment in the Introduction.

The Company, being incorporated in Singapore and listed on the SGX-ST, is concurrently subject to, amongst others, the Singapore Companies Act, the Listing Manual, the Securities and Futures Act and the Singapore Code.

Being a company incorporated in Singapore and listed on the SGX-ST, the Company is required to comply with, amongst others, the Singapore Companies Act, the Listing Manual, the Securities and Futures Act in addition to the Listing Rules. In the event of any conflict between the applicable rules and regulations in Singapore and those under Hong Kong laws, the Company would have to comply with the more onerous rules, subject to approvals from the relevant stock exchange(s) and/or government authority(ies). In this connection, additional costs and resources could possibly be incurred. In addition, being a listed company in Singapore, the Company is also subject to the relevant provisions of the Singapore Companies Act and the Singapore Code that are applicable to any person who would like to conduct a future takeover or change in control of the Company. Please refer to the paragraph headed “Principal differences between the continuing obligations applicable to listed companies under the Listing Rules and the Listing Manual” in Appendix V for details of the principal differences between the continuing obligations applicable to listed companies under the Listing Rules and the Listing Manual.

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There may be limited liquidity in the Shares and volatility in the price of the Shares on the Stock Exchange.

The Shares have not been traded on the Stock Exchange before the Listing and there may be limited liquidity in the Shares on the Stock Exchange. There may be few or no Shareholders who are willing to remove their holdings in the Company from the Singapore Principal Share Register to the Hong Kong Branch Share Register following the Listing. Investors may therefore not be able to purchase Shares or liquidate their shares quickly or at prices attractive to them. The market price of the Shares may be volatile and may go down as well as up and investors may therefore not be able to recover their original investment, especially as the Shares may have limited liquidity. In addition, the price at which investors may dispose of their Shares may be influenced by a number of factors, some of which may pertain to the Company, while others are extraneous to it.

Dividends declared by the Company in the past may not be indicative of the Company's dividend policy in the future.

Any proposal by our Directors for the declaration of dividends and amount of any dividends to be paid will depend on various factors, including, but not limited to, the Group's results of operations, future profits, financial position, regulatory capital requirements, working capital requirements, general economic conditions and any other factors that our Directors may consider relevant from time to time. Accordingly, the Group's historical dividend distributions are not indicative of its future dividend distribution policy and potential investors should be aware that the amount of dividends paid previously should not be used as a reference or basis for predicting future dividends.

RISKS RELATING TO STATEMENTS MADE IN THIS DOCUMENT

Forward-looking information may prove inaccurate.

This document contains forward-looking statements and information relating to our operations and prospects that are based on our current beliefs and assumptions as well as information currently available to us. When used in this document, the words "anticipate," "believe," "estimate," "expect," "plans," "prospects" and similar expressions, as they relate to our business, are intended to identify forward-looking statements. Such statements reflect our current beliefs with respect to future events and are subject to risks, uncertainties and various assumptions, including the risk factors described in this document. Should one or more of these risks or uncertainties materialize, or should any of the underlying assumptions or information prove incorrect, actual results may diverge significantly from the forward-looking statements in this document. We do not intend to update these forward-looking statements in addition to on-going disclosure obligations pursuant to the Listing Rules or other requirements of the Stock Exchange.

WAIVERS

In preparation for the dual primary listing, the Company has sought the following waivers from strict compliance with the relevant provisions of the Listing Rules:

I. CONNECTED TRANSACTIONS

Members of the Group have entered into certain transactions which would constitute non-exempt continuing connected transactions of the Company under the Listing Rules after the Listing. The Company has received from the Stock Exchange a waiver from strict compliance with the announcement requirement set out in Chapter 14A of the Listing Rules for such non-exempt continuing connected transactions. Further details of such non-exempt continuing connected transactions and the waivers are set out in the section headed “Connected transactions” in this document.

II. MANAGEMENT PRESENCE

Rule 8.12 of the Listing Rules requires that a new applicant applying for a primary listing on the Stock Exchange must have a sufficient management presence in Hong Kong. This normally means that at least two of its executive directors must be ordinary residents in Hong Kong. Since principal business operations and manufacturing facilities of the Group are primarily located in China, the senior management members of the Group are and will therefore continue to be based in China. At present, none of the executive Directors are Hong Kong residents or based in Hong Kong. The Company has applied to the Stock Exchange for a waiver from the strict compliance with the requirement under Rule 8.12 of the Listing Rules.

The Company has received from the Stock Exchange a waiver from compliance with Rule 8.12 of the Listing Rules subject to the following conditions:

- (a) the Company has appointed and will continue to maintain two authorised representatives pursuant to Rule 3.05 of the Listing Rules, who will act as the Company’s principal communication channel with the Stock Exchange and will ensure that they comply with the Listing Rules at all times. The Company has appointed Ms. Wong Wai Han (“**Ms. Wong**”), one of joint company secretaries of the Company, who is ordinarily resident in Hong Kong, and Ms. Yan as its two authorised representatives. Each of the authorised representatives will be available to meet with the Stock Exchange in Hong Kong within a reasonable period of time upon request and will be readily contactable by telephone, facsimile or e-mail. Each of the two authorised representatives has been duly authorised to communicate on behalf of the Company with the Stock Exchange;
- (b) the Company has appointed a compliance adviser pursuant to Rule 3A.19 of the Listing Rules, who will also act as the Company’s communication channel with the Stock Exchange. The Company has appointed First Shanghai Capital Limited as its compliance adviser;
- (c) both the authorised representatives have means to contact all members of the Board (including the independent non-executive Directors) promptly at all times as and when the Stock Exchange may wish to contact the members of the Board for any matters. The Company will implement a policy whereby (i) each Director will provide his or her mobile phone number, residential phone number, fax number and email address to the authorised representatives; (ii) each executive Director will provide valid phone numbers or other means of communication to the authorised representatives before he or she is travelling outside the PRC; and (iii) each executive Director will provide his or her mobile phone number, office phone number, fax number and e-mail address to the Stock Exchange;

WAIVERS

- (d) any meetings to be held between the Stock Exchange and the Company could be arranged through the authorised representatives or the compliance adviser, or directly with the Directors by a reasonable prior notice. The Company will inform the Stock Exchange promptly in the event of any change of the authorised representatives or the compliance adviser in accordance with the Listing Rules; and
- (e) all executive Directors and independent non-executive Directors who are not ordinarily resident in Hong Kong have confirmed that they are holders of valid travel documents which allow them to visit Hong Kong and will be able to meet with the officers of the Stock Exchange within a reasonable period of time upon request.

III. QUALIFICATION OF COMPANY SECRETARY

Under Rule 8.17 of the Listing Rules, the company secretary of the issuer must be a person who is ordinarily resident in Hong Kong and has the requisite knowledge and experience to discharge the functions of the secretary of the issuer and who:

- (a) is an ordinary member of The Hong Kong Institute of Chartered Secretaries, a solicitor or barrister as defined in the Legal Practitioners Ordinance or a professional accountant as required under Rule 8.17(2) of the Listing Rules; or
- (b) is an individual who, by virtue of his academic or professional qualifications or relevant experience, is, in the opinion of the Hong Kong Stock Exchange, capable of discharging those functions as required under Rule 8.17(3) of the Listing Rules.

Our joint company secretaries, Mr. Cheah Soon Ann Jeremy (“**Mr. Cheah**”) and Ms. Foo Soon Soo (“**Ms. Foo**”) are ordinarily resident in Singapore and do not possess the qualification required under Rule 8.17(2) of the Listing Rules, and hence both Mr. Cheah and Ms. Foo do not meet the requirements under Rule 8.17(2) of the Listing Rules.

In this regard, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with the requirements under Rule 8.17 of the Listing Rules for an initial period of three years from the Listing Date subject to the following conditions:

- (a) the Company has appointed (i) Ms. Wong, and Ms. Yan as authorised representatives of the Company, and (ii) First Shanghai Capital Limited as the compliance adviser of the Company to act as the Company additional communication channel with the Stock Exchange;
- (b) the Company has appointed Ms. Wong as a joint company secretary of the Company, who meets all requirements under 8.17 of the Listing Rules to assist Mr. Cheah and Ms. Foo so as to enable them to acquire the relevant experience in order to discharge the duties of a company secretary under Rule 8.17(3) of the Listing Rule. This waiver will be revoked immediately when Ms. Wong ceases to be a joint company secretary of the Company to assist Mr. Cheah and Ms. Foo during such three-year period;
- (c) the Company will engage Li & Partners, the Company’s legal advisers on Hong Kong laws, to provide assistance to Mr. Cheah and Ms. Foo to discharge their duties and obligations as a company secretary. Li & Partners is a registered law firm in Hong Kong and will be engaged as our legal advisers on Hong Kong laws for a minimum period of three years commencing from the Listing Date;
- (d) Mr. Cheah and Ms. Foo will take external training courses provided by the Law Society of Hong Kong or any other professional bodies in order to acquire and understand the updated requirements and developments of the Listing Rules. Furthermore, Li & Partners will periodically provide a series of training courses to Mr. Cheah and Ms. Foo for any update of the Listing Rules as well as other relevant laws and regulations during such three-year period; and

WAIVERS

- (e) upon the expiry of such three-year period as stated in paragraphs (a) to (d) above, the Stock Exchange will re-visit the situation in the expectation that the Company should then be able to demonstrate to the Stock Exchange satisfaction that, Mr. Cheah and Ms. Foo, having had the benefit of Ms. Wong's assistance for three years, would have acquired relevant experience within the meaning of Rule 8.17(3) such that a further waiver will not be necessary.

Each of Mr. Cheah, Ms. Foo and Ms. Wong has provided valid phone numbers and email addresses to the Stock Exchange and will inform the Stock Exchange promptly in the event of any change of means of communications. Furthermore, in order to ensure effective communication between our company secretaries and the Stock Exchange, we have appointed Ms. Yan and Ms. Wong as our authorised representatives pursuant to Rule 3.05 of the Listing Rules, who will act as our principal communication channel with the Stock Exchange. Each of the authorised representatives will be available to meet with the Stock Exchange within a reasonable time frame upon request by the Stock Exchange and will be readily contactable by telephone or facsimile or email. We have also appointed First Shanghai Capital Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules, who will act as our principal communication channel with the Stock Exchange, in addition to our authorised representatives. The contact persons of our compliance adviser have provided their contact details to the Stock Exchange and will also be fully available to answer queries from the Stock Exchange.

IV. ISSUANCE OF SECURITIES AND NON-DISPOSAL OF SHARES

The Company has applied to the Stock Exchange for, and the Stock Exchange has granted (i) a waiver from strict compliance with the restrictions on further issue of securities within the first six months following the Listing under Rule 10.08 of the Listing Rules, and a consequential waiver from strict compliance with Rule 10.07(1)(a) of the Listing Rules in respect of the deemed disposal of Shares by Controlling Shareholders upon issue of securities by the Company within the first six months of the Listing, and (ii) a waiver from strict compliance with the restrictions on Rule 10.07(1) and (2) of the Listing Rules in respect of disposal of a maximum of 244,870,400 Shares held by Go Power (representing approximately 24.49% of the total issued Shares) and an aggregate of approximately 87.26% equity interest in Go Power held by the 1,463 beneficiaries under the Trust Agreement 2 within the period as required under Rule 10.07(1) and (2) of the Listing Rules, on the conditions that:

- (a) any issue of Shares (or convertible securities) by the Company during the first six months after the Listing must be either for cash to fund a specific acquisition or as part or full consideration for acquisition(s);
- (b) the acquisition(s) as mentioned in (a) above must be for asset(s) or business(es) that will contribute to the growth of the operation of the Group;
- (c) each of Pioneer Top, Mr. Liu, Ms. Yan and all beneficiaries under the Trust Agreement 1 has provided the non-disposal undertaking as set out in the paragraph headed "Non-disposal undertaking" under the section headed "Relationship with the Controlling Shareholders and XLX Chem Group" in this document;
- (d) any such issue of new Shares will not result in the Controlling Shareholders ceasing to be controlling shareholders (as defined in the Listing Rules) of the Company as a result of the dilution of their holdings of Shares (i.e. deemed disposal of Shares) upon the issue of any Shares within twelve months of the Listing; and
- (e) Ms. Yan will not transfer or dispose of her direct or indirect holdings of Shares and her beneficial interests in Go Power within the period as required under Rule 10.07(1) and (2) of the Listing Rules.

WAIVERS

The reasons for application for the waiver (i) stated above by the Company are as follows:

- (a) we do not have current plans to raise funds in the short-term, but it is essential for the Company to have flexibility to raise funds by way of further issue of Shares or enter into further acquisitions for share consideration should an appropriate opportunity arise. Any issue of new Shares by the Company will enhance the Shareholders' base and increase the trading liquidity of the Shares, and the interests of the existing Shareholders would be prejudiced if the Company could not raise funds for its expansion due to the restrictions under Rule 10.08 of the Listing Rules;
- (b) the Listing of the Company on the Stock Exchange by way of Introduction will not result in any dilution of the interests of the existing Shareholders;
- (c) the interests of Shareholders are well protected since any further issue of Shares by the Company would be made under general mandate or subject to Shareholders' approval as required under Rule 13.36 of the Listing Rules; and
- (d) since the listing of the Company on the SGX-ST in June 2007, Pioneer Top, Mr. Liu and Ms. Yan have not disposed of their respective Shares held in the Company, and Mr. Liu and Ms. Yan have not transferred or disposed of their equity interests in Pioneer Top and Go Power respectively. Each of Pioneer Top, Mr. Liu, Ms. Yan and all beneficiaries under the Trust Agreement 1 has been and is prepared to be remaining strongly committed to the Company and has provided a non-disposal undertaking to the Company and the Stock Exchange as stated in this document.

The reasons for application for the waiver (ii) stated above by the Company are set out as follows:

- (a) the 1,463 beneficiaries under the Trust Agreement 2 are the current and past employees, suppliers and customers of the Group. None of them are the controlling shareholders, directors or senior management, nor have not been and will not be involved in the decision making on the Group's management and operation;
- (b) the 1,463 beneficiaries under the Trust Agreement 2 are entitled to transfer or disposal of their respective equity interests in Go Power in accordance with the terms and conditions of the Trust Agreement 2 by serving to Ms. Yan a written notice setting out their respective attributable interest in the Company held by Go Power that they would like to transfer or dispose of, and the Company and the Controlling Shareholders have no control over their investment and divestment decisions. Upon receipt of such written notice, Ms. Yan may transfer or dispose of such Shares subject to the requirements under the Listing Rules, the Listing Manual and other applicable laws and regulations. Upon completion of the transfer or disposal, the net proceeds from such transfer or disposal will be distributed to the relevant beneficiary directly; and
- (c) the lock-up requirement under Rule 10.07(1) and (2) of the Listing Rules will restrict the flexibility of Ms. Yan, in her capacity as the trustee under the Trust Agreement 2, in managing the trust assets and investments, including transfer and disposal of the beneficial interest in Go Power or the respective attributable interest in the Company held by Go Power on behalf of the 1,463 beneficiaries under the Trust Agreement 2, and hence she may not be able to protect the interest of those beneficiaries.

Save and except for the deemed disposal of Shares by the Controlling Shareholders upon the issue of securities by the Company, each of Pioneer Top, Mr. Liu, Ms. Yan and all beneficiaries under the Trust Agreement 1 confirms that he/she/it will comply with the restrictions on the disposal of securities under Rule 10.07 of the Listing Rules.

INFORMATION ABOUT THIS DOCUMENT AND THE INTRODUCTION

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS DOCUMENT

This document includes particulars given in compliance with the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information about the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this document and confirm, having made all reasonable enquiries that to the best of their knowledge and belief, that there are no other facts the omission of which would make any statement in this document misleading.

This document is published in connection with the Introduction. It may not be used for any other purpose and, in particular, no person is authorised to use or reproduce this document or any part thereof in connection with any offering, or invitation to the offer, of the Shares or other securities of the Company. Accordingly, there is no, and will not be any, offer of or solicitation, or an invitation by or on behalf of the Company and the Sponsor to subscribe for or purchase any of the Shares. Neither this document nor any other document or information (or any part thereof) delivered or supplied under or in relation to the Introduction may be used for the purpose of making, and the delivery, distribution and availability of this document or such other document or information (or any part thereof) does not constitute, any offer of or solicitation or an invitation by or on behalf of the Company and the Sponsor to subscribe for or purchase any of the Shares.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

Application has been made to the Listing Committee for listing of, and permission to deal in, the Shares in issue in the SGX-ST. The Company's listings on both the Stock Exchange and SGX-ST will be dual primary listings. Consequently, unless otherwise agreed by the SGX-ST or, as the case may be, the Stock Exchange, the Company must comply with the Listing Rules and Listing Manual and any other relevant regulations and guidelines in Hong Kong and Singapore which are applicable to the Company. In the event where there is a conflict or inconsistency between the requirements of the listing rules of the two stock exchanges, the listing rules with the more onerous requirements shall prevail. The Directors will use their best endeavours to ensure that no release of information will be made in Singapore unless a simultaneous release is made in Hong Kong and vice versa. The Directors confirmed that the Company has been in compliance with relevant applicable laws and listing rules of Singapore since its listing on the SGX-ST. In addition, each of the Directors has confirmed that he/she has been in compliance with relevant applicable laws and listing rules of Singapore since the listing of the Company on the SGX-ST.

As Shareholders' approval is required for the proposed Introduction and the proposed amendments to the Articles to, amongst other things, comply with the requirements of the Listing Rules and the Listing Manual, a circular in relation to such matters was submitted to the SGX-ST for clearance on 4 September 2009. On 12 October 2009, the Company received the requisite clearance for the contents of the circular and such circular was despatched by the Company on 14 October 2009 to its Shareholders. An extraordinary general meeting of the Company was consequently held on 5 November 2009 whereby resolutions were passed for, inter alia, the approval of the proposed Introduction and the proposed amendments to the Articles. Save as disclosed aforesaid, no approval from the SGX-ST is required for the proposed Introduction.

INFORMATION ABOUT THIS DOCUMENT AND THE INTRODUCTION

Details of the arrangement for the removal of Shares from the Singapore Principal Share Register to Hong Kong Branch Share Register or from the Hong Kong Branch Share Register to Singapore Principal Register are set out in the section headed “Listings, registration, dealings and settlement” of this document.

COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on the Main Board are expected to commence on 8 December 2009. The Shares will be traded on the Main Board in board lots of 1,000 shares each.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of listing of, and permission to deal in, the Shares on the Stock Exchange and the compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or on any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second settlement day after any trading day. All activities under CCASS are subject to CCASS Rules in effect from time to time.

All necessary arrangements have been made for the Shares to be admitted into CCASS. If you are unsure about the details of CCASS settlement arrangements and how such arrangements will affect your rights and interests, you should seek the advice of your stockbrokers or other professional advisors.

NO CHANGE IN THE NATURE OF BUSINESS

No change in the nature of business of the Group is contemplated following the Introduction.

HONG KONG STAMP DUTY

Dealings in Shares registered in the Hong Kong Branch Share Register kept by the Company are subject to Hong Kong stamp duty.

PROFESSIONAL TAX ADVICE RECOMMENDED

If you are unsure about the taxation implications of the purchasing, holding or disposal of, dealing in, or the exercise of any rights in relation to, the Shares, you should consult an expert. It is emphasised that none of the Company, the Sponsor, any of their respective directors, agents, employees, advisors or affiliates or any other person or party involved in the Introduction accepts responsibility for any tax effects on, or liabilities of, any person resulting from the purchasing, holding or disposal of, dealing in, or the exercise of any rights in relation to, the Shares.

CONDITIONS OF THE INTRODUCTION

The Introduction is subject to the fulfilment of the conditions that, amongst other things, the Listing Committee grants the listing of, and permission to deal in, on the Main Board, the Shares presently in issue and listed on the SGX-ST as well as the approval of the Shareholders of the resolutions relating to the proposed Introduction and the adoption of the proposed amendments to the Articles at its extraordinary general meeting held on 5 November 2009.

INFORMATION ABOUT THIS DOCUMENT AND THE INTRODUCTION

REASONS FOR THE INTRODUCTION

The Shares have been traded on the SGX-ST since 20 June 2007. Our Directors consider that it is desirable and beneficial for the Company to have dual primary listing status in both Singapore and Hong Kong so that the Company can have ready access to these different equity markets in Asia Pacific region when the opportunity arises. The two markets also attract different investor profiles thereby widening the investor base of the Company and increasing the liquidity of the Shares. In particular, it enables the Company to benefit from its exposure to a wider range of private and institutional investors. Our Directors believe that a listing in Hong Kong is in line with the Group's focus on its operations in the PRC, which is important for the Group's growth and long term development.

DIRECTORS AND PARTIES INVOLVED IN THE INTRODUCTION

DIRECTORS

<u>Name</u>	<u>Residential Address</u>	<u>Nationality</u>
Executive Directors		
Liu Xingxu	No.185, Zangying West Street, Hongqi District Xinxiang City Henan Province PRC	Chinese
Yan Yunhua	Xianxinxing Pharmaceutical Plant Family Accommodation Xinxiang County Henan Province PRC	Chinese
Li Buwen	Xinxiang Huafei Plant Family Accommodation Xinxiang County Henan Province PRC	Chinese
Independent non-executive Directors		
Ong Kian Guan	30 Sturdee Road, #30-04 Singapore 207852	Singaporean
Li Shengxiao	No. 303, Block 15 No. 5, Huancheng West Road Yuecheng District Shaoxing City Zhejiang Province PRC	Chinese
Ong Wei Jin	Apt Blk 100 Clemenceau Avenue North, #09-111 Singapore 229491	Singaporean

DIRECTORS AND PARTIES INVOLVED IN THE INTRODUCTION

PARTIES INVOLVED IN THE INTRODUCTION

Sponsor Cazenove Asia Limited (a Standard Chartered group company) (to be renamed Standard Chartered Securities (Hong Kong) Limited on or around 14 December 2009)
15/F, Two International Finance Centre
8 Finance Street
Central, Hong Kong

Legal advisers to the Company *as to Hong Kong law*

Li & Partners
22nd Floor, World Wide House
19 Des Voeux Road Central
Hong Kong

as to PRC law

Haihua Yongtai Law Firm
701–704, Eton Place
No. 69, Dong Fang Road, Shanghai
PRC 200120

as to Singapore law

Shook Lin & Bok LLP
1 Robinson Road
#18-00, AIA Tower
Singapore 048542

Legal advisers to the Sponsor *as to Hong Kong law*

Orrick, Herrington & Sutcliffe
43rd Floor, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

as to PRC law

King and Wood
28th–30th Floors, Huai Hai Place
1045 Huai Hai Road (M), Shanghai
PRC 200031

DIRECTORS AND PARTIES INVOLVED IN THE INTRODUCTION

**Auditors and Reporting
Accountants**

Ernst & Young
Certified Public Accountants
18th Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong

Property valuer

Jones Lang LaSalle Sallmanns Limited
17th Floor, Dorset House
Taikoo Place
979 King's Road
Quarry Bay
Hong Kong

CORPORATE INFORMATION

CORPORATE INFORMATION

Registered office	333 North Bridge Road #08-00 KH KEA Building Singapore 188721
Headquarter and principal place of business in the PRC	Xinxiang Economic and Technology Development Zone (Xiaoji Town), Henan Province PRC 453700
Place of business in Hong Kong	22nd Floor, World Wide House 19 Des Voeux Road Central Hong Kong
Company's website	www.chinaxlx.com.sg (information contained in this website does not form part of this document)
Joint company secretaries	Cheah Soon Ann Jeremy, CPA (Singapore) Foo Soon Soo, LLB (Hons)(London), FCIS, FCPA (Singapore), FCPA (Australia) Wong Wai Han, LLB (Hons)(Hong Kong)
Authorised representatives	Yan Yunhua Xianxinxing Pharmaceutical Plant Family Accommodation Xinxiang County Henan Province PRC Wong Wai Han Flat G, 4th Floor 264 Ma Tau Wai Road Kowloon Hong Kong
Compliance adviser	First Shanghai Capital Limited 19th Floor, Wing On House 71 Des Voeux Road Central Hong Kong
Audit Committee	Ong Kian Guan (<i>Chairman</i>) Li Shengxiao Ong Wei Jin
Remuneration Committee	Ong Wei Jin (<i>Chairman</i>) Ong Kian Guan Li Shengxiao
Nomination Committee	Li Shengxiao (<i>Chairman</i>) Ong Wei Jin Liu Xingxu

CORPORATE INFORMATION

**Principal share registrar and
transfer office in Singapore**

KCK Corpserve Pte. Ltd.
333 North Bridge Road
#08-00 KH KEA Building
Singapore 188721

**Branch share registrar and
transfer office in Hong Kong**

Tricor Investor Services Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Hong Kong

Principal Banker

China Construction Bank Corporation (Xinxiang Branch)
Qingnian Road, Xiaojin Town
Xinxiang County
Henan Province
PRC

INDUSTRY OVERVIEW

This section contains certain information and statistics concerning the PRC fertiliser industry. We have derived the information and data partly from various official publications and partly from the CNCIC Report. We commissioned CNCIC, an independent third party to provide a market research report on the PRC fertiliser industry. CNCIC was set up in October 1992, which is a comprehensive information collection, information research information service and computer application technology development centre for China's chemical industry, and owns the Chemical Branch of the National Engineering & Technology Library, the International Exhibition Center, the Audio/Video Publishing Center and the Energy Conservation Center in China's chemical industry. It undertakes many key projects of the Ministry of Science and Technology and the Ministry of Commerce, and has been engaging in tracking the work chemical technology and economy development, analysing the development trends, industrial movements and technological advancement in the world chemical industry, developing information industry and promoting information services and exchanges at all levels. The total fee for the CNCIC Report was US\$20,000. We believe that the sources of the information of this section are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. In view of the background and credentials of CNCIC, the information has not been independently verified by us, the Sponsor, or any other party involved in the Introduction and no representation is given as to its accuracy.

The CNCIC Report was compiled based on various data collected by CNCIC through different means, including but not limited to, (i) consolidating their existing research with information gathered from published secondary sources (such as company websites, industry organisations, trade press, and national statistics), (ii) direct visits or telephone interviews with market participants, (iii) conducting telephone interviews with industry experts; (iv) making inquiries with relevant government departments; and (v) gathering a variety of published public information. In creating the market data, CNCIC took into account various factors, such as global and domestic economic growth, legislative changes, taxation changes, social changes, product lifecycle, export and import trends, and competitive environment. Furthermore, CNCIC made certain assumptions, including but not limited to (i) fertiliser is an important agriculture-supporting product, thus the volume consumption will not significantly decrease due to the economic downturn; (ii) the preferential policies on fertiliser will be gradually abolished in PRC; and (iii) the relevant governmental departments in the PRC will promulgate flexible fertiliser import and export policies.

GENERAL OVERVIEW

Fertilisers are chemical compounds containing plant nutrients and their application can promote plant and fruit growth and to achieve optimal yield and quality. There are three primary plant nutrients, namely nitrogen, phosphorus, and potassium, which have been widely used in agriculture around the world:

- Nitrogen is the basic constituent of proteins, enzymes and chlorophyll, and thus is vital in crop production. Nitrogen occupies a unique position as a plant nutrient because rather high amounts are required compared to the other essential nutrients. It stimulates root growth and crop development as well as uptake of the other nutrients. Therefore, plants usually respond quickly to nitrogen application.

INDUSTRY OVERVIEW

- Phosphorus is irreplaceable in those compounds on which life processes depend. Phosphorus is absorbed by plant roots from the soil solution mainly as orthophosphate ions, which is then transported to where it is needed and rapidly incorporated into those molecules. An adequate supply of phosphorus is essential to plant growth. Deficiency affects not only plant growth and development but eventually decreases the formation of fruits and seeds and invariably delays the ripening of cereals.
- Potassium, or potash, is required by plants to fulfil its role as an osmotic regulator in all cells. Plants well supplied with potash are more resistant to pests and diseases. Furthermore, there are beneficial effects of potash on the chilling tolerance of plants grown in a warm climate and to photo-oxidative stress under high light intensity.

According to the IFA, the world's total output of fertilisers in 2008 was to approximately 209.7 million tons, including approximately 134.2 million tons of nitrogen, approximately 39.4 million tons of phosphorus, and approximately 36.1 million tons of potash on pure nutrient basis.

Among the primary plant nutrients, nitrogen is the most important nutrient for farmers to grow plentiful, high quality crops to meet the world's demand for food. The nitrogen-based fertilisers include urea, ammonia, ammonium nitrate, ammonium bicarbonate, ammonium sulphate and calcium ammonium nitrate, among which urea is one of the most important nitrogen-based fertilisers, with approximately 46% nitrogen content. According to the IFA, the world's urea production in 2007 rose by about 6.6% to approximately 144 million tons, of which China contributed two-thirds of the global increase. In 2009, the world's urea production capacity was estimated at approximately 174 million tons. Furthermore, the world's urea production capacity is forecasted to reach approximately 200 million tons in 2012, which corresponds to a CAGR of 5.5% over 2007.

Currently, China is the largest urea producer in the world and will also remain in a strong net exporting position due to its abundant capacity.

Fertiliser prices are cyclical similar to any other commodity. The cyclicity is primarily caused by the fluctuations in their demand and supply additions resulting in periods of over-capacity and under-capacity. However, variations in raw material prices (coal, natural gas or crude oil) and grain prices (corn or wheat) could also materially affect the price movement of fertilisers.

OVERVIEW OF CHINA'S FERTILISER INDUSTRY

Production of fertilisers

Currently, China is the largest fertiliser producing and consuming country in the world, accounting for approximately 30% of the world's total fertiliser consumption. In 2008, China produced approximately a total of 58.68 million tons of fertilisers on pure nutrient basis, which increased by approximately 1.4% over the previous year. Such total output of fertilisers included approximately 43.3 million tons of nitrogen fertiliser, with an increase of approximately 2.8%; approximately 12.6 million tons of phosphate fertiliser, with a decrease of approximately 3.3%, and approximately 2.8 million tons of potash fertiliser, with an increase of approximately 3.4%, over the previous year. Apart from Beijing, Qinghai and Tibet, nitrogen fertiliser is produced in about 31 China's provinces and municipalities, while phosphate fertiliser production concentrates in the phosphorus ores-rich provinces, such as Yunnan, Guizhou, Hubei and Sichuan, and potash fertiliser production is highly concentrated in Qinghai and Xinjiang.

INDUSTRY OVERVIEW

Consumption of fertilisers

With the increase in demand from agricultural development, China's fertiliser industry has been growing steadily. Approximately 50% of grain yield increase in China is attributed to the application of fertilisers. The table below sets forth the development of crops planting area, grain output and fertiliser consumption in China from 2000 to 2008.

Crops Planting Area, Grain Output and Fertiliser Consumption in China

<u>Year</u>	<u>Crops planting area</u> (<u>'000 hectare</u>)	<u>Grain planting area</u> (<u>'000 hectare</u>)	<u>Proportion of grain in crops</u> (<u>%</u>)	<u>Grain output</u> (<u>'000 tons</u>)	<u>Fertiliser consumption on pure nutrient basis</u> (<u>'000 tons</u>)
2000	156,424	108,463	69	462,175	41,463
2001	155,708	106,080	68	452,638	42,540
2002	154,636	103,891	67	457,060	43,395
2003	152,415	99,410	65	430,694	44,118
2004	153,553	101,606	66	469,472	46,368
2005	155,487	104,279	67	484,024	47,662
2006	152,150	104,958	69	498,042	49,277
2007	153,464	105,638	69	501,500	51,078
2008	156,266	106,793	68	528,709	52,390

Source: Ministry of Agriculture, PRC

INDUSTRY OVERVIEW

The rapid development of agriculture in turn stimulates the demand for fertiliser. In 1980, approximately 12.7 million tons of fertiliser was consumed in China (on pure nutrient basis). In 2000 and 2008, the consumption of fertiliser reached approximately 41.5 million tons and 52.4 million tons, respectively, indicating an annual average growth rate of approximately 3.3%. Of all fertilisers, the consumptions of nitrogen fertiliser and phosphate fertiliser have increased relatively slowly and that of potash fertiliser has increased relatively fast, with an annual average growth rate of approximately 5.6%. The table below sets forth the fertiliser consumption in China between 1995 and 2008.

Fertiliser Consumption in China
(Unit: '000 tons, on pure nutrient basis)

Year	Total	Nitrogen fertiliser (N)	Phosphate fertiliser (P ₂ O ₅)	Potash fertiliser (K ₂ O)	Compound fertiliser
1995	35,947	20,224	6,326	2,685	6,713
1996	38,291	21,454	6,585	2,898	7,353
1997	39,809	21,717	6,894	3,220	7,978
1998	40,854	22,335	6,841	3,459	8,220
1999	41,246	21,809	6,970	3,663	8,803
2000	41,463	21,616	6,905	3,766	9,177
2001	42,540	21,641	7,060	3,998	9,842
2002	43,395	21,573	7,122	4,225	10,462
2003	44,118	21,500	7,144	4,380	11,099
2004	46,368	22,223	7,362	4,673	12,038
2005	47,662	22,297	7,438	4,898	13,036
2006	49,277	22,625	7,695	5,097	13,859
2007	51,078	23,895	7,971	5,249	13,970
2008	52,390	23,029	7,801	5,452	16,086

Source: Ministry of Agriculture, the PRC

Industry outlook

China is now the most populous country in the world. With its rapid economic development, population growth, and improvement of people's living standard, demands for crops and foods have continued to increase. However, with limited and ever-shrinking arable land, farmers have to increase their crop yield by using fertiliser in more efficient ways. Accompanying by a series of measures taken by the PRC government which increased the incomes of farmers and investment in agriculture, it is expected that fertiliser consumption in China would experience a steady growth in the future.

INDUSTRY OVERVIEW

OVERVIEW OF CHINA'S UREA INDUSTRY

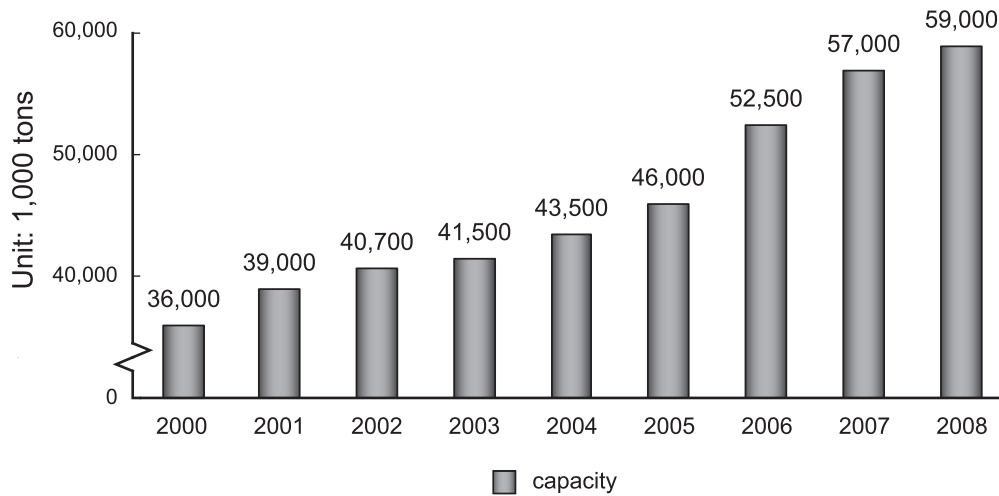
Urea as a neutral fertiliser can be used for all types of soil and for any crops as major fertiliser. It can also be used for base fertilisers or additional fertilisers and applied in no matter dry farmland or paddy field, as well as for compound fertiliser production.

Urea production capacity

Urea is widely applied in China's agricultural and industrial sectors. The production capacity of urea in China increased from approximately 36 million tons in 2000 to approximately 59 million tons in 2008, with CAGR of approximately 6.4%.

The PRC government's current agriculture-focused policy initiatives would give considerable boost to grain yield increase in China and therefore push up the demand for urea. With the rapid development of high-nitrogen compound fertilisers, the demand for urea will continue to increase. The chart below sets forth the urea production capacity in China from 2000 to 2008.

Urea Production Capacity in China



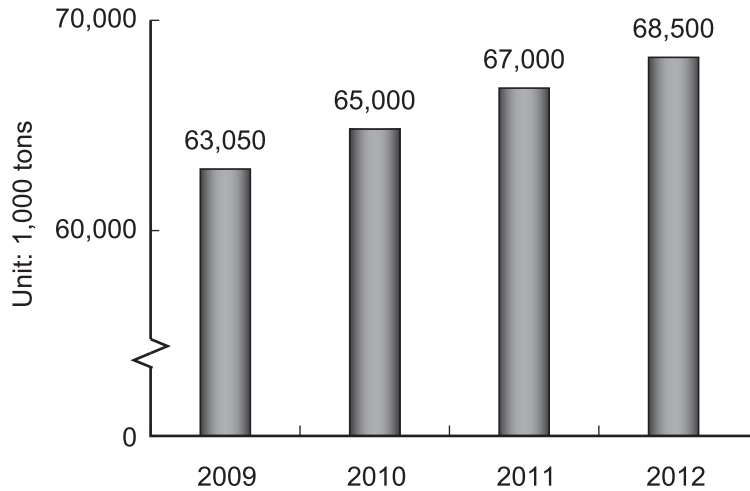
Source: CNCIC

According to the CNCIC Report, approximately 4.05 million tons of new urea production capacity would commence operation in 2009. It is expected that the production capacity of urea in the PRC would continue to expand steadily in the coming years but with a slower pace. The production capacity of urea in the PRC is expected to reach approximately 68.50 million tons in 2012.

INDUSTRY OVERVIEW

The chart below sets forth the estimated urea production capacity in the PRC for the period from 2009 to 2012.

Urea Production Capacity Expansion in China

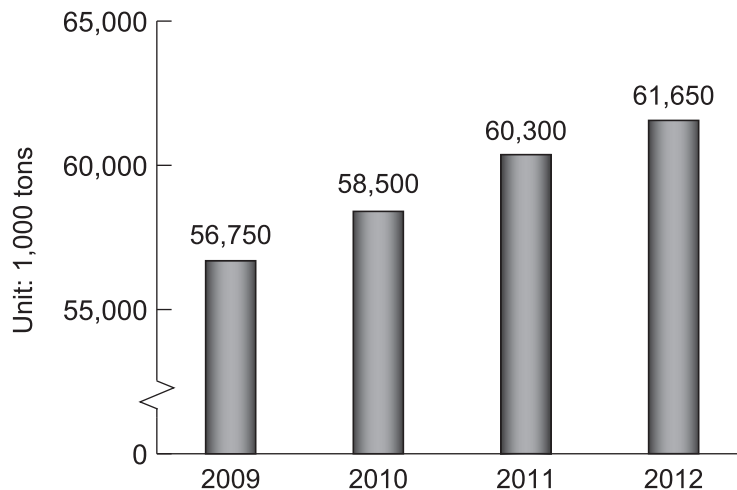


Source: CNCIC

Urea production volume and consumption

Since 2000, China has built and expanded many urea projects and its urea production volume has increased rapidly. From 2000 to 2008, China's urea production volume increased from approximately 30.7 million tons to approximately 56.3 million tons (actual quantity), indicating an annual average increase of approximately 3.2 million tons. It is estimated that with the construction of more new urea projects in the coming years, China's urea production volume will keep on rising steadily, however, at a slower pace. Based on a production capacity operating rate of 90%, it is estimated that China's urea production volume will be approximately 56.8 million tons in 2009 and approximately 61.7 million tons in 2012.

PRC's Urea Production Volume Forecast (actual quantity)



Source: CNCIC

INDUSTRY OVERVIEW

As urea is the leading variety of nitrogen fertiliser, urea production volume accounts for approximately 58% to 60% of the total nitrogen fertiliser production volume in China and its consumption accounts for over 64% of nitrogen fertiliser consumption. Therefore, nitrogen fertiliser consumption can reflect the demand of urea to a great extent.

The table below sets forth the top-10 nitrogen fertiliser consuming provinces in China in 2007.

China's Top 10 Nitrogen Fertiliser Consuming Provinces in 2007 (pure nutrient content base)

<u>Rank</u>	<u>Province</u>	<u>As total</u>
1.	Henan	10.4%
2.	Shandong	8.4%
3.	Jiangsu	8.0%
4.	Hebei	6.8%
5.	Hubei	6.2%
6.	Sichuan	5.6%
7.	Anhui	4.9%
8.	Hunan	4.7%
9.	Guangdong	4.1%
10.	Yunnan	3.8%

Source: CNCIC

In 2002, China resumed its urea import, which amounted to approximately 791,000 tons of urea. In the following years, its urea import decreased year by year. In 2008, it imported only 67 tons of urea, mainly from Japan, Taiwan, and the U.S. Compared with its own output, the import quantity can be ignored. With the increase of urea production capacity, China has been exporting more and more urea. In 2007, prompted by high urea price in the international market, China exported approximately 5.26 million tons of urea. In 2008, its urea export dropped to approximately 4.36 million tons. Owing to its large production capacity, China became the largest balance of urea producer and exporter in the world in 2007. However, China's export volume is impacted by supply and demand in domestic market, domestic coal-based producers' cost advantages over overseas natural gas based producers, and the PRC government's control on urea import and export via quota or tariff, etc.

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The table below sets forth the production volume, import, export and apparent consumption of urea in China from 2000 to 2008.

Urea Production Volume, Import, Export, Apparent Consumption in China (’000 tons, actual quantity)

<u>Year</u>	<u>Production volume</u>	<u>Import</u>	<u>Export</u>	<u>Apparent consumption</u>	<u>Annual growth (%)</u>	<u>Self-sufficient ratio (%)</u>
2000	30,270	0.03	961	29,309	-0.3	103.3
2001	31,630	0.02	1,271	30,359	3.4	104.2
2002	34,820	791	413	35,198	15.9	98.9
2003	36,350	139	2,730	33,759	-4.1	107.7
2004	41,820	38	3,943	37,915	12.3	110.3
2005	43,370	71	1,571	41,867	10.4	103.6
2006	48,540	38	1,367	47,210	12.8	102.8
2007	54,040	0.5	5,257	48,784	3.3	110.8
2008	56,330	0.1	4,359	51,971	6.5	108.4

Source: CNCIC

Urea producers in China

According to the CNCIC Report, there were currently 189 urea producers, irrespective of the types of raw material used, in the PRC at the end of 2008, mainly located in East China, North China and South-western regions. There were 38 large-sized urea producers with annual capacity no less than 500,000 tons, 28 middle-sized enterprises with annual capacity ranging between 300,000 to 500,000 tons, and the remaining 123 small-sized producers with annual capacity below 300,000 tons. Major urea producing provinces include Shandong, Shanxi, Henan, Sichuan, Xinjiang, and Hebei. The top-three producing provinces, namely Shandong, Shanxi, and Henan accounted for approximately 40% of the total urea production capacity in the PRC. With respect to the production costs of the PRC urea producers with different types of raw material used, in 2008, the average production cost of coal-based urea producers is lower than that of crude oil based urea producers, but is higher than that of natural gas based urea producers. According to the CNCIC Report, in December 2008, the average urea production costs of coal based urea producers, natural gas based urea producers and crude oil based urea producers, in the PRC, were approximately RMB1,629, RMB1,146 and RMB3,200 per ton respectively.

The table below sets forth the top-10 urea producing provinces in China in 2008.

China’s Top-10 Urea Producing Provinces in 2008 (actual quantity)

<u>Rank</u>	<u>Province</u>	<u>As total (%)</u>
1	Shandong	18.0
2	Shanxi	11.9
3	Henan	11.8
4	Sichuan	7.1
5	Xinjiang	5.7
6	Hebei	5.3
7	Jiangsu	4.1
8	Hubei	3.9
9	Anhui	3.7
10	Yunnan	3.0

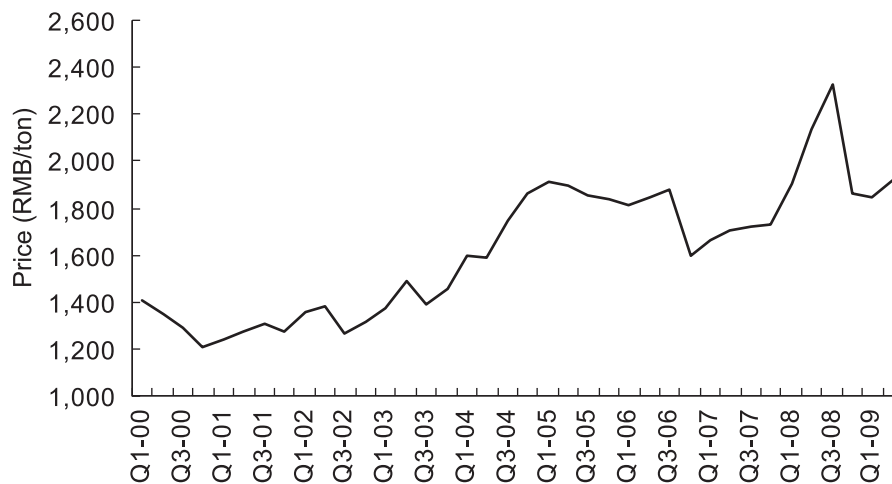
Source: CNCIC

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Historical prices of urea

The market price of urea is subject to fluctuation affected by various factors, including raw material costs, demand and supply changes and global market conditions. Stimulated by rising raw material prices and grain prices since the second half year of 2007, urea retail prices rose significantly in first half year of 2008 and peaked at approximately RMB2,350-2,400 per ton in July 2008. However, due to the commodity crash resulted from the global financial crisis since the third quarter of 2008, urea retail prices slumped to RMB1,800 per ton level in the fourth quarter of 2008. The chart below sets forth the historical urea retail price in China from the periods indicated.

Historical Urea Retail Price in China



Source: CNCIC

Recent government policy changes

Urea can be produced from coal, natural gas or crude oil. In 2009, approximately 69.9%, 27.5% and 1.9% of the urea production capacity in China use coal, natural gas and crude oil as feedstock respectively. Natural gas based urea producers in China have been enjoying preferential prices on natural gas supply, which are lower than its market prices. However, the government is contemplating a reform on natural gas pricing policy to allow gas prices to be determined by market. The PRC government also exercises stringent control over investment of any new natural gas based urea facilities.

OVERVIEW OF CHINA'S COMPOUND FERTILISER INDUSTRY

Compound fertiliser comprises at least two of the three primary ingredients, namely nitrogen, phosphorous and potassium. It contains a higher level of nutrients with balanced supply of nutrient components as compared to single element fertilisers. In addition, different types of soil and crops require different compositions in compound fertiliser.

Compound fertiliser production volume

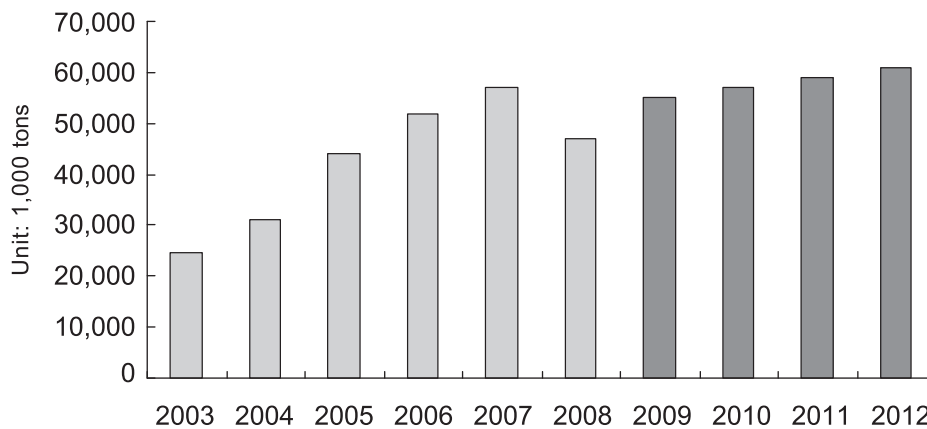
Since 2003, China's compound fertiliser production volume has been growing, but such growth began to slow down after 2005. In 2008, the compound fertiliser production volume showed negative growth, because the prices of raw materials have soared and high fertiliser price

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forced farmers to reduce their fertiliser consumption. According to the CNCIC report, notwithstanding the abnormality in the growth rate of the compound fertiliser production volume in China in 2008, the agricultural production will demand more compound fertiliser which will result in the steady growth in output of compound fertiliser in the future, at the estimated average growth rate of 10%.

The chart below sets forth the historical compound fertiliser production volume in China for period from 2003 to 2008 and the forecast of compound fertiliser production volume in China for the period from 2009 to 2012.

China's Compound Fertiliser Production Volume (actual quantity)



Source: CNCIC

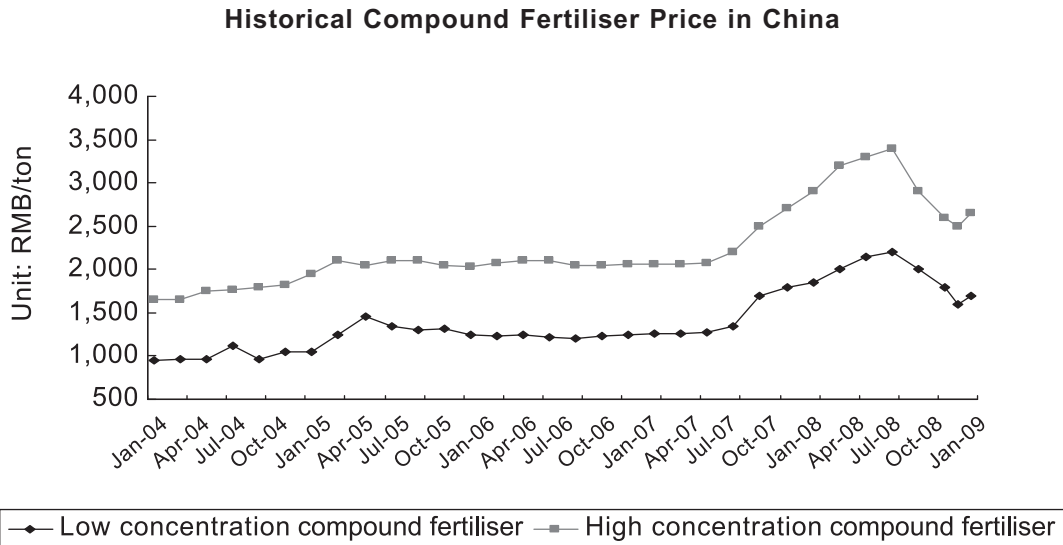
Since 2008, China has been capable of producing approximately 200 million tons of compound fertiliser per year. However, its actual output was only approximately 50 million tons, representing a utilisation rate of approximately 25%, in 2008.

Historical prices of compound fertiliser

The prices of compound fertiliser are primarily determined by the general supply and demand conditions and raw material costs, i.e. the costs of nitrogen, phosphorous and potassium. Higher fluctuation in raw material costs had resulted in greater variation in compound fertiliser prices from January 2008 to January 2009.

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The chart below sets forth the historical compound fertiliser prices in China for the period from January 2004 to January 2009.



Source: CNCIC

Compound fertiliser outlook

The PRC compound fertiliser industry has developed rapidly over the past few years. According to the CNCIC Report, China's fertiliser industry will develop towards having large-scale fertiliser producers which produce specialised compound fertilisers and conduct fertiliser application in a scientific way. Those high-cost enterprises will be eliminated and those competitive enterprises, such as the enterprises with cost advantage, will be encouraged to expand their output and capacity. China's total production volume of compound fertiliser was over 47 million tons in 2008, which was approximately 17.5% lower than that in 2007. However, as the relatively cheaper nitrogen fertiliser and phosphate fertiliser has driven down compound fertiliser prices and attracted rising demand, the output of compound fertiliser in 2009 is estimated to be approximately 55 million tons.

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OVERVIEW OF CHINA'S METHANOL INDUSTRY

Methanol is an important material for the organic chemical industry and is used as raw material for the production of formaldehyde, MTBE, acetic acid and other chemicals for industrial use. Methanol is also an important by-product of coal-based urea producers in the process of ammonia synthesis. The manufacturers can flexibly shift between ammonia and methanol production by adjusting reaction conditions and changing synthesis reactor and catalyst. The process will generally improve the efficiency of ammonia synthesis, and this can reduce the production costs of fertilisers and allow the producers to develop downstream methanol products.

Methanol production capacity

According to the CNCIC Report, in 2008, China's methanol production capacity reached approximately 24.7 million tons, with an increase of approximately 50.8% compared with that of 2007.

The table below sets forth the production capacity, consumption volume, production volume, import and export of methanol in China between 2005 and 2008.

Methanol Production Capacity, Consumption Volume, Production Volume, Import and Export in China (Unit: 1,000 tons)

<u>Year</u>	<u>Production capacity</u>	<u>Consumption volume</u>	<u>Production volume</u>	<u>Import</u>	<u>Export</u>
2005	6,500	6,662	5,356	1,360	54
2006	10,970	8,560	7,623	1,127	190
2007	16,394	11,046	10,764	845	563
2008	24,724	12,329	11,263	1,434	368

Source: CNCIC

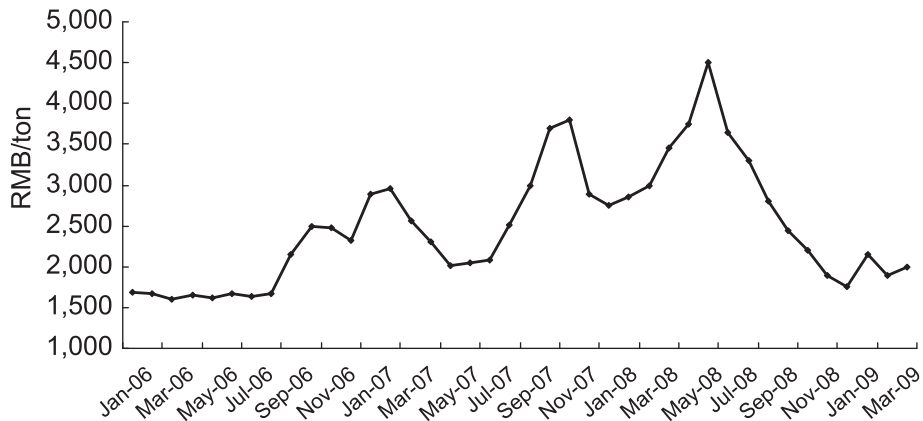
In China, coal is the main raw material for methanol production, where nature gas and coke oven gas come next. As of September 2009, among all 214 domestic methanol producers, production capacities based on coal, natural gas, coke oven gas and other materials accounted for approximately 61%, 27%, 10% and 2% of total methanol production capacities in China respectively. Approximately 70% of domestic methanol production capacities are located in coal-rich or natural gas-rich regions, such as Shandong, Henan, Hebei, Sichuan, Inner Mongolia and Shanxi.

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Historical prices of methanol

As methanol can be produced from crude oil, natural gas or coal, its prices are highly affected by costs of crude oil, natural gas and coal, as well as international trading conditions. General economic conditions also have important impact on the demand for methanol. The chart below sets forth the historical price of methanol in China for the period from January 2006 to March 2009.

Historical Methanol Price in China



Source: CNCIC

Methanol outlook

Following the rapid development of the methanol industry in the last ten years, the total annual production volume of methanol in the PRC has grown from approximately 2.0 million tons in 2000 to approximately 11.2 million tons in 2008, representing CAGR of approximately 24.1%. The rapid growth in its production volume was mainly driven by rising demands resulting from the increasing usage of methanol fuel and other application areas in the PRC. According to CNCIC Report, it is estimated that the rapidly growing demand for methanol in China will result in its methanol demand reaching approximately 12.5 million tons in 2010, accounting for approximately 30% to 40% of the total worldwide methanol consumption.

PRC REGULATORY OVERVIEW

APPLICABLE LAWS, RULES AND REGULATIONS TO OUR PRODUCTION, OPERATIONS AND BUSINESS IN THE PRC

Our principal place of business is in the PRC and therefore we are subject to the PRC laws and regulations. This section summarizes the principal PRC laws and regulations relating to our production, operation and business which include, but not limited to, Regulations of the PRC on the Administration of Production Licence for Industrial Products (中華人民共和國工業產品生產許可證管理條例), Regulations on the Safety Administration of Hazardous Chemicals (危險化學品安全管理條例), Regulations on Work Safety Licences (安全生產許可證條例), Environmental Protection Law of the PRC (中華人民共和國環境保護法), Prevention and Control of Atmospheric Pollution Law of the PRC (中華人民共和國大氣污染防治法) and Prevention and Control of Water Pollution Law of the PRC (中華人民共和國水污染防治法). Certain important provisions of the above laws and regulations relating to the chemical industry and environmental protection are set out below.

Apart from the abovementioned laws and regulations in relation to our production operations and business in the PRC, the PRC government has introduced several preferential policies directly for the benefit of fertiliser producers, which are to ensure the sufficient domestic supplies of fertilisers and to stabilise the prices of fertilisers.

Regulations of the PRC on the Administration of Production Licence for Industrial Products (中華人民共和國工業產品生產許可證管理條例) and Measures for the Implementation of Regulations of the PRC on the Administration of Production Licence for Industrial Products (中華人民共和國工業產品生產許可證管理條例實施辦法)

Pursuant to the Regulations of the PRC on the Administration of Production Licence for Industrial Products (中華人民共和國工業產品生產許可證管理條例) which were promulgated by the State Council and came into effect on 1 September 2005, and the Measures for the Implementation of the Regulations of the PRC on the Administration of Production Licence for Industrial Products (中華人民共和國工業產品生產許可證管理條例實施辦法) which were promulgated by the General Administration of Quality Supervision, Inspection and Quarantine of the PRC (國家質量監督檢驗檢疫總局) and came into effect on 1 November 2005, enterprises producing industrial products that may affect production safety and public safety are subject to the requirements of production licences.

- The Catalogue of Industrial Products (the “**Catalogue**”) which is subject to the system of production licence by the State Council shall be formulated, evaluated and adjusted from time to time by the competent department of production licence for industrial products of the State Council together with the relevant departments of the State Council, and be promulgated to the public after an approval is granted by the State Council.
- Any enterprise that fails to obtain the production licence shall not produce the products listed in the Catalogue, and no unit or individual is allowed to sell or use such products which do not obtain the production permits in operating activities.

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Regulations on the Safety Administration of Hazardous Chemicals (危險化學品安全管理條例) and Measures for the Administration of Operating Licence for Hazardous Chemicals (危險化學品經營許可證管理辦法)

Pursuant to the Regulations on the Safety Administration of Hazardous Chemicals (危險化學品安全管理條例) which were promulgated by the State Council and came into effect on 15 March 2002, production, management, storage, transport and use of hazardous chemicals and the disposition of waste hazardous chemicals within the territory of the PRC shall be governed by these regulations, laws and other administrative regulations of the PRC on production safety.

- Enterprises manufacturing hazardous chemicals which are established according to law must apply to the department in charge of quality control of the State Council for the licences for the production of hazardous chemicals. No production shall be commenced unless the licence for the production of hazardous chemicals is obtained.
- The production conditions of the units engaged in the manufacture of hazardous chemicals must fulfill the national standards and the relevant provisions of the PRC, obtain the corresponding licences according to the provisions of the relevant laws and regulations of the PRC, and establish and improve the rules and systems of safety control of the use of hazardous chemicals, so as to guarantee the safety use and control over dangerous chemicals.
- The PRC government carries out the licensing system for dealing in hazardous chemicals. No unit or individual may deal in hazardous chemicals without such licences.

Pursuant to the Measures for the Administration of Operating Licences for Hazardous Chemicals (危險化學品經營許可證管理辦法) which were promulgated by the National Economic and Trade Commission, which was later abolished in 2003 and whose responsibilities were assumed by the Minister of Commerce and the NDRC, every enterprise must obtain operating licences for hazardous chemicals before it engages in the retail and wholesale business of hazardous chemicals.

Production Safety Law of the PRC (中華人民共和國安全生產法) and Regulations on Production Safety Licence (安全生產許可證條例)

Production Safety Law of the PRC (中華人民共和國安全生產法) promulgated by the Standing Committee of the National People's Congress on 29 June 2002 which lays down the framework for the requirement, supervision and enforcement of safety standards in production. The enterprises involved in mining and construction or manufacturing dangerous chemicals, firecrackers and civil-used explosive equipments shall obtain the work safety licence before the production starts.

Pursuant to the Regulations on Production Safety Licences (安全生產許可證條例) which were promulgated by the State Council and came into effect on 13 January 2004, the PRC government carries out a licensing system for safety standards for mining businesses, building companies and other enterprises producing hazardous chemical products, fireworks and/or civil demolitions.

- No enterprises may engage in production activities without work safety licence.
- The valid period for a work safety licence shall be three years. If a work safety licence needs to be extended upon its expiration, the enterprise shall carry out procedures for extension at the original issuance and administration organisation of work safety licence

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at least 3 months before the expiry of the work safety licence. If an enterprise strictly follows the relevant laws and regulations on work safety and is free of any fatal accident during the valid period of its work safety licence, the work safety licence, shall be approved and extended for another 3 years upon expiry by the original issuance and administration organisation of safe work safety licence without re-examination.

Environmental Protection Law of the PRC (中華人民共和國環境保護法)

Pursuant to the Environmental Protection Law of the PRC (中華人民共和國環境保護法) adopted at the 11th Meeting of the Standing Committee of the Seventh National People's Congress on 26 December 1989 and with effective on the same day, the Administration Supervisory Department of Environmental Protection of the State Council (國務院環境保護部) set out the national guidelines for the discharge of pollutants. The people's governments of provinces, autonomous regions and municipalities may also set their own guidelines for the discharge of pollutants within their own provinces or districts in the event that the national guidelines are inadequate.

- Installations for the prevention and control of pollution at a construction project must be designed, built and commissioned together with the principal part of the project. No permission shall be given for a construction project to be commissioned or used until its installations for the prevention and control of pollution are examined and approved by the competent department of environmental protection administration.
- If an enterprise fails to report and/or register the environmental pollution it causes, it will receive a warning or be penalized. Any enterprise that fails to restore the environment or remedy the effects of the pollution within the prescribed time will be penalized or have their business licences terminated. Furthermore, if an enterprise has polluted and endangered the environment, it must bear the responsibility for remedying the danger and effects of the pollution, as well as compensate any losses or damages suffered as a result of such environmental pollution.

Prevention and Control of Atmospheric Pollution Law of the PRC (中華人民共和國大氣污染防治法)

Pursuant to the Prevention and Control of Atmospheric Pollution Law of the PRC (中華人民共和國大氣污染防治法) revised and adopted at the 15th Meeting of the Standing Committee of the Ninth National People's Congress of the PRC on 29 April 2000 and with effective on 1 September 2000, new construction projects, expansion or reconstruction projects which discharge atmospheric pollutants shall be governed by the regulations concerning environmental protection.

- An environmental impact statement (the "**Statement**") on the project to be constructed shall include an assessment of the atmospheric pollution the project is likely to produce, its impact on the ecological environment and the corresponding measures for prevention and control. The Statement shall be submitted, according to the specified procedure, to the administrative department in charge of environmental protection for examination and approval.

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- When a construction project is to be put into operation or to use, its facilities for the prevention of atmospheric pollution must be checked and accepted by the administrative department in charge of the environmental protection. If a construction project does not fulfill the requirements specified in the regulations concerning environmental protection, it shall not be permitted to put into production or to use.
- Units that discharge atmospheric pollutants must, pursuant to the provisions of the administrative department in charge of environmental protection under the State Council, report to the local administrative department in charge of environmental protection its existing discharge and treatment facilities for pollutants and the varieties, quantity and density of pollutants discharged under normal operation conditions, and provide the relevant technical data concerning the prevention and control of atmospheric pollution.

Prevention and Control of Water Pollution Law of the PRC (中華人民共和國水污染防治法)

Pursuant to the Prevention and Control of Water Pollution Law of the PRC (中華人民共和國水污染防治法) which was adopted at the 32nd session of the Standing Committee of the tenth National People's Congress of the PRC on 28 February 2008 and came into force on 1 June 2008, discharge of water pollutants shall be within the state or local standards for the discharge of water pollutants and indicators for the total discharge control of major water pollutants.

- Enterprises and public institutions which directly or indirectly discharge industrial waste water or medical sewage to waters are required to obtain the pollutant discharge licences before discharging waste water and sewage water. The entities operating the centralized disposal facilities for city and town sewage shall acquire discharge licences as well.
- The specific measures and implementation steps for sewage discharge permission shall be prescribed by the State Council. All enterprises and public institutions are prohibited from discharging the industrial waste water and sewage to waters without the pollutant discharge licence.
- The buildings, renovations and enlargement of construction projects directly or indirectly discharging pollutants to waters and other water establishments shall be subject to environmental impact assessment.
- The facilities of the construction project for the prevention and control of water pollution shall be designed, constructed and put into service with the main work concurrently. The facilities for the prevention and control of water pollution shall be checked and accepted by the competent department of environmental protection; where the facilities turn out to be unqualified upon examination, the construction project shall not be put into production or service.

The Policy on Natural Gas Utilisation

The Policy on Natural Gas Utilisation (the “**Policy**”) issued by NDRC on 30 August 2007 sets out the following restricted industrial catalogues of natural gas usage for those enterprises using natural gas in their chemical production:

1. expansion projects using natural gas as raw materials and the projects of synthetic ammonia using natural gas as raw materials instead of coal in the established synthetic ammonia factories (已建的合成氨廠以天然氣為原料的擴建項目、合成氨廠煤改氣項目);
2. C1 chemical projects using methane as raw materials whose first products including acetylene, choromethane and etc. (以甲烷為原料，一次產品包括乙炔、氯甲烷等的碳一化工項目); and
3. newly established synthetic ammonia projects using natural gas as raw materials (新建以天然氣為原料的合成氨項目).

The Policy further sets out the following prohibited industrial catalogue of natural gas usage for enterprises whose chemical production activities are based on natural gas:

1. newly established or expansion projects for producing methanol by natural gas (新建或擴建天然氣制甲醇項目); and
2. projects for producing methanol by natural gas instead of coal (以天然氣代煤制甲醇項目).

Our PRC legal advisers, Haihua Yongtai Law Firm, confirmed that there are no related regulations in the PRC prohibiting or restricting the enterprises using coal as raw material in the chemical productions.

Preferential Policies and Regulations on China’s Fertiliser Industry

As fertilisers are important agricultural materials and play a vital role in China’s agriculture industry, the PRC government has implemented a series of economic and regulatory measures to promote the production, trade and usage of fertilisers to ensure sufficient supplies of fertilisers in the domestic market with stable prices at affordable levels for local farmers.

Preferential policies for the production and transportation of fertilisers

— VAT Exemption

On 20 July 2001, the Ministry of Finance PRC and the State Administration of Taxation jointly promulgated the “*Notice of Value Added Tax Exemption Policies on Agricultural Production Materials*” (《關於若干農業生產資料徵免增值稅政策的通知》). According to the Notice, the following fertilisers were exempted from VAT since 20 July 2001: (a) all nitrogen fertilisers except urea, (b) all phosphate fertilisers except diammonium phosphate (as DAP), (c) potash, and (d) compound fertilisers which mainly use VAT-exempted fertiliser as raw materials. Urea producers would enjoy 100% VAT rebate in 2001 and 50% VAT refund starting from 2002.

PRC REGULATORY OVERVIEW

On 23 May 2005, the Ministry of Finance PRC and the State Administration of Taxation jointly promulgated the “*Notice of Provisional Exemption of VAT on Urea Products*” (《關於暫免徵收尿素產品增值稅的通知》). Urea producers have begun to enjoy full VAT exemption since 1 July 2005.

— *Preferential Electricity Rates*

On 21 December 2003, the NDRC increased electricity rates for commercial and industrial users by RMB8 cents per Kwh while keeping the rates for fertiliser producers unchanged.

On 26 March 2004, NDRC promulgated the “*Notice of Reinforcing Supervision Over Fertiliser Prices*” (《關於進一步加強化肥價格監管的通知》), requesting provincial development and reform commissions and pricing bureaus to implement preferential electricity rates for fertiliser producers. In May 2005, the Development and Reform Commission of Henan Province promulgated the “*Notice of Strengthening Administration over Preferential Electricity Rates for Fertiliser Production*” (《關於加強化肥生產優惠電價管理的通知》), reaffirming the implementation of preferential electricity rates to fertiliser producers in Henan Province.

On 29 June 2008, the NDRC promulgated the “*Notice of Increment of Electricity Price of Central China*” (《關於提高華中電網電價的通知》) that the scope would exclude the electricity price of household, agriculture and manufacture of fertiliser.

On 18 November 2009, the NDRC further promulgated the “*Notice of Adjustment of Electricity Price of Central China*” (《關於調整華中電網電價的通知》), to increase the electricity in Central China including Henan Province.

According to CNCIC Report, China’s fertiliser producers currently enjoy preferential electricity rates, which are approximately RMB10–30 cents per KWh lower than that charged on other normal industrial users.

— *Preferential Railway Freight Rates*

On 30 June 2004, the NDRC and the Ministry of Railways PRC jointly promulgated the “*Notice of Reaffirming Preferential Railway Freight Rates for Fertiliser Transportation*” (《關於進一步明確農用化肥鐵路運價優惠政策的通知》), publishing the catalogue of fertiliser products eligible for preferential freight rates (《實行鐵路優惠運價的農用化肥品種目錄》) and authorizing provincial price supervisory authorities to work out the details of preferential freight rates.

According to the latest railway freight rate list (鐵路貨物運價率表) promulgated by Ministry of Railways PRC on 23 June 2008, the railway car load rates (整車運價) comprise two components: a fixed base rate so called Base Price I (基價1) and a variable rate upon the mileage so called Base Price II (基價2). Base Price I for fertiliser was RMB4.40 per ton compared to RMB5.70 per ton for other normal goods and Base Price II for fertiliser was RMB0.0305 per ton-kilometer compared to RMB0.0336 per ton-kilometer for other normal goods.

— *Preferential natural gas prices for natural gas based fertiliser producers*

China’s natural gas based urea producers have been enjoyed preferential natural gas prices. On 8 November 2007, NDRC published the “*Notice of Natural Gas Prices Adjustment*” (《關於調整天然氣價格有關問題的通知》), by which the gas prices for normal industrial users were increased by RMB400 per 1,000 m³ of natural gas, while the gas prices for fertiliser producers and residential users remained unchanged.

PRC REGULATORY OVERVIEW

On 30 August 2007, NDRC promulgated the “*Policies on Natural Gas Utilisation*” (《天然氣利用政策》), which defined the central government’s policies on how to optimise the utilisation of natural gas in future by classifying the utilisation fields into four categories, namely encouraged items, permitted items, restricted items and prohibit items. New natural gas based ammonia facilities were classified as a restricted item, which were only allowed where (i) there was excess natural gas supply after taking into account encouraged projects and permitted projects, or (ii) local natural gas supply could not be transported to other regions. Existing coal-based ammonia facilities were prohibited from transforming to natural gas based ones. The government also reiterated its commitment in ensuring stable natural gas supply for existing natural gas based fertiliser facilities in the long term.

Price control on fertilisers

On 17 November 2004, NDRC, joined with Ministry of Finance, Ministry of Agriculture, Ministry of Commerce and State Administration of Taxation, which issued the “*Notice on Perfecting Production, Supplying of Fertiliser and Enforcing the Administration on Fertiliser Prices*” (《關於做好化肥生產供應工作加強價格監管的通知》) to impose strict control over fertiliser prices. The national government guide ex-factory price of urea had been raised to RMB1,500 per ton from RMB1,400 per ton since 1998 for large nitrogen producers with annual capacity of more than 300,000 tons with upward limit for urea price adjustment of 10%. Since 1 January 2006, the NDRC and Ministry of Finance PRC continued to set guiding ex-factory price for large nitrogen producers with annual capacity of more than 300,000 tons while relaxing the upward price increase limit from 10% to 15%.

On 24 January 2009, the NDRC and Ministry of Finance PRC jointly promulgated the “*Notice Regarding Reform of Fertiliser’s Pricing Policies*” (《關於改革化肥價格形成機制的通知》) to remove the price control on nitrogen and phosphate fertilisers and allow the market to determine their prices.

Tariffs on import and export of fertilisers

The PRC government has actively implemented comprehensive measures to adjust the import and export of fertilisers and their raw materials.

On 16 March 2004, the PRC government announced to remove the VAT rebate and impose tariffs on export of urea so as to ensure sufficient domestic urea supply.

From 1 January 2005 to 31 May 2005, export tariff on urea was RMB260 per ton. From 1 June 2005 to 31 October 2005, export of urea was subject to a tariff rate of 30%. From 1 November 2005 to 31 December 2005, export tariff on urea was reduced to 15%.

From 1 January 2007 to 30 September 2007, urea export had been imposed by a tariff of 30%; and from October to December, the urea export tariff was subject to 15%.

At the beginning of 2008, the base tariff for urea export was set at 30% from January to March, 35% from April to September and 25% from October to December. On 20 April 2008, the Ministry of Finance PRC imposed an additional special tariff of 100% on urea export in order to stabilise domestic urea price when overseas urea prices had soared driven by oil and gas prices. On 30 August 2008, the Ministry of Finance PRC increased the special tariff from 100% to 150% to further control urea export. However, as the overseas fertiliser prices started to drop since September, on 13 November 2008, the Ministry of Finance PRC announced the reduction of

PRC REGULATORY OVERVIEW

export tariffs on urea with effect from 1 December 2008. Special tariff for urea was cut from 150% to 75% only for peak seasons, and base tariffs were set at 35% for peak seasons and 10% for low seasons. Thus urea's total export tariff, including both base tariff and special tariff, was reduced from 185% to 110% during peak seasons and from 25% to 10% during low seasons. Peak seasons for urea are defined as (i) from February to June and (ii) from 1 September to 15 November.

State Fertiliser Reserve System

The PRC central government has started to build up fertiliser reserve system by purchasing fertilisers from selected producers since 2004 with initial reserve at state level totalling around 6 million tons. On 12 January 2005, the NDRC and the Ministry of Finance PRC jointly promulgated "*Administrative Measures on Commercial Fertiliser Reserve during Low Seasons*" (《化肥淡季商業儲備管理辦法》).

On 18 May 2009, the State Council announced "*Reorganization and Stimulus Package for Petrochemical Industry*" (《石化產業調整和振興規劃》), reiterating the government's determination to further develop stockpiling system for chemical fertilisers at both state level and local level, to better regulate fertiliser supplies through lull and peak seasons.

China's state reserve of fertilisers was estimated to be approximately 11 million tons at the end of 2008, increased by approximately 3 millions tons as compared to the prior year.

HISTORY AND CORPORATE STRUCTURE

HISTORY

Our Company was incorporated in Singapore as a limited company on 17 July 2006, in anticipation of our listing on the SGX-ST. We operate our business through, Henan XLX Fertiliser, our wholly-owned subsidiary in the PRC. For details of our corporate structure, please refer to the paragraph headed “Corporate structure” in this section.

Our fertiliser business can be traced back to 1970 when Xinxiang Factory was established as a state-owned enterprise in Xinxiang, Henan Province. On 18 August 2003, XLX Chem was established as a private enterprise with a registered capital of RMB25,426,000 to acquire the fertiliser business and relevant assets of Xinxiang Factory as a management buyout led by Mr. Liu. The consideration for the acquisition of the fertiliser business and relevant assets of Xinxiang Factory was RMB31,421,251.52, which was determined with reference to the net assets value of Xinxiang Factory as shown in an asset valuation report dated 10 March 2003 issued by Henan Jianghe Accountancy Firm Co., Ltd. (河南江河會計師事務所有限責任公司). On 14 July 2003, Xinxiang County State-owned Assets Management and Administration Bureau (新鄉縣國有資產經營管理局) confirmed the consideration for such acquisition and allowed XLX Chem to settle the consideration within 8 years upon its establishment. The aforesaid consideration was paid out of the proceeds generated from operations of XLX Chem and was settled in full, partly in cash and partly offset by payment for purchase of vehicles and other equipment for and on behalf of Xinxiang Factory, in 2007. As advised by our PRC legal advisers, Haihua Yongtai Law Firm, the aforesaid consideration was fully settled in 2007 in compliance with the PRC laws and regulations as well as the requirements prescribed by the local government in respect of such management buyout. At the time of the management buyout, XLX Chem had 45 registered shareholders, including Mr. Liu, Ms. Yan and Mr. Li Buwen, our executive Directors; Mr. Ru Zhentao, Mr. Li Yushun, Mr. Wang Nairen and Mr. Zhang Qingjin, our senior management; 24 of our current employees; 10 of XLX Chem’s current employees; and the remaining 4 registered shareholders are the past employees of XLX Chem Group who now do not hold any positions in our Group or XLX Chem Group. The 45 registered Shareholders held the entire equity interest in XLX Chem for their respective own benefits and on trust for approximately 600 beneficiaries, among whom were mainly employees and a small number of customers and suppliers of Xinxiang Factory. As confirmed by the Directors, the reasons for setting up the trust were to simplify the shareholding structure of XLX Chem and to centralise the management and operation of XLX Chem, as well as to comply with the relevant PRC laws and regulations since a PRC domestic company with limited liability shall not have more than 50 shareholders under the PRC Companies Law at that time. As advised by our PRC legal advisers, Haihua Yongtai Law Firm, the said trust arrangement was valid and legally binding on the parties under the PRC laws and regulations.

In July 2006, our Company was incorporated in Singapore, in which 55% of the equity interest was held by Pioneer Top and the remaining 45% of the equity interest was held by Go Power. At that time, the entire share capital of Pioneer Top was held by Mr. Liu for his own benefit and on trust for 7 beneficiaries under Trust Agreement 1, where the entire share capital of Go Power was held by Ms. Yan for her own benefit and on trust for 1,464 beneficiaries under Trust Agreement 2. At the time of incorporation of our Company, the ultimate Shareholders under the Trust Agreement 1 and the Trust Agreement 2 were the same as the ultimate shareholders of XLX Chem. As confirmed by the Directors, the reason for setting up these two trusts was to simplify the shareholding structure of Pioneer Top and Go Power and to centralise the management and operation of the two companies. As advised by our PRC legal advisers, Haihua Yongtai Law Firm, the Trust Agreement 1 and Trust Agreement 2 were valid and legally binding on the parties under the PRC laws and regulations. Please refer to the paragraph headed “Corporate Structure” in this section for details of the Trust Agreement 1 and Trust Agreement 2.

HISTORY AND CORPORATE STRUCTURE

For the purpose of restructuring of the Group and in preparation of our listing on the SGX-ST, Henan XLX Fertiliser was established in the PRC on 24 July 2006 and was wholly owned by XLX Chem with a registered capital of RMB107,570,000. By way of contributing to the registered capital of Henan XLX Fertiliser, XLX Chem transferred the principal business of production and sales of urea, compound fertiliser and methanol, as well as selected assets and liabilities relating thereto to Henan XLX Fertiliser, but excluding (i) land use rights relating to the land at Xinxiang Economic and Technology Development Zone, Xiaoji Town, Henan Province, PRC (Production Plant I), and the buildings located thereon and certain vehicles; and (ii) land use rights relating to the land at Xinxiang Economic and Technology Development Zone, Qing Long Road Central, Henan Province, PRC (Production Plant II), and the building located thereon and equipment. The aforesaid business and assets were valued at approximately RMB107,570,000, which was determined with reference to the net assets value of the fertiliser business with the selected assets and liabilities relating thereto as shown in an independent valuation report dated 21 July 2006 issued by Henan Yucai Assets Evaluation Co., Ltd. (河南豫財資產評估有限公司).

Our Directors considered that as Henan XLX Fertiliser was newly established in July 2006 and that the acquisition of the land use rights relating to the Production Plant I and Production Plant II would bring heavy financial burden on to our Group, therefore it would be better to acquire the aforesaid land use rights upon our Group had sufficient funds. In this regard, we entered into a lease agreement dated 1 August 2006 relating to the lease of the land use rights, buildings and vehicles of Production Plant I (the “**Lease I**”) with a term commencing on 1 August 2006, and a lease agreement dated 15 September 2006 relating to the land use rights, buildings and vehicles of Production Plant II (the “**Lease II**”) with a term commencing on 15 September 2006, with XLX Chem. Both Lease I and Lease II were supplemented by an agreement dated 1 January 2007 respectively. The annual rental payments under Lease I and Lease II were approximately RMB2.2 million and RMB41.5 million respectively, which were determined with reference to the fair market price of these assets as at 30 November 2006 as shown in an independent valuation report dated 25 December 2006 issued by Henan Guanghua Accountancy Firm Co., Ltd. (河南光華會計師事務所有限公司). Both Lease I and Lease II were terminated on 10 October 2007. For the year ended 31 December 2006 and 2007, the aggregate annual rental payments under both Lease I and Lease II was approximately RMB13.2 million and RMB34.4 million respectively.

According to Lease I and Lease II, Henan XLX Fertiliser was granted an option to acquire the land use rights, the buildings and vehicles of Production Plant I and the land use rights, buildings and equipment of Production Plant II. The option was exercised in August 2007 by entering of an asset acquisition agreement with XLX Chem on 14 August 2007 for purchasing the land use rights, buildings, vehicles and equipment for Production Plant I and Production Plant II from XLX Chem at a total consideration of approximately RMB210 million. The aforesaid consideration was determined with reference to the net asset value of these assets as at 31 December 2006 as shown in an independent valuation report dated 25 January 2007 issued by Henan Guanghua Accountancy Firm Co., Ltd.. The acquisition was completed in October 2007, and the consideration was settled in cash from the net proceeds of the initial public offering of our Company in Singapore in 2007. Pursuant to the aforesaid asset acquisition agreement, XLX Chem agreed to provide a loan of a maximum amount equivalent to the total amount of the consideration, by way of entrusted loan, at the option of Henan XLX Fertiliser. Accordingly, Henan XLX Fertiliser had entered into two entrusted loan agreements dated 8 January 2008 and 21 January 2008 respectively with XLX Chem and Industrial and Commercial Bank of China Limited (Henan Branch), by which XLX Chem provided the entrusted loans in a total amount of RMB90 million to Henan XLX Fertiliser through Industrial and Commercial Bank of China Limited (Henan Branch) for financing the construction of Production Plant III. Our Directors confirm that such entrusted

HISTORY AND CORPORATE STRUCTURE

loan was entered into among the parties on an arm's length basis, which has been granted with a favourable interest rate in domestic banks and is no less favourable than the normal commercial terms available to our Group. Our Directors confirm that the principal loan, together with the interest due to XLX Chem, under the two entrusted loan agreements, was fully repaid and settled in May 2009.

As part of the restructuring, our Company acquired from XLX Chem, in accordance with a share transfer agreement dated 24 July 2006, the entire equity interest in Henan XLX Fertiliser for the consideration of US\$13.5 million which was fully paid in cash at the end of December 2006. The consideration for transfer of the entire equity interest in Henan XLX Fertiliser was determined based on an independent valuation report dated 21 July 2006 issued by Henan Yucai Assets Evaluation Co., Ltd. Pursuant to an approval dated 28 July 2006 issued by Commerce Department of Henan Province, Henan XLX Fertiliser was converted into a wholly foreign-owned enterprise owned by our Company and its registered capital was then converted to US\$13.5 million, and its business scope included production and sales of urea, compound fertiliser, methanol, liquid ammonia and ammonia solution, and conducting businesses relating to the import and export of goods. At the time of the transfer of Henan XLX Fertiliser from XLX Chem to our Company, the ultimate beneficial owners of our Company were identical to those of XLX Chem.

Prior to our listing on the SGX-ST, we entered into a convertible loan agreement on 16 October 2006 (the "**Convertible Loan Agreement**") with certain investors who were independent third parties at the material time, by which the investors agreed to grant our Company a loan facility of an aggregate amount of US\$7.12 million in consideration for a right to convert the full sum of such loan into fully paid ordinary shares of the Company. The Convertible Loan Agreement was supplemented by the deed of ratification and accession dated 12 December 2006. On 11 May 2007, the investors exercised their conversion rights in full and 175,680,000 fully paid Shares (representing approximately 21.96% of the then total issued Shares of the Company) were allotted and issued to the investors or their respective nominees. The investors included Alamo Assets Limited, Asean China Investment Fund L.P., Aventures 1 Pte. Ltd., Chua Beng Huat, OCBC Capital Investment Private Limited, Portchester Asset Management Limited, SkyVen Growth Capital Fund Pte. Ltd., Sunny Asia Holdings Limited and Tan Keh Poo. As at the Latest Practicable Date, none of the investors or their respective nominees held more than 5% or more of the total issued Shares in the Company. Our Directors confirm that the investors are independent third parties.

On 20 June 2007, our Shares were listed on the SGX-ST. We allotted and issued a total of 200,000,000 new Shares (representing 20% of the then total issued Shares of the Company) to members of the public at a price of S\$0.77 per Share and received net proceeds of approximately S\$141.5 million from the initial public offering in Singapore. We used part of the net proceeds to acquire the land use rights relating to the land at Xinxiang Economic and Technology Development Zone, Xiaoji Town, Henan Province, PRC, and the buildings located thereon, and land use rights relating to the land at Xinxiang Economic and Technology Development Zone, Qing Long Road Central, Henan Province, PRC, and certain vehicles and equipment from XLX Chem and to construct new power generating systems for use in our production plants.

Our PRC legal advisers, Haihua Yongtai Law Firm, confirmed that with regard to the Notice on Relevant Issues Concerning Foreign Exchange Administration for the PRC Residents to Engage in Financing and Inbound Investment through Overseas Special Purposes Vehicles (《國家外匯管理局關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》), Mr. Liu and Ms. Yan, as the PRC residents, have completed their registration with the local SAFE in respect of (a) their direct or indirect ownership of our Shares, through Pioneer Top and Go

HISTORY AND CORPORATE STRUCTURE

Power respectively, and (b) their ownership of our Shares on behalf of a total of 1,470 beneficial owners, who are also the PRC residents, under Trust Agreement 1 and Trust Agreement 2 respectively.

Our PRC legal advisers, Haihua Yongtai Law Firm, further confirmed that our Group is not subject to the restrictions and supervision under the Provisions Regarding Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》) promulgated on 8 August 2006 (the “**M&A Regulations**”) in respect to our listing on the SGX-ST and the Stock Exchange, for the reason that the acquisition of equity interests in Henan XLX Fertiliser by our Company has been completed before the implementation of the M&A Regulations.

Our PRC legal advisers, Haihua Yongtai Law Firm, further confirmed that our production and sales of urea, compound fertiliser, methanol, liquid ammonia and ammonia do not fall under the “restricted” or “prohibited” industry under the Catalogue for Guidance for Foreign Investment Industries (《外商投資產業指導目錄》).

BUSINESS MILESTONES

The following are the key milestones in the development of our business:

- July 2006 — the Company was incorporated in Singapore under the Singapore Companies Act as a private limited company under the name of “Xin Lian Xin Holdings Pte. Ltd”.
- July 2006 — Henan XLX Fertiliser was established and obtained approval from Commerce Department of Henan Province to operate as a wholly foreign-owned enterprise.
- September 2006 — our Production Plant II started its trial production.
- January 2007 — our aggregate production capacity increased to approximately 680,000 tons of urea, approximately 300,000 tons of compound fertiliser and approximately 100,000 tons of methanol, per annum.
- February 2007 — the name of our Company was changed to “China XLX Fertiliser Pte. Ltd.”.
- May 2007 — the name of our Company was changed to “China XLX Fertiliser Ltd.”.
- June 2007 — our Shares were listed on the SGX-ST.
- August 2007 — we acquired the land use rights, buildings, vehicles and equipment for Production Plant I and Production Plant II from XLX Chem at a total consideration of approximately RMB210 million. The consideration of such acquisition was determined with reference to the net asset value of these assets as at 31 December 2006 as shown in an independent valuation report dated 25 January 2007 issued by Henan Guanghua Accountancy Firm Co., Ltd.. The consideration was settled in cash from the net proceeds of the initial public offering of our Company in Singapore in 2007. Such acquisition was completed in October 2007.

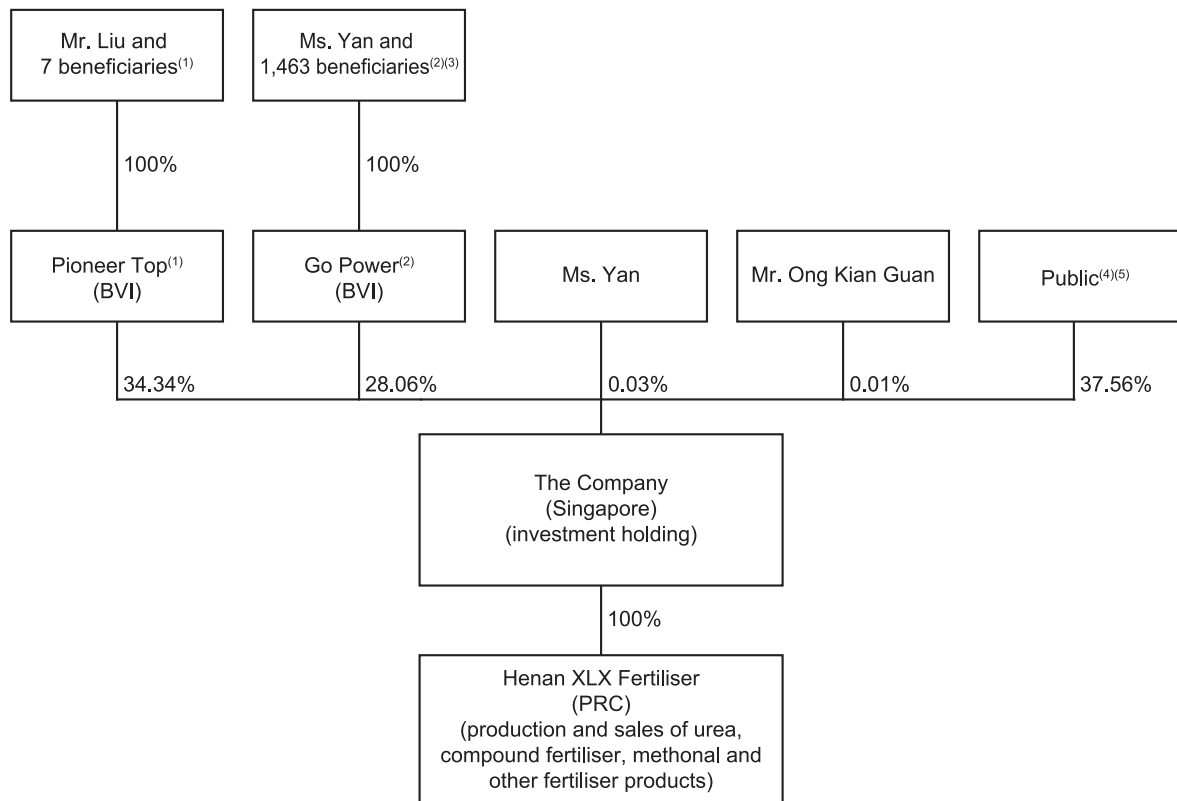
HISTORY AND CORPORATE STRUCTURE

- October 2007 — we were shortlisted as one of the “Most Transparent Company Award” by Securities Investors Association (Singapore).
- November 2007 — we were awarded “Henan 100 Most Important Industrial Enterprises” by the Henan Provincial Government.
- February 2008 — our new power generating systems for production plants were completed.
- April 2008 — we commenced construction of Production Plant III.
- February 2009 — we commenced construction of a new compound fertiliser production line in Production Plant II and estimated that our production capacity of compound fertiliser to increase by 300,000 tons per annum upon completion of the new production line.
- April 2009 — the construction of Production Plant III was completed and the trial operation commenced. Upon completion of the trial production in July 2009, we have applied for the examination and acceptance approval in accordance with the PRC laws and regulations and expect such approval will be granted by the end of 2009. Our aggregate production capacity will increase to approximately 1.25 million tons of urea, approximately 600,000 tons of compound fertiliser and approximately 200,000 tons of methanol, per annum.

HISTORY AND CORPORATE STRUCTURE

CORPORATE STRUCTURE

The chart below illustrates the corporate and shareholding structure of our Group immediately following the Listing:



Notes:

- (1) Pioneer Top is an investment holding company incorporated in the BVI, which holds approximately 34.34% of the total issued Shares of the Company. According to Trust Agreement 1, Mr. Liu beneficially owns approximately 42% of the equity interest in Pioneer Top and holds approximately 58% of the equity interest in Pioneer Top on trust for 7 beneficiaries, including approximately 16% for Mr. Li Buwen, our executive Director; approximately, 7% for Mr. Li Yushun, 7% for Mr. Ru Zhengtao, 7% for Mr. Wang Nairen and 7% for Mr. Zhang Qingjin, our senior management; and approximately, 7% for Mr. Zhu Xingye and 7% for Mr. Shang Dewei, our employees.

Furthermore, pursuant to Trust Agreement 1, the beneficiaries shall have the rights to any dividends declared by Pioneer Top in proportion to his/her beneficial interest. Each of the beneficiaries shall have the right to sell any part of his/her beneficial interest in Pioneer Top to the other existing beneficiaries, and before he/she can offer such beneficial interest to any third party which the other beneficiaries shall have the first right of refusal to acquire such beneficial interest. Mr. Liu is irrevocably granted the absolute discretion to exercise the voting rights and day-to-day management rights in Pioneer Top. The term of the Trust Agreement 1 is 10 years with effect from 26 July 2006.

- (2) Go Power is an investment holding company incorporated in the BVI, which holds approximately 28.06% of the total issued share capital of the Company. According to the Trust Agreement 2, Ms. Yan beneficially owned approximately 12.92% of the equity interest in Go Power and held approximately 87.08% of the equity interest on trust for a total of 1,464 beneficiaries, comprising of current and past employees, as well as past and present customers or suppliers, of our Group. By the Go Power Trust Confirmation, it is confirmed that as at 16 June 2009, Ms. Yan owned approximately 12.73% of the equity interest in Go Power and held approximately 87.27% of the equity interest in Go Power on trust for 1,464 beneficiaries under the Trust Agreement 2.

HISTORY AND CORPORATE STRUCTURE

The terms of the Trust Agreement 2, which are amended and confirmed under the Go Power Trust Confirmation, are:

- (a) The beneficiaries are entitled to any dividend declared by Go Power in proportion to their respective beneficial interest in Go Power;
 - (b) Ms. Yan is irrevocably granted the absolute discretion to exercise the voting rights and day-to-day management rights in Go Power;
 - (c) The beneficiaries may transfer or disposal of their beneficial interests in the Go Power upon such terms and conditions as Ms. Yan may consider fit and in compliance with the relevant laws;
 - (d) Ms. Yan retains absolute control of all the trust assets and proceeds from the disposal of such assets on trust for the beneficiaries; and
 - (e) The term of the Trust Agreement 2 is 10 years with effect from 26 July 2006.
- (3) In April 2009, the 7 corporate beneficiaries under Trust Agreement 2, being our past and present customers or suppliers, have transferred their respective equity interest in Go Power to 7 individuals respectively. The aggregate percentage of shareholding being transferred was approximately 1.44% of the entire equity interest in Go Power. In August 2009, with a beneficiary's instruction pursuant to the Trust Agreement 2, Ms. Yan in her capacity as the trustee has sold 320,000 Shares, representing approximately 0.03% of the total issued Shares of our Company, on the market, and returned the net proceeds from the sale of shares to that beneficiary.

As at the Latest Practicable Date, the 1,463 beneficiaries under Trust Agreement 2 were not our Directors or senior management, and have not been and will not be involved in the decision making of our Group's management and operation. Among these 1,463 beneficiaries, over 1,000 of them were independent of each others, while the remaining beneficiaries belonged to different family groups where no single family group held more than 0.6% of the total issued Shares of our Company.

As at the Latest Practicable Date, Ms. Yan beneficially owned approximately 12.74% of the equity interest in Go Power and held approximately 87.26% of the equity interest in Go Power on trust for 1,463 beneficiaries under the Trust Agreement 2.

- (4) As at 14 October 2009, the aggregate percentage of shareholding held by the investors or their respective nominees under the Convertible Loan Agreement in our Company was approximately 10.55%. Details of their respective shareholding in our Company are set out in the table below:

<u>Name of investors</u>	<u>No. of Shares held as at 14 October 2009</u>	<u>Approximately the issued Shares in our Company as at 14 October 2009</u>
Exquisite Essence Limited	18,193,000	1.82%
Kenmoore Mezzanine Investments Limited	30,000,000	3.00%
Seacrest Pacific Ltd.	24,160,000	2.42%
Sunny Asia Holdings Limited	33,100,000	3.31%

Mr. Chua Beng Huat was one of the investors under the Convertible Loan Agreement, and for the purpose of the Convertible Loan Agreement, was investing in our Company on behalf of Exquisite Essence Limited, Kenmoore Mezzanine Investments Limited and Seacrest Pacific Ltd. Our Directors confirm that the abovenamed investors are independent third parties of our Group and they are also independent of each other. As at the Latest Practicable Date, apart from the abovementioned investors, the other investors, namely Alamo Assets Limited, Asean China Investment Fund L.P., Aventures 1 Pte Ltd, Portchester Asset Management Limited, SkyVen Growth Capital Fund Pte. Ltd. and Tan Keh Poo did not hold any Shares.

- (5) As at the Latest Practicable Date and immediately upon Listing, the number of Shares held by the public is 375,600,000 Shares which is approximately 37.56% of the total issued Shares of our Company.

OVERVIEW

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

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

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

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

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

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

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

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

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

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

COMPETITIVE STRENGTHS

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

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

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

High profitability resulting from our cost effectiveness leadership

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

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

Strategic locations to raw material suppliers and customers

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

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

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

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

Our experienced and competent management team

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

BUSINESS STRATEGIES

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

Self-development and expansion of our production capacity

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

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

Developing our business through vertical business integration

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

Expanding our business through horizontal integration

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

Expanding the business of compound fertiliser

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

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

Improvement of internal management

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

PRODUCTS**Urea**

Urea is an organic compound with the chemical formula $(\text{NH}_2)_2\text{CO}$ and is also known by the International Nonproprietary Name (rINN) carbamide. Urea is, in essence, a waste product of protein catabolism, which is found in and extracted from urine. Urea is used as a nitrogen-release fertiliser and has the highest nitrogen content of more than 46%. Therefore, it has the lowest transportation costs per unit of nitrogen nutrient. Because of no occurrence of soil hazards by using urea, urea is one of the most popular nitrogen nutrients for farmers. Urea is commercially produced from two raw materials, namely ammonia and carbon dioxide. The production of urea from ammonia and carbon dioxide takes place in an equilibrium reaction under high temperature and pressure. According to different uses, urea can be produced as prills, granules, flakes, pellets, crystals, and solutions. Prilled urea and granular urea are commonly used as fertilisers. In order to enhance the efficiency of the fertilisers, functional urea is widely used.

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



Compound Fertiliser

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

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

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



Methanol

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

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

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

Others (comprising liquid ammonia and ammonia solution)

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

PRODUCTION

Production Facilities and Capacities

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

BUSINESS

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

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

Notes:

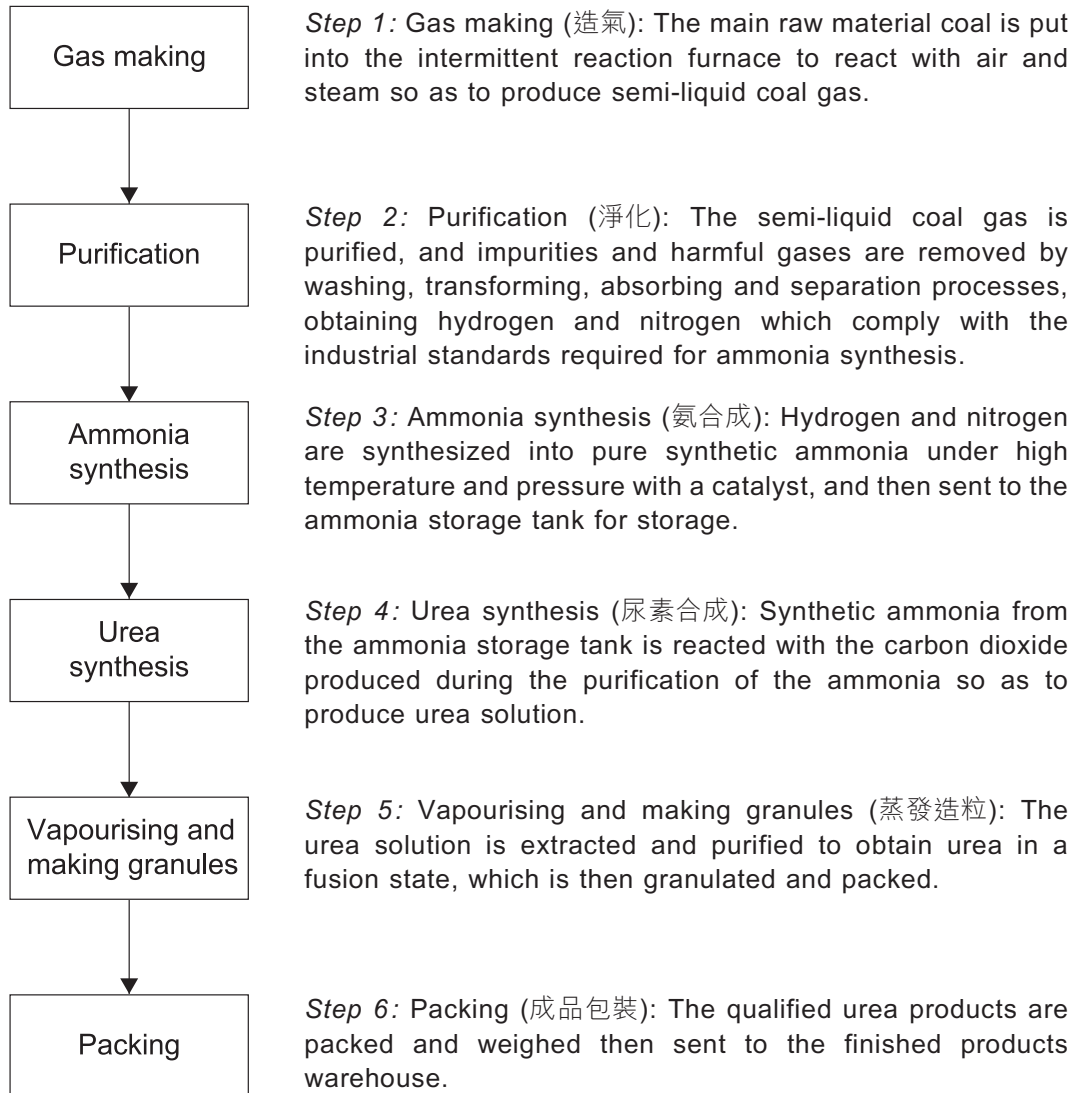
- (1) The trial operation of our Production Plant II commenced in 2006.
- (2) Utilisation rate refers to the percentage of actual production volume over design annual production capacity. According to the CNCIC Report, the design annual production capacity in the industry norm in China for the fertiliser industry is measured at daily production capacity multiplied by 340 days per year.
- (3) Utilisation rate refers to the percentage of actual production volume over design annual production capacity. Based on (2) above, the design annual production capacity in the industry norm in China for the fertiliser industry is measured at daily production capacity multiplied by 28.33 days per month.

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

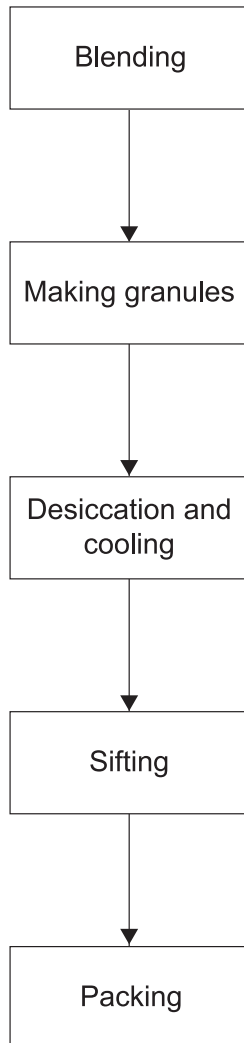
Production Process

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

(i) *Urea*



(ii) *Compound Fertiliser*



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

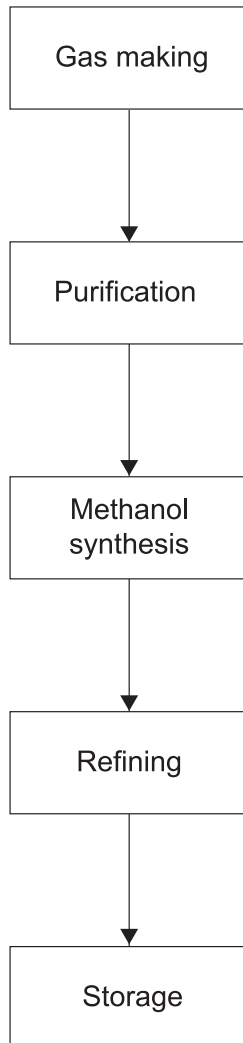
Step 2: Making granules (造粒): The raw materials are crushed, mixed together and granulated within a fluid mixture formed by carbamide, steam and water. The granules are then sent to the dryer by conveyor belt.

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

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

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

(iii) *Methanol*



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

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

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

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

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

BUSINESS

Production technology

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

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

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Notes:

- (1) By a technology development contract dated 26 November 2007 between Henan XLX Fertiliser and Sichuan Tianyi Science & Technology Co., Ltd. ("**Sichuan Tianyi**"), an independent third party, Sichuan Tianyi agreed, among other things, to provide us with the technology and technical services including design, specification and installation of carbon dioxide removal by pressure swing adsorption technology for our production facilities, as well as to provide the technical training to our technical staff. The consideration under the technology development contract was RMB200,000 and the installation of the aforesaid technology was completed in April 2008.
- (2) Henan XLX Fertiliser and Hunan Anchun Hi-Technology Co., Ltd. ("**Hunan Anchun**"), an independent third party, entered into a technology agreement on 27 November 2007, by which Hunan Anchun agreed to provide technology and technical advisory services, including design of ammonia synthesis and alcohol alkylation system for our production facilities, at a consideration of RMB760,000. Under the aforesaid technology agreement, the process design of ammonia synthesis and alcohol alkylation system shall be kept confidential by both parties.
- (3) Henan XLX Fertiliser and Hunan Anchun entered into a transfer of technology (patent licensing) agreement dated 7 March 2008, by which Henan XLX Fertiliser was granted a licence to use the patents of water tube isothermal methanol reactor for our methanol production facilities from 7 March 2008 to the expiry of the patents, at a consideration of RMB500,000. Hunan Anchun also provided the process design of such technology to us, and we shall be refrained from transferring or disclosing the process design and technology specification to any third parties.
- (4) By a no padding cooling tower purchase agreement dated 25 March 2008 between Henan XLX Fertiliser and Jiangxi Wuleng Technology Co., Ltd. ("**Jiangxi Wuleng**"), an independent third party, Jiangxi Wuleng agreed to provide the process design and specification of no padding cooling tower to Henan XLX Fertiliser at a consideration of RMB970,000. Jiangxi Wuleng also assisted Henan XLX to install the no padding cooling tower to our production facilities. Under the aforesaid purchase agreement, Henan XLX Fertiliser shall be refrained from disclose the process design of no padding cooling tower to any third parties.
- (5) By a supply agreement dated 8 June 2008, Henan XLX Fertiliser and Luoyang Longhua Cold Air Equipment Co., Ltd. ("**Luoyang Longhua**"), an independent third party, Luoyang Longhua agreed to supply the evaporative condenser to us and to provide equipment installation advisory services at a consideration of RMB4,056,000.
- (6) By a supply agreement dated 7 December 2008, Henan XLX Fertiliser and Luoyang Qiangsheng Electrical Appliance Co., Ltd. ("**Luoyang Qiangsheng**"), an independent third party, Luoyang Qiangsheng agreed to supply the shockwave ash blowing equipment to us, as well as to provide equipment installation advisory services at a consideration of RMB660,000.
- (7) Xinxiang Xinhua Electric Supply Station entered into a purchase contract of equipment with Henan XLX Fertiliser on 16 December 2008, by which Xinxiang Xinhua Electric Supply Station will provide us with 3 sets of power conservation apparatus at a total consideration of RMB555,000.

QUALITY CONTROL

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

BUSINESS

We have adopted the following quality management and control systems:

- Raw materials: we perform quality control inspections on the raw materials and purchase from the pre-selected suppliers who are able to provide us with high quality coal that enables us to achieve optimal extraction of coal gas used for our production.
- Process control: we have well-trained management and operating personnel to optimise operation efficiency and stabilise the production output and quality.
- Testing and inspection: we have testing appliances at every stage of our production process. Our quality inspection team performs random tests on both intermediate and finished products on a sample basis to ensure that the products comply with the required standards. Testing processes include checking the physical appearance and composition of nutrients.
- Packaging and storage: we adopt systematic package and storage procedures in order to ensure proper packaging and avoid any damages to our fertiliser products during storage in our warehouses.

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

RAW MATERIALS, ENERGY AND SUPPLIERS

Raw Materials

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

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

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

Energy

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

BUSINESS

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

Suppliers

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

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

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

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

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SALES, CUSTOMERS AND MARKETING

Sales

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

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

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

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

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

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

Customers and Sales Channel

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

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

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

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

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

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

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

Marketing

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

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

RESEARCH AND DEVELOPMENT

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

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

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

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

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

COMPETITION

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

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

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

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

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AWARDS AND ACCREDITATIONS

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

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

INVENTORY CONTROL

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

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

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

INSURANCE AND PRODUCT LIABILITY

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

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

OCCUPATIONAL HEALTH AND SAFETY

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

(i) Formulation and implementation of safety policies

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

a. Occupational safety regulations

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

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

b. Accident prevention and management regulations

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

c. Machinery and equipment regulations

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

(ii) Strengthening employees' safety awareness and education

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

(iii) Organising various activities relating to work safety

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

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

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

Xinxiang Factory's incident in 2001

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

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

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

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

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

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

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

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

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

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

ENVIRONMENTAL MATTERS

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

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

Waste water

Waste water is generated during the production process in our production plants. We have adopted different processes to minimise the waste water generated in our production plants. Furthermore, we are equipped with online monitoring facilities to control the chemical oxygen demand (COD) and ammonia (NH₃-N) in discharged waste water.

Waste gas

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

Solid waste

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

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

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

EMPLOYEES AND STAFF TRAINING

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

1. Military oriented training is provided to each of our new employees to ensure that they are familiar with our policies, safety measures as well as basic technical skills and knowledge.
2. We periodically provide technical skills training to each of our employees in the production department to improve their knowledge in relation to new technologies and mechanical manipulations.
3. We provide occupational safety lessons to each of our manufacturing staff.
4. We encourage our senior managerial staff to attend management courses organised by universities in China including the Business Management Program of Tsinghua University. The expenses in respect of our staff training rendered in the years ended 31 December 2006, 2007 and 2008, and the seven months ended 31 July 2009 were approximately RMB680,000, RMB2,020,000, RMB1,960,000 and RMB1,385,000 respectively.

INFORMATION TECHNOLOGY SYSTEMS

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

PROPERTIES

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

INTELLECTUAL PROPERTY

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

LEGAL COMPLIANCE AND PROCEEDINGS

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

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

RELATIONSHIPS WITH THE CONTROLLING SHAREHOLDERS AND XLX CHEM GROUP

CONTROLLING SHAREHOLDERS

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

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

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

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

RELATIONSHIPS WITH THE CONTROLLING SHAREHOLDERS AND XLX CHEM GROUP

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

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

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

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

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

RELATIONSHIPS WITH THE CONTROLLING SHAREHOLDERS AND XLX CHEM GROUP

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

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

Management independence

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

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

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

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

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

RELATIONSHIPS WITH THE CONTROLLING SHAREHOLDERS AND XLX CHEM GROUP

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

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

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

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

Business independence

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

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

RELATIONSHIPS WITH THE CONTROLLING SHAREHOLDERS AND XLX CHEM GROUP

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

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

Financial independence

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

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

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

RELATIONSHIPS WITH THE CONTROLLING SHAREHOLDERS AND XLX CHEM GROUP

NON-DISPOSAL UNDERTAKING

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

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

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

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

RELATIONSHIPS WITH THE CONTROLLING SHAREHOLDERS AND XLX CHEM GROUP

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

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

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

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

NON-COMPETITION UNDERTAKING

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

RELATIONSHIPS WITH THE CONTROLLING SHAREHOLDERS AND XLX CHEM GROUP

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

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

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

CONNECTED TRANSACTIONS

CONNECTED TRANSACTIONS

We have entered into certain transactions with the parties who are the connected persons and these transactions will continue following the Listing, thereby constituting one-off connected transactions and continuing connected transactions of the Group under the Listing Rules.

Connected persons

Pioneer Top, Go Power, Mr. Liu and Ms. Yan

Pioneer Top and Go Power own approximately 34.34% and 28.06% of the total issued Shares of the Company respectively. Therefore, our Controlling Shareholders, namely Pioneer Top and Go Power, are our connected persons under Rule 14A.11(1) of the Listing Rules.

Mr. Liu and Ms. Yan are our executive Directors. Furthermore, Mr. Liu beneficially owns approximately 42% of the equity interest in Pioneer Top and holds approximately 58% of the equity interest in Pioneer Top on trust for 7 beneficiaries, while Ms. Yan beneficially owns approximately 12.74% of the equity interest in Go Power and holds approximately 87.26% of the equity interest on trust for a total of 1,463 beneficiaries. Furthermore, Ms. Yan is interested in approximately 0.03% of the total issued shares of the Company. Therefore, Mr. Liu and Ms. Yan are our connected persons under Rule 14A.11(1) of the Listing Rules. For details of the shareholding structure of each of XLX Chem, Pioneer Top and Go Power, please refer to the section headed “History and corporate structure” in this document.

XLX Chem Group

For the purpose of restructuring of our Group and in anticipation of our listing on SGX-ST, at the time of incorporation of Henan XLX Fertiliser, XLX Chem transferred its principal business of production and sales of urea, compound fertiliser, methanol, liquid ammonia and ammonia solution, as well as the assets and liabilities of the related business to Henan XLX Fertiliser, and they retained the business of producing and trading of equipment, chemical products, gas and raw materials, and provision of hotel and catering services.

Currently, Mr. Liu, Ms. Yan and Mr. Li Buwen hold an aggregate of approximately 17.5% interest in XLX Chem, where their respective shareholdings are the largest in XLX Chem. Accordingly, they have the largest influence through their shareholders’ rights in the major decisions in XLX Chem. Therefore, XLX Chem, its subsidiaries and associates are deemed as our connected persons under Rule 14A.11(4)(a) of the Listing Rules. XLX Chem Group is also deemed as our “interested person” in accordance with the Listing Manual in Singapore.

CONNECTED TRANSACTIONS

Continuing connected transactions between the Group and XLX Chem Group

Upon the listing of the Shares on the Stock Exchange, the transactions set forth below will constitute continuing connected transactions (as such term is defined under the Listing Rules) for our Group:

<u>Type of transactions</u>	<u>Applicable Listing Rules</u>	<u>Waiver sought</u>	<u>Historical amounts</u>	<u>Proposed annual caps</u>
I Continuing connected transaction which is exempt from the reporting, announcement and independent shareholders' approval requirements				
A. Framework agreement for provision of calibration and testing services (the "Calibration and Testing Services Framework Agreement")	Rules 14A.33	Not applicable	Approximately RMB0.3 million, RMB0.07 million, RMB0.08 million and RMB0.04 million for three years ended 31 December 2008 and seven months ended 31 July 2009	RMB0.1 million; RMB0.1 million; and RMB0.1 million for three years ended 2011
B. Framework agreement for provision of lifting services (the "Lifting Services Framework Agreement")	Rules 14A.33	Not applicable	Nil for the year ended 31 December 2006, approximately RMB0.8 million, RMB1.0 million and RMB1.5 million for two years ended 31 December 2008 and seven months ended 31 July 2009	RMB1.8 million, RMB1.8 million and RMB1.8 million for three years ended 2011
II Continuing connected transactions which are subject to the reporting and announcement but exempt from the independent shareholders' approval requirements				
A. Framework agreement for supply of water, electricity and steam (the "Utilities Supply Framework Agreement")	Rules 14A.34 and 42	Exemption from the announcement disclosure requirements	Approximately RMB2.1 million, RMB2.7 million, RMB2.7 million and RMB1.4 million for three years ended 31 December 2008 and seven months ended 31 July 2009	RMB3 million, RMB3 million and RMB3 million for three years ended 2011
B. Framework agreement for purchase of equipment (the "Equipment Purchase Framework Agreement")	Rules 14A.34 and 42	Exemption from the announcement disclosure requirements	Approximately RMB3.3 million, RMB2.7 million, RMB15.1 million and RMB5.2 million for three years ended 31 December 2008 and seven months ended 31 July 2009	RMB10 million, RMB14 million and RMB14 million for three years ended 2011

CONNECTED TRANSACTIONS

I Continuing connected transactions which are exempt from the reporting, announcement and independent shareholders' approval requirements

The following connected transaction will constitute exempted connected transaction for the Group under Rule 14A.33(3) of the Listing Rules and accordingly, will be exempt from the reporting, announcement and independent shareholders' approval requirements stipulated under the Listing Rules. The following transactions are undertaken on an arm's-length basis and on normal commercial terms or terms more favourable to the Group and the percentage ratios (other than the profit ratio) of the following transaction on an annual basis is less than 0.1% or if more than 0.1% but less than 2.5% and the annual consideration is less than HK\$1.0 million.

A. Calibration and Testing Services Framework Agreement

Pursuant to the Calibration and Testing Services Framework Agreement dated 20 October 2009 between Henan XLX Fertiliser and XLX Chem, Henan XLX Fertiliser has agreed to provide the calibration and testing services to XLX Chem Group for a term commencing from the date of the Calibration and Testing Services Framework Agreement to 31 December 2011.

Based on the historical amounts receivable from the XLX Chem Group for providing the calibration and testing services for the three years ended 31 December 2008 and the seven months ended 31 July 2009 which were RMB0.3 million, RMB0.07 million, RMB0.08 million and RMB0.04 million respectively, our Directors estimate the annual caps for the Calibration and Testing Services Framework Agreement and the transactions contemplated thereunder for each of three years ended 31 December 2011 will be RMB0.1 million, RMB0.1 million and RMB0.1 million respectively.

As the total annual amounts payable by XLX Chem Group to us pursuant to the Calibration and Testing Services Framework Agreement in aggregate will be less than HK\$1.0 million, they fall within the de minimis threshold under Rule 14A.33 of the Listing Rules and hence are exempt from the reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

B. Lifting Services Framework Agreement

We have entered into the Lifting Services Framework Agreement dated 20 October 2009 with XLX Chem Group, pursuant to which XLX Chem Group has agreed to provide lifting services to us on an as-need basis. We have been using the lifting services provided by XLX Chem Group since 2007 as with regard to the lifting service providers in the areas near the Group's production base, only the machineries and equipment of XLX Chem Group are capable to provide the lifting services required for our production and operation. In addition, the close proximity between our production base and the lifting service centre of XLX Chem Group enables their lifting equipment and machineries to reach our production base promptly upon our requests.

Based on our historical expenditure for lifting services provided by XLX Chem Group were approximately RMB0.8 million, RMB1.0 million and RMB1.5 million respectively for each of the years ended 31 December 2007 and 2008 and the seven months ended 31 July 2009. We did not incur any expenditure for lifting services in 2006. The fluctuations in historical expenditure were a direct reflection and result of the fluctuations in sale volume of the Group in corresponding years during the Track Record Period.

CONNECTED TRANSACTIONS

Our Directors believe that the annual aggregate payment to be paid by the Group to XLX Chem Group in relation to provision of lifting services from XLX Chem Group under the Lifting Services Framework Agreement for the three years ending 31 December 2011 will be RMB1.8 million, RMB1.8 million and RMB1.8 million respectively. We estimate the annual caps based on the historical transaction values, maintenance and expansion of our existing production plants and instruction of our new compound fertiliser production line.

The Lifting Services Framework Agreement will expire on 31 December 2011 and is automatically renewable for further periods of no more than three years subject to compliance with the applicable provisions of each of the Listing Rules and the Listing Manual, unless it is terminated earlier by either party giving three months' prior written notice. Our Directors are of the view that the transactions are carried out on normal commercial terms.

As the percentage ratios (other than the profits ratio) in respect of the transactions contemplated under the Lifting Services Framework Agreement, based on the annual cap is, on an annual basis, expected to be less than 0.1%, they fall within the de minimis threshold under Rule 14A.33 of the Listing Rules and hence they are exempt from the reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

II Continuing connected transactions which are subject to the reporting and announcement but exempt from the independent shareholders' approval requirements

The following connected transactions will constitute continuing connected transactions for the Group under Rule 14A.34 of the Listing Rules and accordingly, will be subject to the reporting and announcement requirements but exempt from the independent shareholders' approval requirements stipulated under the Listing Rules. Each of the following transactions is undertaken on an arm's-length basis and on normal commercial terms or terms more favourable to our Group and the percentage ratios (other than the profit ratio) of each of the following transactions on an annual basis is less than 2.5% or if more than 2.5% but less than 25% and the annual consideration is less than HK\$10.0 million.

A. Utilities Supply Framework Agreement

We have entered into the Utilities Supply Framework Agreement dated 20 October 2009 with XLX Chem Group, pursuant to which we have agreed to supply water, electricity and steam to XLX Chem Group. The utilities facilities were built at our premises, which the utilities accounts have been registered under Henan XLX Fertiliser. Our Directors confirm that the registration of utilities accounts cannot be transferred, as the utilities facilities are installed at our premises. The independent dedicated lines, pipes and conduits were installed to deliver water, electricity and steam to XLX Chem Group, and the independent meters for them were also installed to monitor their utilisation rate and actual consumption of utilities. Such installation was made long before the Track Record Period.

The supply of water, electricity and steam is not our principal business, which no significant profit is contributed to us from supplying the water, electricity and steam to XLX Chem Group.

CONNECTED TRANSACTIONS

Pricing basis

The pricing of supply of utilities will be determined by the following principles:

- (a) the price as set out in accordance with the regulations of the PRC government or the relevant authority; or
- (b) if no such price is set by the PRC government or the relevant authorities, the price of supply of utilities will be based of the following, whichever is the lower:
 - (i) the market price in accordance with paragraph (c) below; or
 - (ii) the price as agreed between the parties under the Utilities Supply Framework Agreement, and such agreed price shall not be more than the actual costs of supplying the utilities in the latest year plus a profit margin of an agreed rate (which shall not be more than the rate of the gross domestic product of Henan Province) of such costs; or
- (c) the market price, which shall be determined on normal commercial terms or no less favourable than the terms offered by independent third parties in Henan Province.

Currently, in terms of electricity supply, the price is determined on the basis of usage rate as recorded in the relevant meters with reference to the price set out by the government. In terms of supply of water and steam, the price is determined on the basis of usage rate as record in the relevant meters with reference to the actual costs plus a profit margin of 10% over the actual costs in order to cover the maintenance and repairing costs, labour costs and management fees.

Regarding the supply of electricity, we issue an invoice to XLX Chem Group on a monthly basis, and pay the amount for the portion of electricity consumed by XLX Chem Group to the respective electricity suppliers once we collect the payment from XLX Chem Group. For the supply of water and steam, we also issue invoices to XLX Chem Group on a monthly basis.

Historical figures

For each of the years ended 31 December 2006, 2007 and 2008 and the seven months ended 31 July 2009, the aggregate amount paid by XLX Chem Group to the Group in relation to the supply of water, electricity and steam were approximately RMB2.1 million, RMB2.7 million, RMB2.7 million and RMB1.4 million respectively.

CONNECTED TRANSACTIONS

Annual caps

Our Directors believe that the annual aggregate payment to be paid by XLX Chem Group to our Group in relation to the supply of water, electricity and steam under for the three years ending 31 December 2011 will be RMB3 million, RMB3 million and RMB3 million respectively. The proposed annual caps are determined with reference to the historical values of such transactions, the actual consumption of the utilities by XLX Chem Group for the past years and the costs incurred by us for provision of the utilities. The increase from the historical figures to the annual caps in relation to the supply of water, electricity and steam reflects the expansion of the operation of XLX Chem Group which will enable them to increase their production capacity and production volume, and consequently the consumption of utilities for their production and operation is expected to increase.

The Utilities Supply Framework Agreement will expire on 31 December 2011 and is automatically renewable for further periods of no more than three years subject to compliance with the applicable provisions of each of the Listing Rules and the Listing Manual, unless it is terminated earlier by either party giving three months' prior written notice. Our Directors are of the view that the transactions are carried out on normal commercial terms.

B. Equipment Purchase Framework Agreement

We have entered into the Equipment Purchase Framework Agreement dated 20 October 2009 with XLX Chem Group, pursuant to which XLX Chem Group has agreed to supply the equipment to our Group, including pipes, containers and high-pressure containers (collectively "**Equipment**"), for our production, repair and maintenance, on the terms no less favourable than those offered by any independent third parties. XLX Chem Group is one of our principal suppliers, and has a long business relationship with us, which they have provided a reliable and timely supply of the Equipment. Given that the close geographical location of the respective operations of the Group and XLX Chem Group, we also enjoy such benefits such as timely delivery and costs effectiveness.

Pricing basis

The pricing of purchase of Equipment will be determined by the following principles:

- (a) the price as set out in accordance with the regulations of the PRC government or the relevant authority; or
- (b) if no such price is set by the PRC government or the relevant authorities, the price of selling the Equipment will be based of the following, whichever is the lower:
 - (i) the market price in accordance with paragraph (c) below; or
 - (ii) the price as agreed between the parties under the Equipment Purchase Framework Agreement, and such agreed price shall not be more than the actual costs of selling the Equipment plus a margin of an agreed rate (which shall not be more than the rate of the gross domestic product of Henan Province) of such costs; or
- (c) the market price, which shall be determined on normal commercial terms no less favourable than the terms offered by independent third parties in Henan Province.

CONNECTED TRANSACTIONS

Currently, we will invite the equipment suppliers to bid for supply of Equipment for our projects through a tendering process. A potential supplier of Equipment must pass certain qualification procedures internally formulated by us based on qualifications, product quality and price in order to become a qualified supplier. We will enter into a purchase agreement with the successful bidder, and such purchase agreement will specify purchase details including product types and quantity, price and quality specifications. One of the bidders is Xinxiang Xinlianxin Chemical Equipment Co., Ltd., an associate of XLX Chem. In order to estimate the proposed annual caps for purchase of Equipment, we have taken into account our demand for the Equipment for the three years ending 31 December 2011 and have assumed that all the tenders submitted by Xinxiang Xinlianxin Chemical Equipment Co., Ltd. would be successful.

Our Directors confirm that the purchases of Equipment from XLX Chem Group were made in accordance with the qualification and bidding procedures and that the prices for such purchases were determined on arm's length basis and in line with normal commercial terms. Our Directors also believe that there is sufficient internal mechanism in place to ensure that the tendering process is conducted in a fair and open manner. The tendering process is supervised and monitored by our general managers in charge and technical personnel. There is no guarantee that a successful bidder in one particular tender will be selected in the next tender.

Historical figures

For each of the years ended 31 December 2006, 2007 and 2008 and the seven months ended 31 July 2009, the aggregate amount paid by Henan XLX Fertiliser to the XLX Chem Group in relation to purchase of the Equipment were approximately RMB3.3 million, RMB2.7 million, RMB15.1 million and RMB5.2 million respectively.

Annual Caps

Our Directors believe that the annual aggregate payment to be paid by Henan XLX Fertiliser to XLX Chem Group in relation to purchase the Equipment from XLX Chem Group under the Equipment Purchase Framework Agreement for the three years ending 31 December 2011 will be RMB10 million, RMB14 million and RMB14 million respectively. The proposed annual caps are determined with reference to the historical values, the prevailing market prices, expected growth in production and sales of our operation, maintenance of our three production plants and construction of our new compound fertiliser production line. Due to the construction and operation of our Production Plant III in 2009 and based on the current purchase plan, we expect that the annual purchase amount for 2009 to be around RMB10 million. As our Production Plant III only began its trial operation in April 2009, we expect that the demand to purchase Equipment would increase due to full year operations and would be around RMB14 million for each of the full years of 2010 and 2011 respectively.

The Equipment Purchase Framework Agreement will expire on 31 December 2011 and is automatically renewable for further periods of no more than three years subject to compliance with the applicable provisions of each of the Listing Rules and the Listing Manual, unless it is terminated earlier by either party giving three months' prior written notice. Our Directors are of the view that the transactions are carried out on normal commercial terms.

CONNECTED TRANSACTIONS

Confirmation from our Directors

In relation to the above non-exempt continuing connected transactions, each of the percentage ratios calculated by reference to Rule 14.07 of the Listing Rules, based on the relevant annual cap is, on an annual basis, expected to be less than 2.5%, or more than 2.5% but less than 25% and the annual consideration is less than HK\$10.0 million under Rule 14A.34 of the Listing Rules. Accordingly, each of the continuing connected transactions is exempt from the independent shareholders' approval requirement but is subject to the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Listing Rules.

Our Directors (including the independent non-executive Directors) confirm that each of the above continuing connected transactions is in the ordinary and usual course of our Group's business and is based on the arm's length negotiation and on normal commercial terms that are fair and reasonable and in the interest of our Shareholders as a whole. Our Directors further confirm that in arriving the proposed annual caps, we have taken into account (i) the historical amounts of each transaction with XLX Chem Group; (ii) our expected increase in demand for our products as a result of anticipated growth in fertiliser markets; and (iii) potential fluctuations in the prices of each product or service, and therefore consider that each of the proposed annual caps set forth above is fair and reasonable.

We have therefore made an application to the Stock Exchange for, and has been granted, a waiver from strict compliance with the disclosure requirements by way of announcement under Rule 14A.42 of the Listing Rules. In addition, we will comply with all applicable rules as prescribed under Chapter 14A of the Listing Rules unless specifically exempted.

Confirmation from the Sponsor

The Sponsor considers that:

- (i) the above continuing connected transactions have been entered in the ordinary and usual course of business of the Group on normal commercial terms that are fair and reasonable and in the interest of the Shareholders of the Company as a whole; and
- (ii) the annual caps set for the above continuing connected transactions are fair and reasonable.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

DIRECTORS

The Board consists of six Directors, three of whom are independent non-executive Directors.

The following table sets forth certain information relating to the Directors:

Executive Director

<u>Name</u>	<u>Age</u>	<u>Group Position</u>
Liu Xingxu	55	Chairman, executive Director and chief executive officer
Yan Yunhua	39	Executive Director and chief financial officer
Li Buwen	57	Executive Director

Independent non-executive Directors

<u>Name</u>	<u>Age</u>	<u>Group Position</u>
Ong Kian Guan	41	Lead independent non-executive Director
Li Shengxiao	47	Independent non-executive Director
Ong Wei Jin	43	Independent non-executive Director

Executive Directors

Liu Xingxu (劉興旭), aged 55, is the chairman of our Board, executive Director and chief executive officer, and is principally in charge of our Group's overall strategic direction as well as the management of our day-to-day business operations. Mr. Liu has approximately 15 years of experience in the chemical fertiliser industry. He is currently the Vice Chairman of China Nitrogen Fertiliser Industry Association (中國氮肥工業協會). Mr. Liu served in the military force of the PRC from 1972 to 1984, and held positions in various governmental bodies, such as advocacy officer of Xinxiang County's Discipline Inspection Commission, vice-mayor of Langgongmiao Town (朗公廟鄉) in Xinxiang County, mayor and deputy secretary of Chinese Communist Party Committee of Qiliying Town (七里營鄉) from 1984 to 1994. Mr. Liu was appointed the factory head of Xinxiang Factory, a state-owned enterprise, in charge of factory operations in 1994 and then became the general manager of XLX Chem from July 2003 to July 2006. He has been general manager of Henan XLX Fertiliser since July 2006. Mr. Liu was appointed as our executive Director on 26 July 2006. Mr. Liu did not hold any directorship with any other listed company in Hong Kong or elsewhere during the Track Record Period.

Mr. Liu graduated from Xinxiang Broadcasting and Television University (新鄉廣播電視大學) in July 1986 with a Diploma in Arts. In 2006, he completed EDP (Executive Development Programs) courses from Guanghua School of Management, Peking University (北京大學光華管理學院). In February 2003, Mr. Liu was awarded the "Provincial Safe Production Advanced Worker" (全省安全生產先進工作者) by Safe Production Supervision Bureau of Henan Province (河南省安全生產監督委員會) and Personnel Bureau of Henan Province (河南省人事局) for outstanding performance in safety work. In April 2004, he was awarded the "Henan Province Labour Model (Advanced Worker)" (河南省勞動模範(先進工作者)) and in 2005, he was awarded the "Henan Province Outstanding Private Enterprise Entrepreneur" (河南省優秀民營企業家) by the People's Government of Henan Province (河南省人民政府).

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Yan Yunhua (閻蘊華), aged 39, is our executive Director and chief financial officer, and is principally in charge of all financial matters within our Group. Ms. Yan has more than 14 years of accounting and finance experience. She joined Xinxiang Factory in December 1997 and held various positions in Xinxiang Factory, including the deputy head of finance division and the deputy chief accountant. She was the chief accountant in charge of finance of XLX Chem from 2003 to July 2006. She has been the deputy general manager of Henan XLX Fertiliser since July 2006. Ms. Yan was appointed as our executive Director on 10 November 2006. Ms. Yan did not hold any directorship with any other listed company in Hong Kong or elsewhere during the Track Record Period.

Ms. Yan obtained the accountant certification from the Ministry of Finance of the PRC in May 1997. She graduated from Xi'an Communications University (西安交通大學) in July 2003 with a degree in accountancy and obtained the senior accountant certification from Henan Province Accountant Series Senior Assessment Committee (河南省會計系列高評會) in December 2005. Ms. Yan obtained the EMBA (Executive Master of Business Administration) degree from Guanghua School of Management, Peking University in July 2009.

Li Buwen (李步文), aged 57, is our executive Director, and is principally in charge of the overall administrative functions of our Group. Mr. Li has more than 30 years of experience in chemical fertiliser industry. Mr. Li held various positions in Xinxiang Factory, including the deputy head of Xinxiang Factory. He was the deputy general manager in charge of administration department of XLX Chem from August 2003 to July 2006. He has been the deputy general manager of Henan XLX Fertiliser in charge of administrative matter since July 2006. Mr. Li was appointed as our executive Director on 10 November 2006. Mr. Li did not hold any directorship with any other listed company in Hong Kong or elsewhere during the Track Record Period.

Mr. Li obtained certification from the State Economic and Trade Commission Economic Cadre Training Centre (國家經濟貿易委員會經濟幹部培訓中心), National Enterprises Human Resource Management and Development (全國企業人力資源管理與開發) in May 2001 and certification from the Beijing Quality Association Quality Management Technical Services Centre Internal Quality System Inspector (北京質協質量管理技術服務中心內部質量體系審核員) in August 2005. As recognition of his contribution to the development of nitrogenous fertiliser industry, he was awarded the "Award of Excellence" by Nitrogenous Fertiliser Industrial Association (小氮肥工業協會) in February 1998.

Independent non-executive Directors

Ong Kian Guan (王建源), aged 41, has been appointed as our independent non-executive Director since 11 May 2007. Mr. Ong has been an audit partner with Baker Tilly TFWLCL since October 2005. He is also an independent director of three other companies listed in Singapore which includes JES International Holdings Limited, China Haida Ltd. and China Animal Healthcare Ltd. Save as disclosed above, Mr. Ong did not hold any directorship with any other listed company in Hong Kong or elsewhere during the Track Record Period.

Mr. Ong graduated from the Nanyang Technological University in Singapore with a bachelor of accountancy in May 1992.

Mr. Ong was appointed as our lead independent non-executive Director because the Singapore Code of Corporate Governance (the "**Singapore Corporate Governance Code**") issued by the SGX-ST provides that companies incorporated in Singapore may appoint an independent non-executive director to be the lead independent director while the chairman and

DIRECTORS, SENIOR MANAGEMENT AND STAFF

the chief executive officer is the same person. Given that Mr. Liu is both our chairman and the chief executive officer, Mr. Ong has been appointed as our lead independent non-executive Director. Based on the provisions of the Singapore Corporate Governance Code, the role of the lead independent non-executive director is to be available to shareholders when they have concerns which (i) cannot be resolved even after they have brought it to the attention of the chairman and chief executive officer; or (ii) are inappropriate to be brought to the attention of the chairman and chief executive officer of that company.

Li Shengxiao (李生校), aged 47, has been appointed as our independent non-executive Director since 11 May 2007. He has been a professor in Shaoxing Arts and Science College since November 2004 and is currently the dean of school of economics and management in Shaoxing Arts and Science College. Mr. Li has been the instructor of establishment of Zhejiang province small and medium enterprises in Zhejiang Province Small and Medium Enterprises Bureau (浙江省中小企業局) since October 2006. Mr. Li has been an independent non-executive director of Zhejiang Jinggong Technology (浙江精工科技), a company listed on the Shenzhen Stock Exchange since August 2006. Save as disclosed above, Mr. Li did not hold any directorship with any other listed company in Hong Kong or elsewhere during the Track Record Period.

Mr. Li graduated from Hangzhou University (杭州大學) (which is currently known as Zhejiang University currently (浙江大學)) in July 1987 with a graduation certificate in politics. He then obtained a master's degree in law from Hangzhou University in July 1990. He was awarded Zhejiang province high school outstanding youth teacher in September 1991.

Ong Wei Jin (王為仁), aged 43, has been appointed as our independent non-executive Director since 11 May 2007. He is a partner of Colin Ng & Partners, a firm of advocates and solicitors established in 1988 in Singapore. With his principle areas of practice in corporate finance and general corporate law, he also advises on securities regulatory and compliance issues for investment advisory and brokerage activities. He is an independent director of Luzhou Bio-chem Technology Limited and NTI International Limited companies listed on the SGX-ST. Save as disclosed above, Mr. Ong did not hold any directorship with any other listed company in Hong Kong or elsewhere during the Track Record Period.

Mr. Ong obtained a bachelor of laws from the National University of Singapore in 1990, a master of business administration from University of Hull in 1993, and a master of laws from the National University of Singapore in 1995. He was admitted as advocate and solicitor of the Supreme Court of Singapore in 1995.

SENIOR MANAGEMENT

<u>Name</u>	<u>Age</u>	<u>Group Position</u>
Ru Zhengtao . . .	53	Deputy general manager in charge of production department
Li Yushun	49	Deputy general manager in charge of research & development department
Wang Nairen . . .	46	Deputy general manager in charge of sales & purchasing department
Zhang Qingjin . .	43	Deputy general manager in charge of human resource department

Ru Zhengtao (茹正濤), aged 53, is the deputy general manager in charge of production department of Henan XLX Fertiliser. Mr. Ru has more than 30 years' experience in chemical fertiliser industry. He started his career with Xinxiang Factory in 1974 and held various positions

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including assistant to head of Xinxiang Factory, deputy head of Xinxiang Factory and head of nitrogen fertiliser plant of Xinxiang Factory. He was the deputy general manager of XLX Chem from July 2003 to July 2006. He has been the deputy general manager of Henan XLX Fertiliser since 31 July 2006.

Mr. Ru graduated from Zhengzhou Engineering College (鄭州工學院) with a tertiary certificate in March 1993. He was awarded the “Technological Reformation Results Third Prize for Reforming Urea Granule-making Nozzle to Produce Large Urea Granules” (“改造尿素造粒噴頭生產大顆粒尿素”技術革新成果三等獎) by Xinxiang Trade Union (新鄉市總工會), Xinxiang Science and Technology Committee (新鄉市科學技術委員會), Xinxiang Economic Committee (新鄉市經濟委員會) and Xinxiang Finance Bureau (新鄉市財政局) in February 1999.

Li Yushun (李玉順), aged 49, is the deputy general manager in charge of the R&D department of Henan XLX Fertiliser. Mr. Li has more than 20 years of experience in the chemical fertiliser industry. He joined Xinxiang Factory in August 1982 and was appointed as the deputy factory head of Xinxiang Factory in 1993. Mr. Li was the deputy general manager in charge of research and development department of XLX Chem from August 2003 to July 2006. He has been the deputy general manager of Henan XLX Fertiliser since 31 July 2006.

Mr. Li graduated from Zhengzhou Engineering College in July 1982 with a major in chemical technology. In 2004, he was awarded the First in Second Prize for Introducing and Second Development of Large-scale Mellow Alkylation Technology (大型醇化工藝引進與二次開發等級二等獎第一名), First in Third Prize for Introducing and Second Development of Large-scale PSA Decarbonization (大型變壓吸附 (PSA) 脫碳引進與二次開發等級三等獎第一名) and First in Third Prize for Adopting the Improved Water Solution Full Circulation Method Urea Technology to Expand Production and Reduce Wastage (採用改良水溶液全循環法尿素新工藝尿素擴產降耗改造等級三等獎第一名) by the People’s Government of Xinxiang (新鄉市人民政府). In November 2006, he was awarded the Second Prize in General Treatment and Environmental Protection Project for Zero Discharge of Waste water Produced in the Production of Nitrogen Fertiliser (氮肥生產污水零排放總和治理環保工程) by China Nitrogen Fertiliser Industry Association.

Wang Nairen (王乃仁), aged 46, is the deputy general manager in charge of the sales and purchasing department of Henan XLX Fertiliser. He has more than 20 years of experience in chemical fertiliser industry. He held various positions in Xinxiang Factory, including the office head of nitrogen fertiliser plant of Xinxiang Factory from March 1993 and the deputy head and assistant to head of Xinxiang Factory. Mr. Wang was the deputy general manager of sales and marketing department of XLX Chem from August 2003 to July 2006. He has been the deputy general manager of Henan XLX Fertiliser since 31 July 2006. Mr. Wang obtained a certificate of completion in master’s course of business administration from Tianjin Finance College (天津財經學院) in June 2002.

Zhang Qingjin (張慶金), aged 43, is the deputy general manager in charge of human resource department of Henan XLX Fertiliser since November 2006. He has over 20 years of experience in chemical fertiliser industry. Mr. Zhang joined Xinxiang Factory in July 1987 and held various positions, including unit head of equipment and facility department, unit head of production and technical unit and section head of equipment and facility upgrade and the department head of technical upgrade in Xinxiang Factory. He was appointed as the manager of the technical centre of XLX Chem from August 2003 to July 2006. Mr. Zhang was the manager of the technical centre of Henan XLX Fertiliser from July 2006 to November 2006. Mr. Zhang graduated from Zhengzhou Engineering College in July 1987 with a diploma in chemical

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equipment. He has completed chemical technology and instrument program from Zhengzhou University (鄭州大學) in July 2003 and modern project management for enterprise CEO program from Tsinghua University (清華大學) in 2004.

Mr. Zhang was awarded the Third in Second Prize for Introducing and Second Development of Large-scale Mellow Alkylation Technology (大型醇化工藝引進與二次開發等級二等獎第三名), Fourth in Third Prize for Introducing and Second Development of Large-scale PSA Decarburization and Fourth in Third Prize for Adopting the Improved Water Solution Full Circulation Method Urea Technology to Expand Production and Reduce Wastage (採用改良水溶液全循環法尿素新工藝尿素擴產降耗改造等級三等獎第四名) by the People's Government of Xinxiang in 2004.

JOINT COMPANY SECRETARIES

Cheah Soon Ann Jeremy, aged 34, has been our financial controller and one of the joint company secretaries since January 2007. Mr. Cheah has over 10 years of experience in finance management. Prior to joining us, he was employed as an assistant manager of finance department in mDR Limited, responsible for cash reporting and implementation of systems, applications and products in data processing (SAP) from August 2004 to November 2006, and was a senior officer of audit department in the Agency for Science, Technology and Research (A*STAR) in 2001 and as an audit assistant in Foo, Kon & Tan Grant Thornton in 1999.

Mr. Cheah was awarded as a chartered financial analyst by the Association for Investment Management and Research in September 2002 and has been a member of the Institution of Certified Public Accountants of Singapore since November 2002. Mr. Cheah graduated from the Nanyang Technological University in 1999 with a bachelor's degree in accountancy and from the University of Adelaide in 2008 with a master's degree in business administration.

Foo Soon Soo, aged 50, has been our joint company secretary since May 2007. Ms. Foo is also acting as the company secretary for various companies in Singapore, including Thomson Medical Centre Limited, Lee Metal Group Ltd, Colex Holdings Limited, AEI Corporation Ltd. and Bonvests Holdings Limited, Kim Eng Holdings Limited, Superbowl Holdings Limited, Vashion Group Ltd., Amara Holdings Limited, Multistar Holdings Limited, Gallant Venture Ltd., Addvalue Technologies Ltd., Sky One Holdings Limited, RSH Limited, Asiamedic Limited, Cortina Holdings Limited, Lereno Bio-Chem Ltd., China Bearing (Singapore) Ltd., Roxy-Pacific Holdings Limited, Pteris Global Limited, Jasper Investment Limited, Rotol Singapore Ltd. and Zingmobile Group Limited. Ms. Foo graduated from the National University of Singapore with a bachelor's degree in accountancy in May 1980 and University of London with a bachelor's degree of laws in August 1989. She was admitted fellow in April 1991 by the Institute of Chartered Secretaries and Administrators, London. In August 2004, she was admitted as fellow (FCPA) by the Institute of Certified Public Accountants of Singapore.

Wong Wai Han (黃慧嫻), aged 33, has been appointed as one of our joint company secretaries since 12 November 2009. Ms. Wong has been an associate in Li & Partners, our Hong Kong legal advisers, since September 2006. She has experience in corporate finance and compliances matters for the listed companies in Hong Kong. Ms. Wong obtained a bachelor of laws from City University of Hong Kong in 1998 and obtained the bachelor of laws in China from Tsinghua University in 2004. She was admitted as solicitor of the High Court of Hong Kong in 2001.

RULE 8.12 OF THE LISTING RULES

Rule 8.12 of the Listing Rules requires that a new applicant applying for a primary listing on the Stock Exchange must have a sufficient management presence in Hong Kong. This normally means that at least two of its executive directors must be ordinarily residents in Hong Kong. Since principal business operations and manufacturing facilities of our Group are primarily located in China, the senior management members of the Group are and will therefore continue to be based in China. At present, none of our executive Directors are Hong Kong residents or based in Hong Kong. The Company has applied to the Stock Exchange for a waiver from the strict compliance with the requirement under Rule 8.12 of the Listing Rules.

We have received from the Stock Exchange a waiver from compliance with Rule 8.12 of the Listing Rules subject to the following conditions:

- (a) we have appointed and will continue to maintain two authorised representatives pursuant to Rule 3.05 of the Listing Rules who will act as our principal communication channel with the Stock Exchange and will ensure that they comply with the Listing Rules at all times. We have appointed Ms. Wong Wai Han (“Ms. Wong”), one of our joint company secretaries, who is ordinarily resident in Hong Kong, and Ms. Yan as our two authorised representatives. Each of our authorised representatives will be available to meet with the Stock Exchange in Hong Kong within a reasonable period of time upon request and will be readily contactable by telephone, facsimile or e-mail. Each of our two authorised representatives has been duly authorised to communicate on our behalf with the Stock Exchange;
- (b) we have appointed a compliance adviser pursuant to Rule 3A.19 of the Listing Rules who will also act as our communication channel with the Stock Exchange. We have appointed First Shanghai Capital Limited as our compliance adviser;
- (c) both our authorised representatives have means to contact all members of the Board (including the independent non-executive Directors) promptly at all times as and when the Stock Exchange may wish to contact the members of the Board for any matters. We will implement a policy whereby (i) each Director will provide his or her mobile phone number, residential phone number, fax number and e-mail address to the authorised representatives; (ii) each executive Director will provide valid phone numbers or other means of communication to the authorised representatives before he or she is travelling outside the PRC; and (iii) each executive Director will provide his or her mobile phone number, office phone number, fax number and e-mail address to the Stock Exchange;
- (d) any meetings to be held as between the Stock Exchange and us could be arranged through our authorised representatives or compliance adviser, or directly with our Directors by a reasonable prior notice. We will inform the Stock Exchange promptly in the event of any change of our authorised representatives or compliance adviser in accordance with the Listing Rules; and
- (e) all executive Directors and independent non-executive Directors who are not ordinarily resident in Hong Kong have confirmed that they are holders of valid travel documents which allow them to visit Hong Kong and will be able to meet with the officers of the Stock Exchange within a reasonable period of time upon request.

RULE 8.17 OF THE LISTING RULES

Under Rule 8.17 of the Listing Rules, the company secretary of the issuer must be a person who is ordinarily resident in Hong Kong and has the requisite knowledge and experience to discharge the functions of the secretary of the issuer and who:

- (a) is an ordinary member of The Hong Kong Institute of Chartered Secretaries, a solicitor or barrister as defined in the Legal Practitioners Ordinance or a professional accountant as required under Rule 8.17(2) of the Listing Rules; or
- (b) is an individual who, by virtue of his academic or professional qualifications or relevant experience, is, in the opinion of the Hong Kong Stock Exchange, capable of discharging those functions as required under Rule 8.17(3) of the Listing Rules.

Our joint company secretaries, Mr. Cheah Soon Ann Jeremy (“**Mr. Cheah**”) and Ms. Foo Soon Soo (“**Ms. Foo**”) are ordinarily resident in Singapore and do not possess the qualification required under Rule 8.17(2) of the Listing Rules, and hence both Mr. Cheah and Ms. Foo do not meet the requirements under Rule 8.17(2) of the Listing Rules.

Having considered the rationale of Rule 8.17 of the Listing Rules, we acknowledge the importance of having a company secretary residing in Hong Kong and the qualification of the company secretary. Our Directors are of the view that Mr. Cheah and Ms. Foo are jointly suitable persons to act as company secretaries with their respective qualifications and experience. In view of this, we have put in place the following arrangements:

- (a) The Company has appointed Ms. Wong as a joint company secretary and one of the authorised representatives of the Company, who is ordinarily resident in Hong Kong and was admitted as solicitor of Hong Kong High Court in October 2001. Ms. Wong meets the requirements under 8.17 of the Listing Rules to assist Mr. Cheah and Ms. Foo so as to enable them to acquire the relevant experience in order to discharge the duties of a company secretary;
- (b) we will engage Li & Partners, the Company’s legal advisers on Hong Kong laws, to provide assistance to Mr. Cheah and Ms. Foo to discharge their duties and obligations as a company secretary. Li & Partners is a registered law firm in Hong Kong and will be engaged as our legal advisers on Hong Kong laws for a minimum period of three years commencing from the Listing Date;
- (c) Mr. Cheah and Ms. Foo will take external training courses provided by the Law Society of Hong Kong or any other professional bodies in order to acquire and understand the updated requirements and developments of the Listing Rules. Furthermore, Li & Partners will periodically provide a series of training courses to Mr. Cheah and Ms. Foo for any update of the Listing Rules as well as other relevant laws and regulations for a minimum period of three years; and
- (d) Upon the expiry of such three-year period as stated in paragraphs (a) to (c) above, we will evaluate the respective knowledge and experience of Mr. Cheah and Ms. Foo in order to determine whether the requirements as stipulated in Rule 8.17 of the Listing Rules can be satisfied.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Each of Mr. Cheah, Ms. Foo and Ms. Wong has provided valid phone numbers and email addresses to the Stock Exchange and will inform the Stock Exchange promptly in the event of any change of means of communications. Furthermore, in order to ensure effective communication between our company secretaries and the Stock Exchange, we have appointed Ms. Yan and Ms. Wong as our authorised representatives pursuant to Rule 3.05 of the Listing Rules, who will act as our principal communication channel with the Stock Exchange. Each of the authorised representatives will be available to meet with the Stock Exchange within a reasonable time frame upon request by the Stock Exchange and will be readily contactable by telephone or facsimile or email. We have also appointed First Shanghai Capital Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules, who will act as our principal communication channel with the Stock Exchange, in addition to our authorised representatives. The contact persons of our compliance adviser have provided their contact details to the Stock Exchange and will also be fully available to answer queries from the Stock Exchange.

We applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the requirements under Rule 8.17 of the Listing Rules.

DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION

Our executive Directors will receive salaries and benefits in kind relating to our performance. Our remuneration committee will regularly review and determine the remuneration and benefits in kind with reference to their respective duties, qualifications, experience and performance. Furthermore, our executive Directors will receive an annual incentive bonus on an annual basis (“**Incentive Bonus**”) according to the formula as set out below. If our executive Directors’ employment with the Company is less than a full financial year, the Incentive Bonus for that financial year shall be apportioned in respect of the actual number of days for their respective employment on the basis of a 365-day financial year. Mr. Liu will be entitled to 40% of the aggregate Incentive Bonus per financial year, while each of Ms. Yan and Mr. Li Buwen will be entitled to 30% of the aggregate Incentive Bonus per financial year respectively. “PBT” for the purposes of computing the Incentive Bonus means the consolidated audited profit before tax of our Group (before the Incentive Bonus and minority interests) for any financial year. The respective entitlement of our executive Directors to the Incentive Bonus will be: (i) if PBT is less than RMB150 million, no Incentive Bonus will be paid to Mr. Liu, Ms. Yan and Mr. Li Buwen; or (ii) 2% of PBT in excess of RMB150 million (inclusive) up to RMB200 million (exclusive); or (iii) 2.5% of PBT in excess of RMB200 million (inclusive) up to RMB250 million (exclusive); or (iv) 3.0% of PBT in excess of RMB250 million (inclusive).

The aggregate amounts of compensation (including fees, salaries, contributions to pensions schemes, housing allowances and other allowances and benefits in kind and discretionary bonuses) which were paid to our Directors in 2006, 2007 and 2008 were approximately RMB0.9 million, RMB8.8 million and RMB8.4 million respectively. The total estimated Directors’ remuneration for the year ending 31 December 2009 is approximately RMB3 million, excluding any Incentive Bonus.

The aggregate amount of salaries and other allowances and benefits in kind paid to our Group’s five highest paid individuals in 2006, 2007 and 2008 was approximately RMB1.3 million, RMB9.1 million and RMB8.8 million, respectively.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

STAFF

As at 31 December 2008, our Group had a total of 2,961 full-time employees. As at 31 July 2009, our Group had a total of 3,258 full-time employees. The following table shows a breakdown of employees of our Group by their functions as at that date:

	<u>No. of employees</u>
Sales and purchasing	216
Production	2,509
Research and development	91
Administration and quality assurance	430
Human resource and internal audit.	<u>12</u>
	<u>3,258</u>

THE GROUP'S RELATIONSHIP WITH STAFF

Our Group recognises the importance of having a good relationship with its employees. The remuneration payable to the employees includes salaries and allowances.

Our Group has not experienced any significant problems with its employees or disruption to its operations due to labour disputes, nor has it experienced any difficulties in the recruitment and retention of experienced staff. Our Directors believe that our Group has a good working relationship with its employees.

SOCIAL INSURANCES AND HOUSING FUNDS

For the year ended 31 December of 2006, 2007 and 2008, our Group made contributions to pension funds, medical insurance, unemployment insurance, work-related injury insurance (collectively, "**Social Insurance Funds**") for our employees in China. These contributions, which were funded from internal financial resources of our Group, are in compliance with the requirements of the relevant labour bureau and the relevant local governments in Xinxiang County, China. We have obtained confirmations from the relevant labour bureau that the relevant members of our Group have made all requisite Social Insurance Funds prior to the issuance of the confirmations and, as at the date of the relevant confirmation, had no outstanding liabilities.

As required by the Housing Funds Administration Centre of Xinxiang City, our Group has contributed to the housing provident funds for our employees since 1 January 2009. We have obtained the confirmations from the Housing Administration Centre of Xinxiang City that, our Group had paid all requisite housing provident funds, and had no outstanding liabilities, as at the date of such confirmations. Our PRC legal advisers, Haihua Yongtai Law Firm, confirmed that the Housing Funds Administration Centre of Xinxiang City is in charge of the administration and operation of the housing provident funds in the administrative region of county level, and accordingly our contribution to the housing provident funds administered by the Housing Funds Administration Centre of Xinxiang City since 1 January 2009 is in compliance with the applicable laws and regulations in the PRC and the Housing Funds Administration Centre of Xinxiang City has the authority to issue the confirmations to our Group.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Our Group's contributions to the various Social Insurance Funds during the Track Record Period amounted to approximately RMB4.0 million, RMB5.6 million, RMB8.3 million and RMB8.0 million, respectively.

STAFF REMUNERATION

Our Group determines our staff's remuneration based on factors such as qualifications and years of experience. During the Track Record Period, the staff costs of our Group (including Directors' and senior management's emoluments) were approximately RMB41.5 million, RMB77.9 million, RMB79.1 million and RMB53.7 million, respectively.

CORPORATE GOVERNANCE

We recognise the importance of corporate governance and importance of offering high standards of accountability to our Shareholders, and therefore have implemented the corporate governance model by setting up the Audit Committee, Remuneration Committee and Nomination Committee to enhance the long-term shareholder value.

Audit Committee

We have established an audit committee. At present, our audit committee consists of three members, namely Mr. Ong Kian Guan, Mr. Li Shengxiao and Mr. Ong Wei Jin. The audit committee is chaired by Mr. Ong Kian Guan.

The primary duties of the audit committee are mainly to review our material investment, capital operation and material financial system; to review our accounting policy, financial position and financial reporting procedures; to communicate with our external audit firms; to assess the performance of internal financial and audit personnel; to assess the internal control; and to report its findings to our Board.

Remuneration Committee

We have established a remuneration committee. At present, our remuneration committee consists of three members, namely Mr. Ong Wei Jin, Mr. Ong Kian Guan and Mr. Li Shengxiao. The remuneration committee is chaired by Mr. Ong Wei Jin.

The primary duties of the remuneration committee are mainly to review and determine the terms of remuneration packages, bonuses and other compensation payable to the Directors and other senior management.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Our remuneration committee is also responsible for the following:

- (a) in case of service contracts, to consider what compensation commitments the Directors' or executive officers' contracts of service, if any, would entail in the event of early termination with a view to be fair and avoid rewarding poor performance; and
- (b) in respect of such long-term incentive schemes (if any) including share schemes as may be implemented, to consider whether Directors should be eligible for benefits under such long-term incentive schemes.

Nomination Committee

We have established a nomination committee. At present, the nomination committee of the Company consists of three members, namely Mr. Li Shengxiao, Mr. Ong Wei Jin and Mr. Liu Xingxu. The nomination committee is chaired by Mr. Li Shengxiao.

The primary duties of the nomination committee are mainly to make recommendations to the Board on all board appointments, including re-nominations, having regard to the director's contribution and performance including, if applicable, as an independent non-executive Director, to determine annually whether or not a director is independent, to decide whether or not such director is able to and has been adequately carrying out his duties as director, to decide how the Board's performance may be evaluated and propose objective performance criteria.

COMPLIANCE ADVISER

We have appointed First Shanghai Capital Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the compliance adviser will advise us on the following matters:

1. the publication of any regulatory announcement, circular or financial report;
2. where a transaction, which might be a notifiable or connected transaction, is contemplated, including share issues and share repurchases; and
3. where the Stock Exchange makes an inquiry on us regarding unusual movements in the price or trading volume of the Shares.

The term of the appointment shall commence on the Listing Date and end on the date on which we distribute our annual report in respect of our financial results for the first full financial year commencing after the Listing Date.

SUBSTANTIAL SHAREHOLDERS

Our Directors confirm that each of the following persons will, immediately following completion of the Introduction, have beneficial interests or short positions in any of the Shares or underlying Shares which would be required to be disclosed to us and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the nominal value of the Shares carrying the right to vote in all circumstances at our general meetings:

<u>Name</u>	<u>Long/Short Position</u>	<u>Type of interest</u>	<u>Number of Shares</u>	<u>Approximate percentage of the issued Shares</u>
Pioneer Top	Long Position	Beneficial owner	343,376,000	34.34%
Mr. Liu ⁽²⁾	Long Position	Interest in a controlled corporation	343,376,000	34.34%
Li Buwen ⁽³⁾	Long Position	Interest in a controlled corporation	54,940,000	5.49%
Go Power ⁽⁴⁾	Long Position	Beneficial owner	280,624,000	28.06%
Ms. Yan ⁽⁵⁾	Long Position	Interest in a controlled corporation	280,624,000	28.06%
Ms. Yan	Long Position	Beneficial owner	300,000	0.03%

Notes:

- (1) Pioneer Top is an investment holding company incorporated in the BVI. Mr. Liu holds 100% equity interest in Pioneer Top, of which approximately 42% is held for his own beneficial interest and approximately 58% is held by him on trust for 7 beneficiaries under the Trust Agreement 1.
- (2) As Mr. Liu has the full discretion to exercise the voting rights in Pioneer Top, he is deemed to be interested in the 343,376,000 Shares owned by Pioneer Top by virtue of the SFO.
- (3) Pursuant to the Trust Agreement 1, Li Buwen, our executive Director, owns approximately 16% equity interest in Pioneer Top.
- (4) Go Power is an investment holding company incorporated in the BVI. Ms. Yan holds 100% equity interest in Go Power, of which approximately 12.74% is held for her own beneficial interest and approximately 87.26% is held by her on trust for 1,463 beneficiaries under the Trust Agreement 2.
- (5) As Ms. Yan has the full discretion to exercise the voting rights in Go Power in accordance with the Trust Agreement 2, she is deemed to be interested in the 280,624,000 Shares owned by Go Power by virtue of the SFO.

Save as disclosed above, our Directors confirm that they are not aware of any other person who will, immediately following the completion of the Introduction, have beneficial interests or short positions in any of the Shares or underlying Shares which would be required to be disclosed to us and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the nominal value of the Shares carrying the right to vote in all circumstances at our general meetings.

SHARE CAPITAL

Share Capital

All of the issued Shares of the Company comprise fully paid ordinary shares. Pursuant to the Singapore Companies (Amendments) Act 2005, companies incorporated in Singapore no longer have an authorised share capital and there is no concept of par value in respect of issued shares.

Details of Shares immediately after the Listing:

	<u>Number of Shares</u>
Issued and fully paid ordinary Shares	1,000,000,000

Assumptions

The above table takes no account of any Shares which may be allotted and issued or repurchased by the Company pursuant to the general mandates for the allotment and issue or repurchase of Shares granted to the Directors as described below.

Issuing Mandate

At the annual general meeting of the Company held on 27 April 2009, our Directors have been granted a general mandate to allot and issue the Shares not more than the sum of 50% of the total number of issued Shares excluding treasury shares, of which the aggregate number of Shares (including Shares to be issued in pursuance of Instruments (as defined in the Company's resolutions dated 27 April 2009) made or granted pursuant to the resolution) to be issued other than on a pro rata basis to Shareholders of the Company shall not exceed 20% of the total number of issued Shares excluding treasury shares. The 50% limit in the foregoing sentence may be increased to 100% for issues of Shares and/or Instruments by way of a renounceable rights issue where Shareholders of the Company are entitled to participate in the same on a pro rata basis.

The above mandate shall, unless revoked or varied by the Company at a general meeting, continue to be in force until the conclusion of the next annual general meeting or the date by which the next annual general meeting of the Company required by law to be held, whichever is the earlier.

For further details of this issuing mandate, see the paragraph headed "Resolutions of the Shareholders passed at the Company's general meetings on 27 April 2009 and 5 November 2009" in the section headed "Further information about the Company" in Appendix VI to this document.

Notwithstanding the above, it must be noted that the Listing Rules provide that the general mandate obtained from Shareholders in general meeting shall be subject to a restriction that the aggregate number of Shares allotted or agreed to be allotted under the general mandate must not exceed the aggregate of 20% of the existing issued share capital of the Company. Consequently, going forward, the Company will comply with the Listing Rules in relation to the issue of general mandate as the Listing Rules are generally more onerous than the Listing Manual in this aspect.

Repurchase Mandate

At an extraordinary general meeting of the Company held on 5 November 2009, resolutions of Shareholders were passed pursuant to which, amongst other things, the exercise by the Directors of the Company of all the powers of the Company to purchase or otherwise acquire the Shares not exceeding in aggregate 10% of the total number of issued Shares of the Company at the date of grant of such repurchase mandate, at such price or prices as may be determined by the Directors from time to time up to the price (excluding brokerage, commissions, stamp duties,

SHARE CAPITAL

applicable goods and services tax and other related expenses) which shall not exceed (i) in the case of a market purchase, one hundred and five per cent. (105%) of the average closing market price of the Shares transacted on the SGX-ST over the last five (5) market days (on which transactions in the Shares are recorded) immediately preceding the date of the market purchase by the Company; and (ii) in the case of an off-market purchase, one hundred and twenty per cent. (120%) of the highest price a Share is transacted on the SGX-ST on the market day (when transactions in the Shares are recorded) immediately preceding the date on which the Company announces an off-market purchase offer stating the purchase price and the relevant terms of the equal access scheme.

The repurchase mandate shall, unless revoked or varied by the Company at a general meeting, continue to be in force until the conclusion of the next annual general meeting or the date by which the next general meeting of the Company is required by law to be held, whichever is the earlier.

The repurchase mandate was made in accordance with the Listing Manual. In the event that the Company shall purchase its own shares after Listing, it is required to comply with the more onerous requirements under both the Listing Rules and the Listing Manual.

For further details of this repurchase mandate, see the paragraph headed “Resolutions of the Shareholders passed at the Company’s general meetings on 27 April 2009 and 5 November 2009” in the section headed “Further information about the Company” in Appendix VI to this document.

Rule 9.09 of the Listing Rules

Pursuant to Rule 9.09 of the Listing Rules, each of the Directors and the chief executive(s) of the Company, each of the directors and chief executive(s) of the Company’s subsidiary and the connected persons of the Company and its subsidiary have undertaken with the Company that, he/she/it shall not, and shall procure his/her/its associates not to deal in any securities of the Company from time to time of submission of the formal application for the Listing until the Listing is granted.

Rule 10.07 and Rule 10.08 of the Listing Rules

We have applied for and have been granted waivers from the Stock Exchange in relation to the strict compliance with Rules 10.07 and 10.08 of the Listing Rules. Please refer to the paragraph headed “Issuance of securities and non-disposal of Shares” in the section headed “Waivers” in this document for details of the waivers.

SHARE CAPITAL

The following table sets forth for the periods indicated the reported high, low, month end and monthly average of the closing trading prices on SGX-ST for the Shares from 20 June 2007 until the Latest Practicable Date. Historical Share prices may not be indicative of the prices at which the Shares will trade following completion of the Listing. Please refer to the section headed “Risk Factors — Risks relating to the dual primary listing of the Company — Different characteristics between the Singapore stock market and Hong Kong stock market” in this document.

SGX-ST

	<u>High</u> (SGD)	<u>Low</u> (SGD)	<u>Month End</u> (SGD)	<u>Monthly</u> <u>Average</u> (SGD)
2007				
June (from 20 June 2007)	1.2000	1.1200	1.1600	1.1650
July	1.4300	1.2100	1.2700	1.3341
August	1.2200	0.8800	0.9250	1.0309
September	1.3200	0.9100	1.3200	1.0683
October	1.4300	1.1500	1.2900	1.2857
November	1.2800	0.9100	1.0200	1.0864
December	1.1800	0.9700	1.0900	1.0795
2008				
January	1.2000	0.8250	0.8300	0.9943
February	0.8900	0.7850	0.8900	0.8353
March	0.8700	0.5050	0.7550	0.7118
April	0.9550	0.7300	0.9250	0.8150
May	1.0500	0.8550	0.8550	0.9608
June	0.8550	0.7500	0.7500	0.8062
July	0.7700	0.6800	0.7200	0.7302
August	0.7550	0.5100	0.5450	0.6048
September	0.5450	0.3300	0.4150	0.4216
October	0.4550	0.2700	0.2950	0.3198
November	0.3600	0.2950	0.3450	0.3278
December	0.4050	0.3350	0.3750	0.3679
2009				
January	0.4300	0.3400	0.3700	0.3813
February	0.4100	0.3100	0.3150	0.3735
March	0.3250	0.2600	0.3000	0.2955
April	0.4100	0.3000	0.3700	0.3707
May	0.4750	0.3900	0.4450	0.4408
June	0.4600	0.3900	0.3900	0.4218
July	0.5400	0.3300	0.5150	0.3952
August	0.5800	0.4700	0.5500	0.5078
September	0.5350	0.4900	0.4900	0.5119
October	0.4850	0.4300	0.4400	0.4605
November (up to the Latest Practicable Date)	0.4300	0.4050	0.4100	0.4206

SHARE CAPITAL

The following table set forth the average daily trading volume and turnover of each month of the Shares. The Shares commenced trading on SGX-ST in 20 June 2007.

	<u>Average Daily Volume</u> (Shares)	<u>Average Daily Turnover</u> (SGD)
2007		
June (from 20 June 2007)	26,827,000	31,785,970
July	17,556,727	23,399,830
August	10,893,909	11,153,360
September	16,920,800	18,178,561
October	14,617,826	19,144,980
November	11,788,905	12,763,428
December	8,775,789	9,641,070
2008		
January	12,481,091	12,779,365
February	10,100,316	8,543,459
March	7,049,900	4,887,800
April	10,963,682	9,172,728
May	7,799,200	7,562,104
June	2,524,857	2,051,750
July	2,182,348	1,596,120
August	3,653,000	2,165,375
September	6,978,500	2,975,730
October	8,156,429	2,785,524
November	9,574,200	3,262,015
December	6,223,286	2,339,671
2009		
January	5,729,105	2,286,429
February	3,180,450	1,196,218
March	2,441,227	728,629
April	3,466,381	1,290,742
May	4,229,600	1,877,405
June	1,520,727	666,603
July	4,430,783	2,134,503
August	8,906,450	4,686,631
September	7,669,286	4,002,428
October	2,560,455	1,180,348
November (up to the Latest Practicable Date)	1,174,688	494,682

FINANCIAL INFORMATION

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

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

OVERVIEW

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

According to the CNCIC Report, in 2008, in terms of costs competitiveness, our urea production cost was the lowest and the 4th lowest among all coal-based urea producers in Henan Province and the PRC respectively, and we also ranked the 7th lowest production cost among all urea producers in the PRC irrespective of the types of raw material used. Coal and electricity are the major cost components of our business, which accounted for approximately 53.1% and 13.6% of our total production cost in 2008. We used approximately 650kg of coal to produce one ton of

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urea in 2008. With respect to electricity, we have three power generating systems in our production plants. This offers us the flexibility to either purchase electricity from the market or to generate our own required electricity depending on market price and the availability of power subsidy from the PRC government.

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

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

BASIS OF PRESENTATION

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

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

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

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

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

FACTORS AFFECTING OUR FINANCIAL CONDITION AND RESULTS OF OUR OPERATIONS

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

1. Market Demand and Supply

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

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

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

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

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

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

2. Production Utilisation

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

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

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

Notes:

- (1) The trial operation of our Production Plant II commenced in 2006.
- (2) Utilisation rate refers to the percentage of actual production volume over designed annual production capacity. According to the CNCIC Report, the designed annual production capacity in the industry norm in China for the fertiliser industry is measured as daily production capacity multiplied by 340 days per year.

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

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

3. Average Selling Prices

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

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

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

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

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

According to the “Notice Regarding Reform of Fertiliser’s Pricing Policies” (《關於改革化肥價格形成機制的通知》) jointly promulgated by the NDRC and Ministry of Finance PRC, the price control on nitrogen and phosphate fertilisers was removed on 25 January 2009 and allow the market to determine their prices. There is no assurance that the prices will remain at current levels or they will increase in the future. If the PRC government may impose the price ceiling on the

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fertiliser products in the future, our results of operations will be affected. On the other hand, the price ceiling may encourage the farmers to consume more fertiliser than they otherwise would, which may mitigate the negative effects of the price ceilings regulations.

4. Cost of Raw Materials

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

5. Seasonality

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

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

6. Competition

We operate in a competitive industry and frequently encounter competitions from the existing large scale players in the industry. There were over 180 urea producers, over 210 methanol producers and thousands of compound fertiliser producers in the PRC in 2008, which included state-owned enterprises, private-owned enterprises and foreign-invested enterprises.

The major factor defining the competition landscape in respect of urea and methanol producers is production costs, and therefore we invest substantial amount of time and effort to improve our production efficiency and to achieve lower production costs in order to increase our competitiveness. Our compound fertiliser products compete on the basis of product quality, price, product development, customer service and distribution capacity.

7. Taxation

We are subject to income taxes in the PRC. On 16 March 2007, the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》) (the “**PRC EIT Law**”) was promulgated by the Standing Committee of the National’s People’s Congress, which became effective on 1 January 2008. Pursuant to the PRC EIT Law, all enterprises (including the foreign-invested enterprises) will be subject to a uniform tax rate of 25%, and the tax exemptions, reductions and preferential treatments applicable to those foreign invested enterprises will be revoked. The PRC EIT Law also

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provides for transitional measures for enterprises established prior to the promulgation of the PRC EIT Law and eligible for lower tax rate preferential treatments in accordance with the then prevailing tax laws and regulations. These enterprises may continue to enjoy tax preferential treatments after the implementation of the PRC EIT Law until their preferential treatments expire and will become subject to the new, unified tax rate over a five-year period starting from 1 January 2008. As a result of the new law, Henan XLX Fertiliser will not continue to benefit from preferential tax treatment and will be subject to the uniform rate of 25% after the tax holiday period. The expiration of the tax holiday could have a material adverse effect on our future profits.

8. Derivative Financial Instruments

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

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

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

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- (iii) the Board will continue to monitor the effectiveness of the hedge and the counterparty risk on a quarterly basis;
- (iv) in the event that the fair value loss arising from any outstanding derivative financial instruments exceeds 1.0% of the net asset value of our Group as shown in our Group's previous month's management accounts, our management shall promptly inform the Board which shall use reasonable efforts and take follow-up actions to mitigate the counterparty risk and other exposure as well as to avoid or minimise any actual losses if necessary; and
- (v) our external auditors will review the accounting treatment of the derivative financial instruments on an annual basis for the preparation of annual financial statements.

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

CRITICAL ACCOUNTING POLICIES

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

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

Revenue recognition

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

(a) Sale of goods

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

(b) Interest income

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

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Property, plant and equipment

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

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

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

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

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

Financial assets

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

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

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

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

(b) Loans and receivables

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

(c) Held-to-maturity investments

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

(d) Available-for-sale financial assets

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

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

Impairments of financial assets

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

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

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

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

Inventories

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

Raw materials — purchase cost on a weighted average basis.

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

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

Trade and other receivables

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

Income taxes

(a) Current tax

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

(b) Deferred tax

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

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

- Where the deferred tax arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction affects neither accounting profit nor taxable profit or loss;
- In respect of temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled by our Group and it is probable that the temporary differences will not reverse in the foreseeable future; and
- In respect of deductible temporary differences and carry-forward of unused tax credits and unused tax losses, if it is not probable that taxable profit will be available against which the deductible temporary differences and carry-forward of unused tax credits and unused tax losses can be utilised.

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

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

(c) *Value-added-tax (“VAT”)*

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

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

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

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

Convertible loans

The component of convertible loans that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs. On issuance of convertible loans, the fair value of the liability component is determined using a market rate for an equivalent

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non-convertible bond; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible loans based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

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

Derivative financial instruments and hedging activities

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

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

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

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

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SUMMARY OF RESULTS OF OPERATIONS

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

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

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OVERVIEW OF MAJOR ITEMS OF STATEMENTS OF COMPREHENSIVE INCOME

Revenue

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

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

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

The sales of urea contributed to the total revenue increased from approximately 55.4% for the seven months ended 31 July 2008 to approximately 77.1% for the seven months ended 31 July 2009. Such increase was mainly due to the increase in our sales volume of urea by 39.5% for the relevant period, although the average selling price of urea slightly dropped by 3.2% in the same period. The increase in the sales and production volume of urea was due to the commencement of the trial operation of our Production Plant III in April 2009 leading to an increase in our estimated aggregate production capacity of urea to 1.25 million tons per annum. With respect to the sales of

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each of compound fertiliser and methanol contributed to the total revenue which decreased from approximately 32.5% and 11.8% respectively for the seven months ended 31 July 2008 to approximately 15.8% and 6.7% for the seven months ended 31 July 2009, such decrease in revenue of compound fertiliser was mainly due to the significant decrease in sales volume and average selling price of compound fertiliser by approximately 38.9% and 18.1% respectively for the first seven months 2009 as compared to the same period of 2008. The reason for the decrease in the sales volume of compound fertiliser is that the Group having considered that the average selling price of compound fertiliser decreased by approximately 18.1% for the first seven months 2009 as compared to the same period in 2008, our Group decided to produce and sell less compound fertiliser. The decrease in the revenue for methanol was mainly due to the drop in its average selling price by approximately 43.6% for the first seven months 2009 as compared to the same period of 2008.

Cost of sales

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

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

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

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

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

Coal

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

Coal powder

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

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Electricity

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

Phosphorous

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

Potassium

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

Others

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

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Other income and gains

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

Selling and distribution expenses

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

General and administrative expenses

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

Other expenses

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

Finance costs

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

Tax

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

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

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

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Notes:

- (1) Regarding the tax provision in Singapore, the Company is subject to an income tax rate of 20% for the year ended 31 December 2006 and 18% for the years ended 31 December 2007 and 2008 and for the seven months ended 31 July 2009. Taxes on profits assessable elsewhere have been calculated at the tax rates prevailing in the country in which our Group operates, based on relevant legislation, interpretations and practices.
- (2) Currently, Henan XLX Fertiliser, our PRC operating subsidiary, is entitled to full exemption from income tax for the first two years and a 50% reduction in income tax for the next three years, where it has elected the financial year ending 31 December 2007 as the first profitable year for the purpose of determining the tax holiday period. In this regard, Henan XLX Fertiliser continues to enjoy a full tax exemption for the year ended 31 December 2008 and will subsequently be entitled to a 50% tax reduction in income tax in the three years ending 31 December 2011.

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

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

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

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Margin Analysis

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

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

Our gross profit margin and net profit margin decreased from approximately 26% and 19% for the seven months ended 31 July 2008 to approximately 14% and 6% for the seven months ended 31 July 2009, respectively, primarily due to the global economic crisis which resulted in decreases in the average selling prices of our methanol and compound fertiliser and an increase in our costs of coal in the first half of 2009.

REVIEW OF HISTORICAL OPERATING RESULTS

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

Revenue

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

Urea

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

Compound fertiliser

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

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

Methanol

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

Cost of sales

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

Urea

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

Compound fertiliser

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

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Methanol

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

Other income and gains

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

Selling and distribution expenses

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

General and administrative expenses

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

Other expenses

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

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Finance costs

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

Profit before tax

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

Tax

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

Net profit attributable to the equity shareholders

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

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

Revenue

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

Urea

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

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Compound fertiliser

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

Methanol

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

Cost of sales

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

Urea

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

Compound fertiliser

Our cost of sales for compound fertiliser increased by approximately 56.4% from approximately RMB341.8 million in 2007 to approximately RMB534.5 million in 2008. As the increase in our revenue derived from the sales of compound fertiliser was larger than the increase

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in its cost of sales, the profit margin of compound fertiliser increased from approximately 15% in 2007 to approximately 25% in 2008. Such increase in our cost of sales for compound fertiliser was resulted from the increase in cost of raw materials.

Methanol

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

Other income and gains

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

Selling and distribution expenses

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

General and administrative expenses

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

Other expenses

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

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Finance costs

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

Profit before tax

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

Tax

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

Net profit attributable to the equity shareholders

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

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

Revenue

Our total revenue increased by approximately 2.5% from approximately RMB1,191.7 million for the seven months ended 31 July 2008 to approximately RMB1,221.4 million for the seven months ended 31 July 2009. Such increase was primarily due to the increase in production capacity and sales volume of urea in 2009 as a result of the commencement of trial operation of Production Plant III in April 2009. However, the decrease in revenue generated from sales of compound fertiliser as a result of decrease in its sales volume, and the decrease in revenue generated from sales of methanol as a result of decrease in its average selling price for the seven months ended 31 July 2009, have offset the increase in revenue generated from sales of urea for the same period.

Urea

Our revenue derived from the sales of our urea increased by approximately 42.7% from approximately RMB660.0 million for the seven months ended 31 July 2008 to approximately RMB941.5 million for the seven months ended 31 July 2009, which was primarily due to increase in production capacity and sales volume of our urea in 2009 after the commencement of trial operation of Production Plant III in April 2009. The sales volume of our urea increased by approximately 39.5% from approximately 383,343 tons for the seven months ended 31 July 2008 to approximately 534,760 tons for the seven months ended 31 July 2009, when the estimated aggregate annual production capacity of our urea increased from approximately 731,000 tons in 2008 to approximately 1.25 million tons during the same period. Our urea sales volume was not significantly affected by the global economic crisis for the first seven months of 2009 primarily because the demand for urea remained stable in the PRC during the relevant period as a result of

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various preferential agricultural policies implemented in 2009. These preferential agricultural policies included fertiliser subsidies to farmers which encouraged the farmers to increase their crop yields. As a consequence, demand for urea increased as urea is one of the most popular nitrogen nutrients for farmers. On the other hand, the increase in revenue derived from the sales of our urea was partially offset by the decrease of 3.2% in the average selling price of our urea from approximately RMB1,722 per ton for the seven months ended 31 July 2008 to approximately RMB1,666 per ton for the seven months ended 31 July 2009, primarily due to the current global economic crisis.

Compound fertiliser

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

Methanol

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

Cost of sales

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

Urea

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

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Compound fertiliser

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

Methanol

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

Other income and gains

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

Selling and distribution expenses

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

General and administrative expenses

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

Finance costs

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

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Profit before tax

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

Tax

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

Net profit attributable to the equity shareholders

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

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

Revenue

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

Urea

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

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Compound fertiliser

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

Methanol

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

Cost of sales

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

Urea

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

Compound fertiliser

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

Methanol

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

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Other income and gains

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

Selling and distribution expenses

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

General and administrative expenses

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

Finance costs

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

Profit before tax

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

Tax

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

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Net profit attributable to the equity shareholders

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

LIQUIDITY AND CAPITAL RESOURCES

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

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

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

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

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

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

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reports in or about August 2009, and that the lenders had the rights to require our Company to repay the syndicated loan anytime. Thus, approximately RMB307.6 million was classified as current liabilities as at 31 July 2009. In order to avoid this uncertainty, we obtained bank borrowings from other banks with a sum in aggregate of approximately RMB300 million and voluntarily repaid the syndicated loan in advance by the end of September 2009;

2. for approximately RMB100 million bank borrowings due within one year as at 31 July 2009, our Group had extended the borrowings to terms of over one year by the end of October 2009; and
3. a new long-term bank loan of RMB85 million was obtained by the end of October 2009.

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

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

Cash flows

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

	Year ended 31 December			Seven months ended 31 July	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Net cash flows from operating activities	243,258	208,498	369,563	266,753	198,651
Net cash flows used in investing activities	(256,755)	(334,777)	(897,180)	(470,437)	(328,548)
Net cash inflow/(outflow) from financing activities	<u>131,449</u>	<u>475,518</u>	<u>220,921</u>	<u>(123,573)</u>	<u>128,946</u>
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

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Net cash flows from operating activities

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

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

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

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

Net cash flows used in investing activities

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

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

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

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

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approximately RMB310.5 million for the seven months ended 31 July 2009, and the purchase of land use rights also decreased from approximately RMB18.0 million for the seven months ended 31 July 2008 to approximately RMB1.6 million for the seven months ended 31 July 2009.

Net cash flows from financing activities

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

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

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

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

Working Capital

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

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

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

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

Inventory analysis

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

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

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

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

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

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

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

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

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

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

Save as the provision of inventory of approximately RMB6 million for the year ended 31 December 2008, we did not experience any material impairment to our inventory, such as slow moving or otherwise obsolete inventory, over the Track Record Period and thus did not provide for any inventory impairment allowance during the Track Record Period.

Trade receivables analysis

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

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

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

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

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

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

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

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

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

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

	As at 31 December			As at 31 July
	2006 RMB'000	2007 RMB'000	2008 RMB'000	2009 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
	<u>14,150</u>	<u>1,793</u>	<u>7,667</u>	<u>1,758</u>

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

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

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

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

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

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

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

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Trade payables analysis

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

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

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

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

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

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

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

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

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

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Accruals and other payables analysis

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

	As at 31 December			As at
	2006	2007	2008	31 July
	RMB'000	RMB'000	RMB'000	2009
				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
	<u>17,736</u>	<u>61,195</u>	<u>105,109</u>	<u>126,467</u>
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
	<u>180,074</u>	<u>179,501</u>	<u>154,302</u>	<u>162,932</u>
	<u>197,810</u>	<u>240,696</u>	<u>259,411</u>	<u>289,399</u>

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

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

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

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

INDEBTEDNESS

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

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

Notes:

- (1) As at 31 December 2006, our Company had an outstanding bank loan of approximately RMB54.7 million which was secured by (i) pledge of the entire equity interests in Henan XLX Fertiliser; (ii) assignment of all funding (including shareholders loans, if any) provided by our Company to Henan XLX Fertiliser; (iii) subordination of the convertible loan; (iv) personal guarantees from certain directors of our Company; (v) undertaking by the directors to distribute to the Company the maximum amount of dividends permitted by applicable laws (up to the loan amount outstanding at the relevant time); and (vi) undertaking not to change the management team of our Company and our subsidiary. Those securities were released upon the repayment of such bank loan in 2007.
- (2) Our Group obtained these short-term unsecured loans from the banks which bear a fixed interest rate of between 4.80% and 7.56% per annum.
- (3) Pursuant to a syndicated long-term bank loan entered into between our Company and ABN AMRO Bank N.V. and other banks dated 30 September 2008, ABN AMRO Bank N.V. and other banks agreed to provide a principal sum of USD45 million (equivalent to approximately RMB307.6 million) to our Company, the interest rate of which was a floating rate of USD LIBOR + 2.25% per annum and the applicable rate would be revised

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

- (4) These short-term & long term loans are secured by corporate guarantees from unrelated parties of our Group, Xinya Paper Group Ltd. and Henan Kelong Group respectively.
- (5) As at 31 December 2008, the unsecured long-term bank loans consisted of (i) the syndicated bank loans in the principal sum of approximately RMB307.6 million referred to in (3) above and (ii) a loan from China Construction Bank Limited in the principal sum of RMB100 million at a fixed rate of 7.56% per annum. Such loans are repayable in full in 2010.
- (6) The loan from government bears interest at a floating rate of 0.3% above the market prime lending rate, which is a long term loan and will not be payable within the next 12 months.
- (7) According to the two entrusted loan agreements dated 8 January 2008 and 21 January 2008 respectively between XLX Chem as the principal, Industrial and Commercial Bank of China Limited (Henan Branch) as the trustee, and Henan XLX Fertiliser as the borrower, XLX Chem provided the total entrusted loans of RMB90 million to Henan XLX Fertiliser through Industrial and Commercial Bank of China Limited (Henan Branch) for thirty-six months at the rate of 6.804% per annum. Henan XLX Fertiliser was to repay the principal of RMB90 million together with the interest by 7 January 2011. The purpose of the entrusted loans was for working capital. In May 2009, Henan XLX Fertiliser had fully repaid and settled the principal of RMB90 million together with the interest due to XLX Chem. For details of the loans from XLX Chem, please refer to the section headed "Relationships with Controlling Shareholders and XLX Chem Group" in this document.

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

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

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

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

Contingent liabilities

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

Disclaimer

Save as disclosed under the paragraph headed "Indebtedness" in this section, as at 31 October 2009, which is the latest practicable date for ascertaining information for disclosure in this section, we did not have any outstanding mortgages, charges, pledges, debentures, loan capital,

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bank loans and overdrafts, debt securities or other similar indebtedness, finance leases or hire purchase commitments, acceptance liabilities, acceptance credits, any guarantees or other material contingent liabilities.

ANALYSIS ON MAJOR ITEMS OF STATEMENT OF FINANCIAL POSITION

Property, plant and equipment

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

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

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

Prepayments, deposits and other receivables

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

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

Amounts due from/to related parties

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

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

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

Derivative financial assets

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

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

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Bills payable

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

Derivative financial liability

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

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

Deferred grants

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

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CAPITAL EXPENDITURES

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

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

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

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Capital commitments and operating lease commitments

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

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

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

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

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

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

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

RELATED PARTY TRANSACTIONS

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

OFF BALANCE SHEET TRANSACTIONS

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

PROPERTY INTERESTS

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

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

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

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

DIVIDEND POLICY

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

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

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

DISTRIBUTABLE RESERVES

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

FINANCIAL INFORMATION

NET TANGIBLE ASSETS

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

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

Note:

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

NO MATERIAL ADVERSE CHANGE

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

DISCLOSURE UNDER RULE 13.09(2) OF THE LISTING RULES

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

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

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

FUTURE PLANS

FUTURE PLANS

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

- **Self-development and expansion of our production capacity**

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

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

- **Developing our business through vertical business integration**

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

- **Expanding our business through horizontal integration**

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

FUTURE PLANS

- **Expanding the business of compound fertiliser**

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

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

- **Improvement of internal management**

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

LISTINGS, REGISTRATION, DEALINGS AND SETTLEMENT

LISTINGS

The Company currently has a primary listing of Shares on the SGX-ST, which it intends to maintain alongside its proposed dual primary listing of Shares on the Stock Exchange. Application has been made to the Listing Committee for the listing of, and permission to deal in, the Shares.

REGISTRATION

The principal register of members is maintained in Singapore by KCK Corpserve Pte. Ltd., the Singapore Principal Registrar, whose address is 333 North Bridge Road, #08-00 KH KEA Building, Singapore 188721. The Company has established a branch register of members in Hong Kong which is maintained by Tricor Investor Services Limited, Hong Kong Branch Share Registrar, whose address is 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong.

The transfer agent for members of the Company in Singapore is KCK Corpserve Pte. Ltd. (the "**Singapore transfer agent**") whose address is 333 North Bridge Road, #08-00 KH KEA Building, Singapore 188721. Certificates in respect of the Shares registered on the Hong Kong Branch Share Register will, as far as practicable, and unless otherwise requested, be issued in board lots of 1,000 Shares. The Singapore Principal Registrar will keep in Singapore duplicates of the Hong Kong branch registers, which will be updated from time to time.

Certificates

Only certificates for Shares issued by the Hong Kong Branch Share Registrar will be valid for delivery in respect of dealings effected on the Stock Exchange. Only certificates for Shares issued by the Singapore Principal Registrar will be valid for delivery in respect of dealing effected on the SGX-ST. For ease of identification, the certificates for Shares issued by Singapore Principal Registrar are brown in colour. The Share certificates issued by the Hong Kong Branch Share Registrar will be green in colour.

DEALINGS

Dealings in Shares on the Stock Exchange and SGX-ST will be conducted in Hong Kong dollars and Singapore dollars respectively. The Shares are traded on SGX-ST and will be traded on the Stock Exchange in board lots of 1,000 Shares.

The transaction costs of dealings in the Shares on the Stock Exchange include a Stock Exchange trading fee of 0.005%, an SFC transaction levy of 0.004%, a transfer deed stamp duty of HK\$5.00 per transfer deed and ad valorem stamp duty on both the buyer and the seller charged at the rate of 0.1% each of the consideration or, if higher, the fair value of the Shares transferred. The brokerage commission in respect of trades of Shares on the Stock Exchange is freely negotiable.

The brokerage commission in respect of trades of Shares on the SGX-ST is freely negotiable. A clearing fee in Singapore is payable at the rate of 0.04% of the transaction value, subject to a maximum of S\$600 per transaction. Such clearing fee is subject to goods and services tax in Singapore (currently at 7.0%). The brokerage commission in respect of trades of Shares on the SGX-ST is freely negotiable.

SETTLEMENT

Settlement of dealings in Singapore

Shares listed on the SGX-ST are traded under the book-entry settlement system of the CDP and all dealings in and transactions of Shares through the SGX-ST are effected in accordance with the terms and conditions for the operation of securities accounts with the CDP, as amended from time to time.

The CDP, a wholly-owned subsidiary of the Singapore Exchange Securities Trading Limited, is incorporated under the laws of Singapore and acts as a depository and clearing organisation. The CDP holds securities for its accountholders and facilitates the clearance and settlement of securities transactions between accountholders through electronic book-entry changes in the securities accounts maintained by such accountholders with the CDP.

Shares will be registered in the name of the CDP or its nominees and held by the CDP for and on behalf of persons who maintain, either directly or through depository agents, securities accounts with the CDP. The Singapore Companies Act and the Memorandum and Articles of Association of the Company only recognise the registered owners or holders of the Shares as members. CDP depositors and depository agents on whose behalf CDP holds Shares, may not be accorded the full rights of membership, such as voting rights, the right to appoint proxies, or the right to receive shareholders' circulars, proxy forms, annual reports, prospectuses and take over documents. CDP depositors and depository agents will be accorded only such rights as CDP may make available to them pursuant to CDP's terms and conditions to act as depository for foreign securities.

Persons holding Shares in a securities account with the CDP may withdraw the number of Shares they own from the book-entry settlement system in the form of physical share certificates. Such share certificates will not, however, be valid for delivery pursuant to transactions on the SGX-ST, although they will be prima facie evidence of title and may be transferred in accordance with the Memorandum and Articles of Association of the Company. A fee of S\$10.00 for each withdrawal of 1,000 Shares or less and a fee of S\$25.00 for each withdrawal of more than 1,000 Shares will be payable upon withdrawing our Shares from the book-entry settlement system and obtaining physical share certificates. In addition, a fee of S\$2.00 (or such other amounts as the Directors may decide) will be payable to Singapore share registrar for each share certificate issued, and stamp duty of S\$10.00 is also payable where Shares are withdrawn in the name of the person withdrawing Shares, or S\$0.20 per S\$100.00 or part thereof of the last-transacted price where Shares are withdrawn in the name of a third party. Persons holding physical share certificates who wish to trade on the SGX-ST must deposit with the CDP their share certificates together with the duly executed and stamped instruments of transfer in favour of the CDP, and have their respective securities accounts credited with the number of Shares deposited before they can effect the desired trades. A fee of S\$20.00 is payable upon the deposit of each instrument of transfer with the CDP.

Transactions in Shares under the book-entry settlement system will be reflected by the seller's securities account being debited with the number of Shares sold and the buyer's securities account being credited with the number of Shares acquired. No transfer stamp duty is currently payable for the transfer of the Shares that are settled on a book-entry basis.

LISTINGS, REGISTRATION, DEALINGS AND SETTLEMENT

A Singapore clearing fee for trades in Shares on the SGX-ST is payable at the rate of 0.04% of the transaction value, subject to a maximum of S\$600.00 per transaction. The clearing fee, instrument of transfer deposit fees and share withdrawal fee are subject to Singapore goods and services tax currently at 7.0%.

Dealings in the Shares will be carried out in Singapore Dollars and will be effected for settlement in the CDP on a scripless basis. Settlement of trades on a normal “ready” basis on the SGX-ST generally takes place on the third market day following the transaction date, and payment for the securities is generally settled on the following day. The CDP holds securities on behalf of investors in securities accounts. An investor may open a direct securities account with the CDP or a securities sub-account with a depository agent. A depository agent may be a member company of the SGX-ST, bank, merchant bank or trust company.

Settlement of dealings in Hong Kong

Investors in Hong Kong must settle their trades executed on the Stock Exchange through their brokers directly or through custodians. For an investor in Hong Kong who has deposited his Shares in his designated CCASS Participant’s stock account maintained with CCASS, settlement will be effected by CCASS in accordance with the CCASS Rules. For an investor who holds the physical certificates, settlement certificates and the duly executed transfer forms must be delivered to his broker or custodian before the settlement date.

An investor may arrange with his broker or custodian on a settlement date in respect of his trades executed on the Stock Exchange. Under the Listing Rules and the CCASS Rules, the date of settlement must not be later than the second business day following the trade date on which the settlement services of CCASS are open for use by CCASS Participants (T + 2). For trades settled under CCASS, the CCASS Rules provide that the defaulting broker may be compelled to compulsorily buy-in by HKSCC the day after the date of settlement (T + 3), or if it is not practicable to do so on T + 3, at any time thereafter. HKSCC may also impose fines from T + 2 onwards.

The CCASS stock settlement fee payable by each counterparty to a Stock Exchange trade is currently 0.002% of the gross transaction value subject to a minimum fee of HK\$2 and a maximum fee of HK\$100 per trade.

Dividends

Dividends are declared in Singapore dollars and will be converted into Hong Kong dollars before being paid to the Shareholders (depending on where the Shareholders’ Shares are then traded).

Foreign Exchange Risk

Investors in Singapore who trade on the SGX-ST should note that their trades will be effected in Singapore dollars. Investors in Hong Kong who trade on the Stock Exchange should note that their trades will be effected in Hong Kong dollars. Accordingly, investors should be aware of the foreign exchange risks associated with such trading.

Please see the section headed “Risk factors” in this document for a discussion on foreign exchange risks.

Transfer of Shares

All duties, fees and expenses specified herein are subject to changes from time to time.

Removal of Shares

Currently, all the Shares are registered on the Singapore Principal Share Register. For the purpose of trading on the Stock Exchange, the Shares must be registered on the Hong Kong Branch Share Register. Shares may be transferred between the Singapore Principal Share Register and the Hong Kong Branch Share Register. An investor who wishes to trade on the SGX-ST must have his Shares registered on the Singapore Principal Share Register and an investor who wishes to trade on the Stock Exchange must have his Shares registered on the Hong Kong Branch Share Register by removing them from the Singapore Principal Share Register to the Hong Kong Branch Share Register. A resolution has been passed by the Directors authorizing the removal of Shares between the Singapore Principal Share Register and the Hong Kong Branch Share Register as may from time to time be requested by the members of the Company.

From Singapore Principal Share Register to Hong Kong Branch Share Register

If an investor whose Shares are traded on the SGX-ST wishes to trade his Shares on the Stock Exchange, he must effect a removal of Shares from the Singapore Principal Share Register to the Hong Kong Branch Share Register.

A removal of the Shares from the Singapore Principal Share Register to the Hong Kong Branch Share Register involves the following procedures:

- (1) If the investor's Shares have been deposited with CDP, the investor must first withdraw his Shares from CDP by completing a Withdrawal of Securities Form (CDP Form 3) available from CDP and submitting the same to CDP together with a bank draft for the amount as prescribed by CDP from time to time.
- (2) The investor shall complete a removal request form obtained from the Singapore transfer agent and submit the removal request form to the Singapore transfer agent.
- (3) CDP will then send a duly completed transfer form together with the relevant share certificate(s) registered under the name of CDP to the Singapore transfer agent directly.
- (4) Upon receipt of the duly completed transfer form and the share certificate(s) from CDP and the removal request form together with bank drafts for the amount as prescribed by Singapore Principal Registrar and Hong Kong Branch Share Registrar from time to time from the investor, the Singapore transfer agent shall send such documents to the Singapore Principal Registrar.
- (5) Upon receipt of the documents referred to in (4) above and the relevant payment, the Singapore Principal Registrar shall take all actions necessary to effect the transfer and removal of Shares on the Singapore Principal Share Register. On completion, the Singapore Principal Registrar shall then notify the Hong Kong Branch Share Registrar of the removal whereupon the Hong Kong branch registrar shall update the Hong Kong Branch Share Register and issue share certificate(s) in the name of the investor and

LISTINGS, REGISTRATION, DEALINGS AND SETTLEMENT

send such share certificate(s) to the address specified by the investor. Despatch of share certificate(s) will be made at the risk and expense of the investor as specified in the removal request form.

- (6) If the investor's Shares upon being registered in Hong Kong are to be deposited with CCASS, the investor must deposit the Shares into CCASS for credit to his CCASS investor participant stock account or his designated CCASS Participant's stock account. For deposit of Shares to CCASS or to effect sale of Shares in Hong Kong, the investor should execute a transfer form which is in use in Hong Kong and which can be obtained from the offices of the Hong Kong Branch Share Registrar and deliver it together with his Share certificate(s) issued by the Hong Kong Branch Share Registrar to HKSCC directly if he intends to deposit the Shares into CCASS for credit to his CCASS investor participant stock account or via a CCASS Participant if he wants the Shares to be credited to his designated CCASS Participant's stock account.

Note: Under normal circumstances, steps (1) to (5) generally require 15 business days to complete.

From Hong Kong Branch Share Register to Singapore Principal Share Register

If an investor whose Shares are traded on the Stock Exchange wishes to trade his Shares on the SGX-ST, he must effect a removal of the Shares from the Hong Kong Branch Share Register to the Singapore Principal Share Register. Such removal and deposit of the Shares would involve the following procedures:

- (1) If the investor's Shares are registered in the investor's own name, the investor shall complete the Combined Share Removal and Transfer Form and Delivery Instruction Form (the "**Removal Request Form**") available from the Hong Kong Branch Share Registrar or the Singapore transfer agent and submit the same together with the share certificate(s) in his name and bank draft for the amount as prescribed by Singapore Principal Registrar and Hong Kong Branch Share Registrar from time to time to the Hong Kong Branch Share Registrar. If the investor's Shares have been deposited with CCASS, the investor must first withdraw such Shares from his CCASS investor participant stock account with CCASS or from the stock account of his designated CCASS Participant and submit the relevant Share transfer form(s) executed by HKSCC Nominees Limited, the relevant share certificate(s) and a duly completed Removal Request Form to the Hong Kong Branch Share Registrar.
- (2) Upon receipt of the Removal Request Form, the relevant share certificate(s) and where appropriate, the completed share transfer form(s) executed by HKSCC Nominees Limited, the Hong Kong Branch Share Registrar shall take all actions necessary to effect the transfer and the removal of the Shares from the Hong Kong Branch Share Register to the Singapore Principal Share Register.
- (3) The Hong Kong Branch Share Registrar shall then notify the Singapore Principal Registrar of the removal whereupon the Singapore Principal Registrar shall update the Singapore Principal Share Register. Upon completion, the Singapore Principal Registrar shall issue the relevant share certificate(s) in the name of the investor and deliver the share certificate(s) to the Singapore transfer agent for onward transmission to the investor.

LISTINGS, REGISTRATION, DEALINGS AND SETTLEMENT

- (4) In accordance with the transfer form and delivery instruction set out in the Removal Request Form duly completed and signed by the investor, the Singapore transfer agent will arrange to stamp the transfer form for the transfer of the Shares to CDP, arrange with the Singapore Principal Registrar to issue the relevant share certificate in the name of CDP and forward the share certificate and transfer form to CDP for the deposit of the Shares into the investor's securities account with CDP or sub-account with a CDP depository agent. The investor must ensure that he has a securities account in his own name or sub-account with a CDP depository agent before he can complete and sign off on delivery instruction set out in the Removal Request Form.

Note: Under normal circumstances, steps (1) to (3) generally require 15 business days to complete.

For those Shares which are registered on the Hong Kong Branch Share Register, any transfer thereof or dealings therein will be subject to Hong Kong stamp duty. For those Shares which are registered on the Singapore Principal Share Register, any transfer thereof or dealings therein will be subject to Singapore stamp duty.

All costs attributable to the removal of Shares from the Hong Kong Branch Share Register to the Singapore Principal Share Register and any removal from the Singapore Principal Share Register to the Hong Kong Branch Share Register shall be borne by the Shareholder requesting the removal. In particular, Shareholders should note that the Hong Kong Branch Share Registrar will charge HK\$150 for each removal of Shares and a fee of HK\$2.50 (or such higher fee as may from time to time be permitted under the Listing Rules) for each Share certificate cancelled or issued by it and any applicable fee as stated in the removal request forms used in Hong Kong or Singapore. In addition, the Singapore Principal Registrar will charge S\$10.00 for each removal of Shares, a fee of S\$2.00 (plus applicable stamp duties) for each transfer form in respect of transfer of Shares, a fee of S\$2.00 for each Share certificate cancelled or issued by it and any applicable fee as stated in the removal request forms used in Hong Kong or Singapore. The fees charged by the Singapore Principal Registrar are subject to Singapore goods and services tax of 7.0%.

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.



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:

	Notes	Year ended 31 December			Seven-month period ended 31 July	
		2006 RMB'000	2007 RMB'000	2008 RMB'000	2008 RMB'000	2009 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:

	Notes	As at 31 December			As at
		2006	2007	2008	31 July
		RMB'000	RMB'000	RMB'000	2009
				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		<u>232,600</u>	<u>1,085,010</u>	<u>1,966,521</u>	<u>2,261,927</u>
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		<u>346,450</u>	<u>747,464</u>	<u>515,383</u>	<u>486,261</u>
Total assets		<u>579,050</u>	<u>1,832,474</u>	<u>2,481,904</u>	<u>2,748,188</u>
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		<u>392,292</u>	<u>571,233</u>	<u>463,807</u>	<u>900,928</u>

	Notes	As at 31 December			As at
		2006	2007	2008	31 July
		RMB'000	RMB'000	RMB'000	2009
				RMB'000	
Net current assets/ (liabilities)		<u>(45,842)</u>	<u>176,231</u>	<u>51,576</u>	<u>(414,667)</u>
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		<u>120,094</u>	<u>90,348</u>	<u>567,191</u>	<u>423,407</u>
Total liabilities		<u>512,386</u>	<u>661,581</u>	<u>1,030,998</u>	<u>1,324,335</u>
Net assets		<u>66,664</u>	<u>1,170,893</u>	<u>1,450,906</u>	<u>1,423,853</u>
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		<u>66,664</u>	<u>1,170,893</u>	<u>1,450,906</u>	<u>1,423,853</u>
Total equity and liabilities		<u>579,050</u>	<u>1,832,474</u>	<u>2,481,904</u>	<u>2,748,188</u>

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	Statutory	Hedging	Retained	Proposed	Total equity
		capital (note 31)	reserve fund (note 32(a))	reserve (note 22)	profits	final dividend	
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	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.		<u>836,671</u>	<u>86,264</u>	<u>720</u>	<u>500,198</u>	<u>—</u>	<u>1,423,853</u>
(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.		<u>836,671</u>	<u>65,016</u>	<u>—</u>	<u>424,731</u>	<u>—</u>	<u>1,326,418</u>

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:

Notes	Year ended 31 December			Seven-month period ended 31 July		
	2006	2007	2008	2008	2009	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
				(Unaudited)		
CASH FLOWS FROM OPERATING ACTIVITIES						
	152,417	268,976	349,768	238,605	83,906	
Profit before tax						
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			Seven-month period ended 31 July	
		2006	2007	2008	2008	2009
		RMB'000	RMB'000	RMB'000	RMB'000	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						
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:

	Notes	As at 31 December			As at 31 July
		2006	2007	2008	2009
		RMB'000	RMB'000	RMB'000	RMB'000
ASSETS					
NON-CURRENT ASSET					
Investment in a subsidiary	17	<u>107,570</u>	<u>400,000</u>	<u>800,000</u>	<u>800,000</u>
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	<u>3,626</u>	<u>440,332</u>	<u>23,037</u>	<u>26,627</u>
Total current assets		<u>5,332</u>	<u>440,883</u>	<u>353,773</u>	<u>342,636</u>
Total assets		<u>112,902</u>	<u>840,883</u>	<u>1,153,773</u>	<u>1,142,636</u>
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	<u>54,665</u>	<u>—</u>	<u>—</u>	<u>307,557</u>
		<u>112,137</u>	<u>5,008</u>	<u>10,783</u>	<u>321,953</u>
Net current assets/ (liabilities)		<u>(106,805)</u>	<u>435,875</u>	<u>342,990</u>	<u>20,683</u>
NON-CURRENT LIABILITIES					
Interest-bearing bank and other borrowings	29	<u>—</u>	<u>—</u>	<u>307,557</u>	<u>—</u>
Total liabilities		<u>112,137</u>	<u>5,008</u>	<u>318,340</u>	<u>321,953</u>
Net assets		<u>765</u>	<u>835,875</u>	<u>835,433</u>	<u>820,683</u>

	Notes	As at 31 December			As at 31 July
		2006	2007	2008	2009
		RMB'000	RMB'000	RMB'000	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		<u>765</u>	<u>835,875</u>	<u>835,433</u>	<u>820,683</u>
Total equity and liabilities .		<u>112,902</u>	<u>840,883</u>	<u>1,153,773</u>	<u>1,142,636</u>

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:

<u>Name</u>	<u>Place and date of registration</u>	<u>Nominal value of registered capital</u>	<u>Percentage of equity interest directly attributable to the Company</u>	<u>Principal activities</u>
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:

	<u>Years</u>	<u>Residual value</u>
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	Methanol	Others	Elimination	Total
	RMB'000	fertiliser	RMB'000	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	<u>601,867</u>	<u>262,983</u>	<u>106,973</u>	<u>14,257</u>	<u>(95,905)</u>	<u>890,175</u>
Segment profit/(loss)	140,132	41,384	30,924	(872)	—	211,568
Unallocated expenses, net.						(40,828)
Financial expenses, net.						<u>(18,323)</u>
Profit before tax						152,417
Income tax expense						<u>(23,333)</u>
Net profit attributable to equity holders of the parent						<u><u>129,084</u></u>
Year ended						
31 December 2007						
	Urea	Compound	Methanol	Others	Elimination	Total
	RMB'000	fertiliser	RMB'000	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	<u>1,034,135</u>	<u>400,521</u>	<u>205,891</u>	<u>14,155</u>	<u>(113,280)</u>	<u>1,541,422</u>
Segment profit/(loss)	292,866	58,715	66,745	(1,905)	—	416,421
Unallocated expenses, net.						(137,379)
Financial expenses, net.						<u>(10,066)</u>
Profit before tax						268,976
Income tax expense						<u>(1,417)</u>
Net profit attributable to equity holders of the parent						<u><u>267,559</u></u>

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	<u>755,305</u>	<u>386,830</u>	<u>140,956</u>	<u>6,217</u>	<u>(97,620)</u>	<u>1,191,688</u>
Segment profit/(loss)	190,858	68,136	47,725	(1,286)	—	305,433
Unallocated expenses, net.						(55,490)
Financial expenses, net.						<u>(11,338)</u>
Profit before tax						238,605
Income tax expense						<u>(11,612)</u>
Net profit attributable to equity holders of the parent						<u><u>226,993</u></u>

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	RMB'000
REVENUE				(Unaudited)	
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
	<u>13,495</u>	<u>31,761</u>	<u>13,664</u>	<u>7,128</u>	<u>6,417</u>

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	RMB'000
Cost of inventories sold	678,607	1,125,001	1,597,073	886,255	1,056,295
Provision of inventories	—	—	6,000	—	—
	<u>678,607</u>	<u>1,125,001</u>	<u>1,603,073</u>	<u>886,255</u>	<u>1,056,295</u>
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	—	—	—
	<u>14,176</u>	<u>35,097</u>	<u>1,845</u>	<u>1,201</u>	<u>1,616</u>
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
	<u>41,457</u>	<u>77,871</u>	<u>85,685</u>	<u>50,209</u>	<u>53,713</u>
Less: Write-back of accrued welfare expenses	—	—	(6,595)	—	—
	<u>41,457</u>	<u>77,871</u>	<u>79,090</u>	<u>50,209</u>	<u>53,713</u>
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	RMB'000
				(Unaudited)	
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 (<i>note 34 (ii)</i>) . . .	—	—	—	—	(5,000)
	<u>21,447</u>	<u>18,062</u>	<u>26,791</u>	<u>13,261</u>	<u>16,633</u>

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	RMB'000
				(Unaudited)	
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
	<u>883</u>	<u>8,845</u>	<u>8,447</u>	<u>5,330</u>	<u>2,793</u>

(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	RMB'000
				(Unaudited)	
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

	<u>Fees</u>	<u>Salaries, allowances and benefits in kind</u>	<u>Performance related bonuses</u>	<u>Pension scheme contribution</u>	<u>Total remuneration</u>
	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

	<u>Fees</u>	<u>Salaries, allowances and benefits in kind</u>	<u>Performance related bonuses</u>	<u>Pension scheme contribution</u>	<u>Total remuneration</u>
	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

	<u>Fees</u>	<u>Salaries, allowances and benefits in kind</u>	<u>Performance related bonuses</u>	<u>Pension scheme contribution</u>	<u>Total remuneration</u>
	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

	<u>Fees</u>	<u>Salaries, allowances and benefits in kind</u>	<u>Performance related bonuses</u>	<u>Pension scheme contribution</u>	<u>Total remuneration</u>
	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
	<u>—</u>	<u>1,344</u>	<u>3,557</u>	<u>21</u>	<u>4,922</u>

	<u>Fees</u>	<u>Salaries, allowances and benefits in kind</u>	<u>Performance related bonuses</u>	<u>Pension scheme contribution</u>	<u>Total remuneration</u>
	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
	<u>—</u>	<u>1,335</u>	<u>1,020</u>	<u>30</u>	<u>2,385</u>

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	RMB'000
				(Unaudited)	
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
	<u>423</u>	<u>957</u>	<u>1,040</u>	<u>423</u>	<u>327</u>

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	2009
				(Unaudited)	
Nil to RMB500,000	2	1	1	2	2
RMB500,001 to RMB1,000,000	—	1	1	—	—
	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>

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	RMB'000
				(Unaudited)	
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	<u>23,333</u>	<u>1,417</u>	<u>18,094</u>	<u>11,612</u>	<u>16,192</u>

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	RMB'000
				(Unaudited)	
Profit before tax	<u>152,417</u>	<u>268,976</u>	<u>349,768</u>	<u>238,605</u>	<u>83,906</u>
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	<u>23,333</u>	<u>1,417</u>	<u>18,094</u>	<u>11,612</u>	<u>16,192</u>

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	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		Buildings	Other fixtures and constructions	Plant and machinery	Office equipment and furniture	Motor vehicles	Construction-in-progress	Total
Notes	RMB'000	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
2, 33	Net assets not transferred	(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
2, 33	Net assets not transferred	(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		Buildings	Other fixtures and constructions	Plant and machinery	Office equipment and furniture	Motor vehicles	Construction-in-progress	Total
Notes	RMB'000	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
2, 33	Second Acquisition	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

	Notes	As at 31 December			As at
		2006	2007	2008	31 July
		RMB'000	RMB'000	RMB'000	2009
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
	2006	2007	2008	31 July
	RMB'000	RMB'000	RMB'000	2009
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
	2006	2007	2008	31 July
	RMB'000	RMB'000	RMB'000	2009
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
	2006	2007	2008	31 July
	RMB'000	RMB'000	RMB'000	2009
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
	2006	2007	2008	31 July
	RMB'000	RMB'000	RMB'000	2009
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
	<u>14,150</u>	<u>1,793</u>	<u>7,667</u>	<u>1,758</u>

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

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

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
	2006	2007	2008	31 July
	RMB'000	RMB'000	RMB'000	2009
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	<u>423</u>	<u>266</u>	<u>3</u>	<u>13</u>
	<u>14,150</u>	<u>1,793</u>	<u>7,667</u>	<u>1,758</u>

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
		2006	2007	2008	31 July
		RMB'000	RMB'000	RMB'000	2009
				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	—	—
		<u>15,820</u>	<u>63,296</u>	<u>277,882</u>	<u>30,927</u>
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
		<u>16,889</u>	<u>44,999</u>	<u>28,156</u>	<u>34,866</u>
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
		<u>5,461</u>	<u>4,303</u>	<u>6,094</u>	<u>31,566</u>
Total prepayments, deposits and other receivables		<u>22,350</u>	<u>49,302</u>	<u>34,250</u>	<u>66,432</u>
Company					
Prepayments					
		<u>1,706</u>	<u>—</u>	<u>—</u>	<u>—</u>
Deposits and other receivables					
Deposits		—	—	17	—
Interest receivable		—	551	1,492	—
Others		—	—	—	554
		<u>—</u>	<u>551</u>	<u>1,509</u>	<u>554</u>
Total prepayments, deposits and other receivables		<u>1,706</u>	<u>551</u>	<u>1,509</u>	<u>554</u>

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.

<u>Year ended 31 December 2006</u>	31 December	Maximum	1 January	Security held
	2006	amount	2006	
	RMB'000	outstanding	RMB'000	
		during the year	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	—
	<u>11,902</u>		<u>54,133</u>	
		Maximum		
		amount		
		outstanding		
		during the year		
		RMB'000		
		RMB'000		
<u>Year ended 31 December 2007</u>	31 December	Maximum	1 January	Security
	2007	amount	2007	held
	RMB'000	outstanding	RMB'000	
		during the year	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	—
	<u>1,998</u>		<u>11,902</u>	
		Maximum		
		amount		
		outstanding		
		during the year		
		RMB'000		
		RMB'000		
<u>Year ended 31 December 2008</u>	31 December	Maximum	1 January	Security
	2008	amount	2008	held
	RMB'000	outstanding	RMB'000	
		during the year	RMB'000	
		RMB'000		
Henan Chemicals	—	1,998	1,998	—
	<u>—</u>	<u>1,998</u>	<u>1,998</u>	

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
	2006	2007	2008	31 July
	RMB'000	RMB'000	RMB'000	2009
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
	2006	2007	2008	31 July
	RMB'000	RMB'000	RMB'000	2009
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
	2006	2007	2008	31 July
	RMB'000	RMB'000	RMB'000	2009
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
	2006	2007	2008	31 July
	RMB'000	RMB'000	RMB'000	2009
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
	<u>28,963</u>	<u>27,685</u>	<u>47,760</u>	<u>44,141</u>

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
	2006	2007	2008	31 July
	RMB'000	RMB'000	RMB'000	2009
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
	<u>17,736</u>	<u>61,195</u>	<u>105,109</u>	<u>126,467</u>
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
	<u>180,074</u>	<u>179,501</u>	<u>154,302</u>	<u>162,932</u>
	<u>197,810</u>	<u>240,696</u>	<u>259,411</u>	<u>289,399</u>

Company

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

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

27. DEFERRED GRANTS

Group

	Notes	As at 31 December			As at
		2006	2007	2008	31 July
		RMB'000	RMB'000	RMB'000	2009
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	Floating rate at 15% above PBOC prime lending rate	2008	37,300	—	—	—	—	—	—
			(b)			(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)									
			<u>74,665</u>			<u>287,000</u>			<u>145,000</u>			<u>522,557</u>
Non-current												
Bank loans												
— secured	Floating rate at 15% to not more than 30% above PBOC prime lending rate	2009 to 2010	110,000	—	—	—	—	—	—	5.4%	2012	120,000
			(a)									(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	—	10,094	Floating rate at 0.3% above market prime lending rate	—	10,348	Floating rate at 0.3% above market prime lending rate	—	10,417	Floating rate at 0.3% above market prime lending rate	—	10,043
			(e)			(e)			(e)			(e)
Entrusted loans due to a related party												
— unsecured	—	—	—	—	—	—	6.804%	2011	90,000	—	—	—
			<u>120,094</u>			<u>90,348</u>			<u>522,974</u>			<u>350,043</u>
			<u>194,759</u>			<u>377,348</u>			<u>667,974</u>			<u>872,600</u>

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	—	—	—
			<u>54,665</u>			<u>—</u>			<u>307,557</u>			<u>307,557</u>

Group

	As at 31 December			As at
	2006	2007	2008	31 July
	RMB'000	RMB'000	RMB'000	2009
				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	<u>110,000</u>	<u>80,000</u>	<u>299,534</u>	<u>340,000</u>
	<u>184,665</u>	<u>367,000</u>	<u>567,557</u>	<u>862,557</u>
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	<u>—</u>	<u>—</u>	<u>90,000</u>	<u>—</u>
	<u>10,094</u>	<u>10,348</u>	<u>100,417</u>	<u>10,043</u>
	<u>194,759</u>	<u>377,348</u>	<u>667,974</u>	<u>872,600</u>

Company

	As at 31 December			As at
	2006	2007	2008	31 July
	RMB'000	RMB'000	RMB'000	2009
				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	<u>—</u>	<u>—</u>	<u>184,534</u>	<u>—</u>
	<u>54,665</u>	<u>—</u>	<u>307,557</u>	<u>307,557</u>

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**

	<u>Withholding tax</u> <u>RMB'000</u>
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)	<u>18,617</u>
At 31 December 2008 and at 1 January 2009	18,617
Deferred tax charged to consolidated statement of comprehensive income (note 11)	<u>4,247</u>
At 31 July 2009	<u><u>22,864</u></u>

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 (<i>note 28</i>)	(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		<u>1,000,000,000</u>	<u>836,671</u>

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

- 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;
- 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;
- 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

		Retained profits/ (accumulated losses)	Proposed final dividend	Total
	Hedging reserve	RMB'000	RMB'000	RMB'000
	Note	RMB'000	RMB'000	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
Total comprehensive income for the year		19,807	51,219	—
Final 2007 dividend declared	13	—	—	(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
Total comprehensive income for the year		720	80,017	—
Final 2008 dividend declared	13	—	—	(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)	—	—
At 31 July 2009		<u>720</u>	<u>(16,708)</u>	<u>—</u>
(Unaudited)				
At 1 January 2008		—	(72,264)	71,468
Total comprehensive income for the period		—	65,596	—
Final 2007 dividend declared		—	—	(71,468)
At 31 July 2008		<u>—</u>	<u>(6,668)</u>	<u>—</u>

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		<u>147,886</u>	<u>263,572</u>
		418,513	547,075
Less: Other payables		(170,943)	(92,844)
Less: Deferred grants	27	—	(12,734)
Less: Interest-bearing loans		<u>(140,000)</u>	<u>(314,956)</u>
Net assets		<u><u>107,570*</u></u>	<u><u>126,541*</u></u>
Cash consideration paid for the First Acquisition by drawing down of bank loans and issuance of the Convertible Loans		<u><u>107,570</u></u>	

* 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		<u>1,895</u>
		732,469
Less: Other payables		(98,760)
Less: Interest-bearing loans		<u>(423,800)</u>
Cash consideration paid for the Second Acquisition		209,909
Less: Time deposits acquired		<u>(3,000)</u>
Net cash outflow in relation to the Second Acquisition		<u><u>206,909</u></u>

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	RMB'000
				(Unaudited)	
Additions to property, plant and equipment (<i>note 15</i>)	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 (<i>note 20</i>)	(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 (<i>note 8</i>)	—	—	—	—	(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
	<u>247,514</u>	<u>137,510</u>	<u>879,998</u>	<u>431,411</u>	<u>310,529</u>

(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
	2006	2007	2008	31 July
	RMB'000	RMB'000	RMB'000	2009
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
	<u>124,928</u>	<u>1,158</u>	<u>46,305</u>	<u>70,237</u>

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
	2006	2007	2008	31 July
	RMB'000	RMB'000	RMB'000	2009
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
	<u>29,059</u>	<u>104,422</u>	<u>329,617</u>	<u>38,502</u>
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
	<u>173,093</u>	<u>376,942</u>	<u>122,434</u>	<u>9,520</u>
	<u>202,152</u>	<u>481,364</u>	<u>452,051</u>	<u>48,022</u>
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.

	Notes	Year ended 31 December			Seven-month period ended 31 July	
		2006	2007	2008	2008	2009
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
						(Unaudited)
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			Seven-month period ended 31 July	
		2006	2007	2008	2008	2009
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
						(Unaudited)
— 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	—	—	—
— Xixiang Xinlianxin Lifting Equipment Co., Ltd. #		496	—	—	—	—
— Xixiang 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		<u>225,617</u>	<u>678,883</u>	<u>—</u>	<u>—</u>	<u>—</u>

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 Guanghai 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	RMB'000
				(Unaudited)	
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
	<u>1,633</u>	<u>10,766</u>	<u>10,058</u>	<u>5,622</u>	<u>3,118</u>
Comprise amounts paid to:					
— Directors of the Company	883	8,845	8,447	5,330	2,792
— Other key management personnel	<u>750</u>	<u>1,921</u>	<u>1,611</u>	<u>292</u>	<u>326</u>
	<u>1,633</u>	<u>10,766</u>	<u>10,058</u>	<u>5,622</u>	<u>3,118</u>

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	
		As at 31 December			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
			<u>211,555</u>	<u>523,940</u>	<u>232,455</u>	<u>267,849</u>

Financial assets at fair value through profit or loss

		As at 31 December			As at	
		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	
		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
			<u>457,806</u>	<u>599,456</u>	<u>881,452</u>	<u>1,124,504</u>

Financial liabilities at fair value through profit or loss

		As at 31 December			As at	
		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
		<u>3,626</u>	<u>440,883</u>	<u>333,966</u>	<u>341,916</u>	<u>341,916</u>

		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
		<u>92,549</u>	<u>—</u>	<u>307,557</u>	<u>307,557</u>	<u>307,557</u>

		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	<u>138,309</u>	<u>52,135</u>	<u>92,997</u>	<u>283,441</u>
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	<u>305,810</u>	<u>93,229</u>	<u>11,802</u>	<u>410,841</u>
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	<u>152,410</u>	<u>562,753</u>	<u>11,989</u>	<u>727,152</u>
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	<u>530,240</u>	<u>163,748</u>	<u>229,500</u>	<u>923,488</u>

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	<u>61,554</u>	<u>—</u>	<u>—</u>	<u>61,554</u>

31 December 2007

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

31 December 2008

Interest-bearing bank and other borrowings	<u>—</u>	<u>—</u>	<u>331,595</u>	<u>331,595</u>
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31 July 2009

Interest-bearing bank and other borrowings	<u>308,988</u>	<u>—</u>	<u>—</u>	<u>308,988</u>
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(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.

	Increase in basis points	As at 31 December			As at
		2006	2007	2008	31 July
		RMB'000	RMB'000	RMB'000	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	<u>11</u>	<u>—</u>	<u>710</u>	<u>32</u>

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

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
	2006	2007	2008	31 July
	RMB'000	RMB'000	RMB'000	2009
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
	<u>96</u>	<u>1</u>	<u>1,966</u>	<u>145</u>

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
	2006	2007	2008	31 July
	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 become 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:

Note	Year ended 31 December			Seven-month period ended 31 July	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
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	<u>129,084</u>	<u>223,106</u>	<u>331,674</u>	<u>226,993</u>	<u>67,714</u>

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

(A) UNAUDITED INTERIM CONDENSED FINANCIAL INFORMATION

Under the Listing Manual pursuant to which the Shares were listed on SGX-ST, the Company is required to publish its interim financial results on a quarterly basis.

The information set out in this Appendix II does not form part of the Accountants' Report prepared by Ernst & Young, Certified Public Accountants, Hong Kong, the reporting accountant of the Company, as set out in Appendix I to the Listing Document, and is included herein for information only.

The following is the unaudited interim condensed financial information, which comprises the audited company and consolidated statements of financial position as at 31 December 2008, the unaudited company and consolidated statements of financial position as at 30 September 2009; the unaudited consolidated statements of comprehensive income; the unaudited consolidated statements of cash flows and the unaudited company and consolidated statements of changes in equity for the three and nine months ended 30 September 2008 and 2009; and certain explanatory notes, prepared in accordance with Singapore Financial Reporting Standards promulgated by the Singapore Accounting Standards Council for the purpose of inclusion in this Listing Document.

Consolidated Statements of Comprehensive Income

	Notes	Three months ended		Nine months ended	
		30 September		30 September	
		2009	2008	2009	2008
		RMB'000	RMB'000	RMB'000	RMB'000
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
REVENUE	4	665,923	628,523	1,691,301	1,620,490
Cost of sales		(598,298)	(495,735)	(1,475,071)	(1,215,151)
Gross profit		67,625	132,788	216,230	405,339
Other income and gains	5	2,766	4,295	8,935	10,874
Selling and distribution expenses		(4,643)	(4,582)	(12,260)	(14,820)
General and administrative expenses		(31,483)	(17,287)	(83,516)	(57,319)
Other expenses		(6,608)	(6,715)	(8,036)	(9,602)
Finance costs	7	(9,933)	(6,595)	(23,763)	(18,086)
PROFIT BEFORE TAX	6	17,724	101,904	97,590	316,386
Tax	8	(5,261)	(5,302)	(20,764)	(15,659)
Net profit attributable to equity holders of the parent		12,463	96,602	76,826	300,727
Other comprehensive income/(expense)					
Gain/(loss) on hedging instruments		(31)	14,773	(19,807)	14,773
Total comprehensive income attributable to equity holders of the parent		12,432	111,375	57,019	315,500
Earnings per share attributable to equity holders of the parent (RMB cents per share)					
Basic and diluted	9	1.25	9.66	7.68	30.07

Consolidated Statements of Financial Position

	Notes	Group		Company	
		As at 30 September 2009	As at 31 December 2008	As at 30 September 2009	As at 31 December 2008
		RMB'000 (Unaudited)	RMB'000 (Audited)	RMB'000 (Unaudited)	RMB'000 (Audited)
ASSETS					
NON-CURRENT ASSETS					
Property, plant and equipment		2,204,569	1,616,011	—	—
Prepaid land lease payments		73,451	72,628	—	—
Prepayments		41,061	277,882	—	—
Investment in a subsidiary		—	—	800,000	800,000
Total non-current assets		<u>2,319,081</u>	<u>1,966,521</u>	<u>800,000</u>	<u>800,000</u>
CURRENT ASSETS					
Inventories		166,898	234,965	—	—
Trade and bills receivables	11	18,966	26,247	—	—
Prepayments		36,188	28,156	—	—
Deposits and other receivables		35,876	6,094	17	1,509
Due from a subsidiary		—	—	8,620	309,420
Derivative financial assets		—	19,807	—	19,807
Pledged deposits	12	17,674	—	—	—
Cash and cash equivalents	12	<u>163,204</u>	<u>200,114</u>	<u>17,772</u>	<u>23,037</u>
Total current assets		<u>438,806</u>	<u>515,383</u>	<u>26,409</u>	<u>353,773</u>
Total assets		<u><u>2,757,887</u></u>	<u><u>2,481,904</u></u>	<u><u>826,409</u></u>	<u><u>1,153,773</u></u>
EQUITY AND LIABILITIES					
CURRENT LIABILITIES					
Trade payables	13	67,854	47,760	—	—
Bills payable		35,346	—	—	—
Accruals and other payables		181,571	259,411	12,402	10,563
Due to related companies		—	1,676	—	—
Income tax payable		3,079	220	—	220
Deferred grants		10,145	9,740	—	—
Derivative financial liabilities		6,522	—	6,522	—
Interest-bearing bank and other borrowings	14	<u>255,000</u>	<u>145,000</u>	—	—
Total current liabilities		<u>559,517</u>	<u>463,807</u>	<u>18,924</u>	<u>10,783</u>
Net current assets/(liabilities)		<u>(120,711)</u>	<u>51,576</u>	<u>7,485</u>	<u>342,990</u>

	Notes	Group		Company	
		As at 30 September 2009	As at 31 December 2008	As at 30 September 2009	As at 31 December 2008
		RMB'000 (Unaudited)	RMB'000 (Audited)	RMB'000 (Unaudited)	RMB'000 (Audited)
NON-CURRENT LIABILITIES					
Accruals		92,038	25,600	—	—
Interest-bearing bank and other borrowings	14	650,087	522,974	—	307,557
Deferred tax liabilities		24,000	18,617	—	—
Total non-current liabilities		766,125	567,191	—	307,557
Total liabilities		1,325,642	1,030,998	18,924	318,340
Net assets		1,432,245	1,450,906	807,485	835,433
Equity attributable to equity holders of the parent					
Issued capital		836,671	836,671	836,671	836,671
Statutory reserve fund		88,537	77,770	—	—
Hedging reserve		—	19,807	—	19,807
Retained profits		507,037	440,731	(29,186)	(96,972)
Proposed final dividend		—	75,927	—	75,927
Total equity		1,432,245	1,450,906	807,485	835,433
Total equity and liabilities		2,757,887	2,481,904	826,409	1,153,773

Consolidated Statements of Changes in Equity

Group

	Notes	Share capital	Statutory reserve fund	Hedging reserve	Retained profits	Proposed final dividend	Total equity
		RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)
At 1 January 2008		836,671	40,514	—	222,240	71,468	1,170,893
Total comprehensive income for the period		—	—	14,773	300,727	—	315,500
Final 2007 dividend declared		—	—	—	—	(71,468)	(71,468)
Transfer to statutory reserve fund	(i)	—	32,396	—	(32,396)	—	—
At 30 September 2008		<u>836,671</u>	<u>72,910</u>	<u>14,773</u>	<u>490,571</u>	<u>—</u>	<u>1,414,925</u>
At 1 July 2008		836,671	62,338	—	404,541	—	1,303,550
Total comprehensive income for the period		—	—	14,773	96,602	—	111,375
Transfer to statutory reserve fund	(i)	—	10,572	—	(10,572)	—	—
At 30 September 2008		<u>836,671</u>	<u>72,910</u>	<u>14,773</u>	<u>490,571</u>	<u>—</u>	<u>1,414,925</u>
At 1 January 2009		836,671	77,770	19,807	440,731	75,927	1,450,906
Total comprehensive income for the period		—	—	(19,807)	76,826	—	57,019
Transfer from proposed final 2008 dividend to retained profits	(ii)	—	—	—	247	(247)	—
Final 2008 dividend declared		—	—	—	—	(75,680)	(75,680)
Transfer to statutory reserve fund	(i)	—	10,767	—	(10,767)	—	—
At 30 September 2009		<u>836,671</u>	<u>88,537</u>	<u>—</u>	<u>507,037</u>	<u>—</u>	<u>1,432,245</u>
At July 2009		836,671	85,740	31	497,371	—	1,419,813
Total comprehensive income for the period		—	—	(31)	12,463	—	12,432
Transfer to statutory reserve fund	(i)	—	2,797	—	(2,797)	—	—
At 30 September 2009		<u>836,671</u>	<u>88,537</u>	<u>—</u>	<u>507,037</u>	<u>—</u>	<u>1,432,245</u>

Company

Note	Share capital	Hedging reserve	Accumulated losses	Proposed final dividend	Total equity
	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)
At 1 January 2008	836,671	—	(72,264)	71,468	835,875
Total comprehensive income for the period	—	14,773	62,425	—	77,198
Final 2007 dividend declared	—	—	—	(71,468)	(71,468)
At 30 September 2008	<u>836,671</u>	<u>14,773</u>	<u>(9,839)</u>	<u>—</u>	<u>841,605</u>
At 1 July 2008	836,671	—	(5,700)	—	830,971
Total comprehensive income/ (expenses) for the period	—	14,773	(4,139)	—	10,634
At 30 September 2008	<u>836,671</u>	<u>14,773</u>	<u>(9,839)</u>	<u>—</u>	<u>841,605</u>
At 1 January 2009	836,671	19,807	(96,972)	75,927	835,433
Total comprehensive income/ (expense) for the period	—	(19,807)	67,540	—	47,733
Transfer from proposed final 2008 dividend to retained profits (ii)	—	—	247	(247)	—
Final 2008 dividend declared	—	—	—	(75,680)	(75,680)
At 30 September 2009	<u>836,671</u>	<u>—</u>	<u>(29,185)</u>	<u>—</u>	<u>807,486</u>
At 1 July 2009	836,671	31	(27,072)	—	809,630
Total comprehensive expenses for the period	—	(31)	(2,113)	—	(2,144)
At 30 September 2009	<u>836,671</u>	<u>—</u>	<u>(29,185)</u>	<u>—</u>	<u>807,486</u>

Notes:

- (i) 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.
- (ii) During the nine months ended 30 September 2009, difference between the proposed and declared final 2008 dividend amounted to RMB247,000 was noted which represented the exchange difference arising from the appreciation of Renminbi ("RMB") against Singapore dollar which was realised upon payment and was transferred to the retained profits as at 30 September 2009.

Consolidated Statements of Cash Flows

	Notes	Three months ended		Nine months ended	
		30 September		30 September	
		2009	2008	2009	2008
		RMB'000	RMB'000	RMB'000	RMB'000
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before tax		17,724	101,904	97,590	316,386
Adjustments for:					
Amortisation of prepaid land lease payments	6	392	266	1,041	798
Depreciation of property, plant and equipment	6	37,813	19,512	87,624	57,834
Loss on disposal of property, plant and equipment	6	225	—	240	348
Write-off of property, plant and equipment	6	186	—	186	—
Amortisation of deferred grants	5	—	—	(1,545)	—
Net fair value loss/(gain) on derivative financial assets/liabilities	5, 6	6,522	(1,781)	6,522	(1,781)
Write-back for doubtful trade receivables	6	—	—	—	(83)
Write-off of trade receivables	6	—	—	—	41
Provision of inventories	6	—	3,000	—	3,000
Interest income	5	(201)	(293)	(1,033)	(2,275)
Interest expense	7	9,933	6,595	23,763	18,086
		72,594	129,203	214,388	392,354
Decrease/(increase) in inventories		(630)	(3,415)	68,067	(110,362)
Decrease/(increase) in trade and bills receivables		4,307	(9,461)	7,281	(17,547)
Decrease/(increase) in prepayments		(9,176)	41,274	(9,896)	(7,979)
Decrease/(increase) in deposits and other receivables		(7,280)	(2,537)	(29,782)	(260)
Decrease/(increase) in amounts due from related companies		—	(1,142)	—	856
Increase/(decrease) in trade and bills payables		44,094	49,146	55,440	58,102
Increase/(decrease) in accruals and other payables		31,031	8,763	(74,535)	44,662
Increase in derivative financial liabilities		6,522	—	6,522	—
Increase/(decrease) in amounts due to related companies		(2,649)	331	(1,676)	(1,053)
Cash flows generated from operations		138,813	212,162	235,809	358,773
Government grant received		1,150	—	1,950	250
Interest paid		(9,933)	(6,595)	(28,763)	(18,086)
Interest received		201	293	1,033	2,275
Tax paid		—	—	(12,522)	(378)
Net cash inflow from operating activities		130,231	205,860	197,507	342,834

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2009	2008	2009	2008
		RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchases of property, plant and equipment	15(i)	(108,345)	(275,147)	(378,176)	(610,540)
Increase in pledged time deposits		(3,173)	(24,525)	(17,674)	(21,016)
Net cash outflow from investing activities		(111,518)	(299,672)	(395,850)	(631,556)
CASH FLOWS FROM FINANCING ACTIVITIES					
Dividends paid on ordinary shares	10	—	—	(75,680)	(71,468)
Proceeds from loans and borrowings		350,065	140,000	759,670	330,000
Proceeds from termination of derivative financial assets.		—	1,571	—	1,571
Repayments of loans and borrowings		(307,557)	(115,000)	(522,557)	(327,000)
Net cash inflow/(outflow) from financing activities		42,508	26,571	161,433	(66,897)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS					
Cash and cash equivalents at beginning of period		101,983	218,432	200,114	506,810
Cash and cash equivalents at end of period		163,204	151,191	163,204	151,191
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS					
Cash and bank balances	12	154,166	119,395	154,166	119,395
Non-pledged time deposits with original maturity of less than three months when acquired	12	9,038	31,796	9,038	31,796
		163,204	151,191	163,204	151,191

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.

At the date of these interim condensed financial information, 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:

<u>Name</u>	<u>Place and date of registration</u>	<u>Nominal value of registered capital</u>	<u>Percentage of equity interest directly attributable to the Company</u>	<u>Principal activities</u>
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

2. BASIS OF PRESENTATION AND STATEMENT OF COMPLIANCE

The interim condensed financial information comprise the unaudited company and consolidated statements of financial position as at 30 September 2009 and the audited company and consolidated statements of financial position as at 31 December 2008; the unaudited consolidated income statements; the unaudited company and consolidated statement of changes in equity; and the unaudited consolidated cash flow statements for the three months and nine months ended 30 September 2009 and 2008 and certain explanatory notes. The interim condensed financial information have been prepared by the directors in accordance with Singapore Financial Reporting Standard 34 “Interim Financial Reporting” issued by the Singapore Accounting Standards Council and the applicable disclosure requirements set out in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

The significant accounting policies adopted in the preparation of the interim condensed financial information are consistent with those adopted in the preparation of the financial information for each of the years ended 31 December 2006, 2007 and 2008 and the seven months ended 31 July 2008 and 2009, details of which are set out in note 3 of Section II of the accountants’ report as set out in Appendix I to the listing document of the Company dated 27 November 2009 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 the way of introduction.

3. IMPACT OF NEW AND REVISED SINGAPORE FINANCIAL REPORTING STANDARDS (“SFRSs”)

For the purpose of preparing and presenting the interim condensed 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 respective 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 interim condensed financial information.

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 period”.
- 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 nine-month period ended 30 September 2008 have been prepared and presented. The early adoption has resulted in capitalisation of borrowing costs of RMB5,000,000 for the nine-month period ended 30 September 2009.

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.

4. SEGMENT INFORMATION

Segment profit definition

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

Group

Three months ended
30 September 2008

	Urea	Compound fertiliser	Methanol	Others	Elimination	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
REVENUE						
Sales to external customers	255,981	309,606	60,908	2,028	—	628,523
Intersegment sales	47,550	—	—	1,892	(49,442)	—
Total revenue	<u>303,531</u>	<u>309,606</u>	<u>60,908</u>	<u>3,920</u>	<u>(49,442)</u>	<u>628,523</u>
Segment profit/(loss)	30,485	93,757	9,488	(942)	—	132,788
Unallocated expenses, net						(24,582)
Financial expenses, net						<u>(6,302)</u>
Profit before tax						101,904
Income tax expense						<u>(5,302)</u>
Net profit attributable to equity holders of the parent						<u><u>96,602</u></u>

Nine months ended
30 September 2008

	Urea	Compound fertiliser	Methanol	Others	Elimination	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
REVENUE						
Sales to external customers	808,121	627,175	179,944	5,250	—	1,620,490
Intersegment sales	135,025	—	—	3,757	(138,782)	—
Total revenue	<u>943,146</u>	<u>627,175</u>	<u>179,944</u>	<u>9,007</u>	<u>(138,782)</u>	<u>1,620,490</u>
Segment profit/(loss)	203,829	149,942	51,234	334	—	405,339
Unallocated expenses, net						(73,142)
Financial expenses, net						<u>(15,811)</u>
Profit before tax						316,386
Income tax expense						<u>(15,659)</u>
Net profit attributable to equity holders of the parent						<u><u>300,727</u></u>

Three months ended 30 September 2009	Urea	Compound fertiliser	Methanol	Others	Elimination	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
REVENUE						
Sales to external customers	424,151	185,004	54,473	2,295	—	665,923
Intersegment sales	10,484	—	—	22,877	(33,361)	—
Total revenue	434,635	185,004	54,473	25,172	(33,361)	665,923
Segment profit/(loss)	68,268	5,945	(5,891)	(697)	—	67,625
Unallocated expenses, net						(40,169)
Financial expenses, net						(9,732)
Profit before tax						17,724
Income tax expense						(5,261)
Net profit attributable to equity holders of the parent						12,463

Nine months ended 30 September 2009	Urea	Compound fertiliser	Methanol	Others	Elimination	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
REVENUE						
Sales to external customers	1,202,567	366,144	116,210	6,380	—	1,691,301
Intersegment sales	115,828	—	—	4,628	(120,456)	—
Total revenue	1,318,395	366,144	116,210	11,008	(120,456)	1,691,301
Segment profit/(loss)	243,224	3,220	(27,337)	(2,877)	—	216,230
Unallocated expenses, net						(95,910)
Financial expenses, net						(22,730)
Profit before tax						97,590
Income tax expense						(20,764)
Net profit attributable to equity holders of the parent						76,826

5. OTHER INCOME AND GAINS

An analysis of the Group's other income and gains is as follows:

	Three months ended		Nine months ended	
	30 September		30 September	
	2009	2008	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Bank interest income	201	293	1,033	2,275
Sale of by-products	1,292	2,065	2,672	4,797
Service fee income from related parties	19	21	53	44
Amortisation of deferred grants	—	—	1,545	—
Net fair value gain on derivative financial assets	—	1,781	—	1,781
Realised exchange gain	—	—	31	—
Unrealised exchange gain	98	—	—	—
Subsidy income	1,000	—	2,915	1,355
Others	156	135	686	622
	<u>2,766</u>	<u>4,295</u>	<u>8,935</u>	<u>10,874</u>

6. PROFIT BEFORE TAX

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

	Three months ended		Nine months ended	
	30 September		30 September	
	2009	2008	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Cost of inventories sold	598,298	492,735	1,475,071	1,212,151
Provision of inventories	—	3,000	—	3,000
	<u>598,298</u>	<u>495,735</u>	<u>1,475,071</u>	<u>1,215,151</u>
Depreciation	37,813	19,512	87,624	57,834
Amortisation of prepaid land lease payments	392	266	1,041	798
Minimum lease payments under operating leases:				
Land	569	54	1,493	510
Buildings	224	146	656	759
	<u>793</u>	<u>200</u>	<u>2,149</u>	<u>1,269</u>
Auditors' remuneration	3,802	248	6,253	1,234
Employee benefit expenses (including directors' remuneration):				
Salaries and bonuses	19,686	17,778	55,597	52,569
Contribution to defined contribution plans	3,817	2,398	10,768	5,458
Welfare expenses	830	384	2,787	2,254
	<u>24,333</u>	<u>20,560</u>	<u>69,152</u>	<u>60,281</u>

	Three months ended 30 September		Nine months ended 30 September	
	2009	2008	2009	2008
	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)
Reversal of impairment of trade receivables	—	—	—	(83)
Write-off of trade receivables	—	—	—	41
Research expenses	221	21	337	36
Net fair value loss on derivative financial assets*	6,522	—	6,522	—
Unrealised exchange loss*	—	2,118	791	3,119
Loss on disposal of property, plant and equipment*	225	—	240	348
Write-off of property, plant and equipment*	186	—	186	—

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

7. FINANCE COSTS

Group

	Three months ended 30 September		Nine months ended 30 September	
	2009	2008	2009	2008
	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)
Interest on bank loans, overdrafts and other loans, wholly repayable within five years.	9,840	6,502	28,486	17,809
Interest on government loans.	93	93	277	277
	9,933	6,595	28,763	18,086
Less: Interest capitalised.	—	—	(5,000)	—
	9,933	6,595	23,763	18,086

8. TAX

The Company is incorporated in Singapore and accordingly, is subject to an income tax rates of 18%.

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.

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 three months and nine months ended 30 September 2008. For the three months and nine months ended 30 September 2009, the subsidiary was in its third profitable year and hence became subject to a concessionary rate of 12.5%.

Group

	Note	Three months ended 30 September		Nine months ended 30 September	
		2009	2008	2009	2008
		RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)
Current — Singapore					
Overprovision in prior years		—	(85)	—	(640)
Current — PRC					
Charge for the period		3,862	—	15,381	—
Deferred	(i)	1,399	5,387	5,383	16,299
Total tax charge for the period		<u>5,261</u>	<u>5,302</u>	<u>20,764</u>	<u>15,659</u>

Note:

- (i) 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.

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

Earnings per share for the nine months ended 30 September 2009 and 2008, and three months ended 30 September 2009 and 2008 are calculated by dividing the Group's net profit attributable to shareholders for each of these periods by the weighted average number of 1,000,000,000 ordinary shares in issue.

There were no dilutive ordinary shares in existence during the nine months ended 30 September 2009 and 2008, and the three months ended 30 September 2009 and 2008.

10. DIVIDEND

The directors do not recommend the payment of any dividend to the shareholders for the nine months ended 30 September 2009 and 2008, and the three months ended 30 September 2009 and 2008.

11. TRADE AND BILLS RECEIVABLES

	Group	
	As at 30 September 2009	As at 31 December 2008
	RMB'000 (Unaudited)	RMB'000 (Audited)
Trade receivables	13,500	7,989
Impairment	(322)	(322)
	13,178	7,667
Bills receivable	5,788	18,580
	18,966	26,247

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 RMB.

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 30 September 2009 and 31 December 2008, based on the invoice date and net of provisions, is as follows:

	Group	
	As at 30 September 2009	As at 31 December 2008
	RMB'000 (Unaudited)	RMB'000 (Audited)
Within 1 month	12,971	6,641
1 to 3 months	75	1,014
3 to 6 months	128	9
6 to 12 months	1	3
Over 12 months	3	—
	13,178	7,667

The Company had no trade receivables at both dates of statement of financial position.

12. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	As at 30 September 2009	As at 31 December 2008	As at 30 September 2009	As at 31 December 2008
	RMB'000 (Unaudited)	RMB'000 (Audited)	RMB'000 (Unaudited)	RMB'000 (Audited)
Time deposits	26,712	10,685	9,038	10,685
Less: Pledged time deposits for bills payable	(17,674)	—	—	—
	9,038	10,685	9,038	10,685
Cash at banks and on hand	154,166	189,429	8,734	12,352
Cash and cash equivalents	163,204	200,114	17,772	23,037

At 30 September 2009, the cash and bank balances of the Group denominated in RMB amounted to RMB145,432,000 (31 December 2008: RMB36,006,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administrative 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.

13. TRADE PAYABLES

An aged analysis of the Group's trade payables as at 30 September 2009 and 31 December 2008, based on the invoice date, is as follows:

	Group	
	As at 30 September 2009	As at 31 December 2008
	RMB'000 (Unaudited)	RMB'000 (Audited)
Within 1 month	31,629	37,960
1 to 3 months	10,841	3,669
3 to 6 months	8,536	2,149
6 to 12 months	3,805	910
Over 12 months	13,043	3,072
	67,854	47,760

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

The Company had no trade payables at both dates of statement of financial position.

14. INTEREST-BEARING BANK AND OTHER BORROWINGS

Group

	As at 30 September 2009			As at 31 December 2008		
	Contractual interest rate	Maturity	RMB'000 (Unaudited)	Contractual interest rate	Maturity	RMB'000 (Audited)
CURRENT						
Bank loans						
— unsecured	4.8% to 5.84%	2009 to 2010	255,000	6.14% to 7.47%	2009	145,000
NON-CURRENT						
Bank loans						
— secured	5.4%	2012	120,000	—	—	—
— unsecured	5.4%	2010 to 2012	520,000	Floating rate at not more than 30% above the PBOC prime lending rate	2010 to 2011	115,000
Syndicated bank loan						
— unsecured	—	—	—	USD LIBOR + 2.25%	2010 to 2011	307,557 (c)
Loan from the government						
— unsecured	Floating rate at 0.3% above market prime lending rate	—	10,087 (d)	Floating rate at 0.3% above market prime lending rate	—	10,417 (d)
Entrusted loans due to a related party						
— unsecured	—	—	—	6.804%	2011	90,000
			<u>650,087</u>			<u>522,974</u>
			<u>905,087</u>			<u>667,974</u>

Company

	As at 30 September 2009			As at 31 December 2008		
	Contractual interest rate	Maturity	RMB'000 (Unaudited)	Contractual interest rate	Maturity	RMB'000 (Audited)
NON-CURRENT						
Syndicated bank loan						
— unsecured	—	—	—	USD LIBOR + 2.25%	2010 to 2011	307,557

Group

	Group		Company	
	As at 30 September 2009 RMB'000 (Unaudited)	As at 31 December 2008 RMB'000 (Audited)	As at 30 September 2009 RMB'000 (Unaudited)	As at 31 December 2008 RMB'000 (Audited)
Analysed into:				
Bank loans repayable:				
Within one year or on demand	255,000	145,000	—	—
In the second year	370,000	123,023	—	123,023
In the third to fifth years, inclusive	270,000	299,534	—	184,534
	<u>895,000</u>	<u>567,557</u>	<u>—</u>	<u>307,557</u>
Other borrowings repayable:				
In the second year	10,087	10,417	—	—
In the third to fifth years, inclusive	—	90,000	—	—
	<u>10,087</u>	<u>100,417</u>	<u>—</u>	<u>—</u>
	<u>905,087</u>	<u>667,974</u>	<u>—</u>	<u>307,557</u>

Notes:

- (a) Certain bank loans of the Group and of the Company were guaranteed by independent third parties.
- (b) 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 (equivalent to RMB307,557,000) and its foreign currency and interest rate risk exposures have been hedged by two interest rate swaps entered into by the Group.
- (c) 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. During the period ended 30 September 2009, two of the covenants were breached and according to the loan agreement, the loan has become immediately repayable, and the entire loan of RMB307,557,000 was repaid in September 2009.
- (d) 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.

15. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

The Group's major non-cash transactions include:

(i) Purchases of property, plant and equipment

	Three months ended		Nine months ended	
	30 September		30 September	
	2009	2008	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Additions to property, plant and equipment	80,650	262,460	676,608	376,236
Less: Prepayments made in the prior period	—	—	(277,882)	(56,633)
Less: Payable to creditors	—	—	(151,531)	(20,323)
Less: Interest capitalised	—	—	(5,000)	—
	80,650	262,460	242,195	299,280
Add: Prepayments made in the current period	—	12,687	41,061	277,882
Add: Payments for the prior period purchases	27,695	—	94,920	33,378
	<u>108,345</u>	<u>275,147</u>	<u>378,176</u>	<u>610,540</u>

(ii) Interest capitalisation

During the nine months ended 30 September 2009, the Group capitalised interest expenses of RMB5,000,000 in property, plant and equipment.

16. 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 dates of statement of financial position are as follows:

	Group	
	As at	As at
	30 September 2009	31 December 2008
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Within one year	2,277	1,507
In the second to fifth years, inclusive	9,010	5,550
After five years	58,571	39,248
	<u>69,858</u>	<u>46,305</u>

The Company had no operating lease arrangements as at 30 September 2009 and 31 December 2008.

17. COMMITMENTS

In addition to the operating lease commitments detailed in note 16 above, the Group had the following capital and other commitments at the dates of statement of financial position:

	Group	
	As at 30 September 2009 RMB'000 (Unaudited)	As at 31 December 2008 RMB'000 (Audited)
Capital commitments		
Contracted, but not provided for:		
Buildings	49,503	28,835
Plant and machinery	161,917	300,782
	<u>211,420</u>	<u>329,617</u>
Authorised, but not contracted for:		
Buildings	1,726	13,341
Plant and machinery	1,066	109,093
	<u>2,792</u>	<u>122,434</u>
	<u>214,212</u>	<u>452,051</u>
Other commitments		
Purchases of raw materials	3,406	262,572

The Company had no material commitment as at 30 September 2009 and 31 December 2008.

18. RELATED PARTY TRANSACTIONS

(a) The Group had the following transactions with related parties:

	Notes	Three months ended		Nine months ended	
		30 September		30 September	
		2009	2008	2009	2008
		RMB'000	RMB'000	RMB'000	RMB'000
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Continuing transactions					
Sales of water, electricity and steam to:					
	(i)				
— Henan Shenzhou Heavy Sealing Co., Ltd.#		213	248	569	467
— Xinxiang Xinlianxin Gas Products Co., Ltd.#		290	280	756	590
— Xinxiang Xinlianxin Lifting Equipment Co., Ltd.#		1	1	1	2
— Xinxiang Xinlianxin Chemical Equipment Co., Ltd.#		47	71	99	124
— Xinxiang Yuyuan Chemical Co., Ltd.#		122	114	408	222
— Xinxiang Xinlianxin Hotel Co., Ltd.#		19	28	39	43
Service fee income for provision of calibration and testing services from:					
	(ii)				
— Henan Shenzhou Heavy Sealing Co., Ltd.#		6	12	16	16
— Xinxiang Xinlianxin Gas Products Co., Ltd.#		—	—	1	1
— Xinxiang Xinlianxin Lifting Equipment Co., Ltd.#		—	—	1	—
— Xinxiang Xinlianxin Chemical Equipment Co., Ltd.#		2	2	8	4
— Xinxiang Yuyuan Chemical Co., Ltd.#		11	7	27	13
Purchases of equipment and consumables from:					
	(iii)				
— Henan Shenzhou Heavy Sealing Co., Ltd.#		—	30	—	30
— Xinxiang Xinlianxin Gas Products Co., Ltd.#		85	41	437	180
— Xinxiang Xinlianxin Chemical Equipment Co., Ltd.#		—	3,566	—	6,729
Service fee expenses for provision of lifting services to:					
	(iv)				
— Xinxiang Xinlianxin Lifting Equipment Co., Ltd.		453	253	1,973	784
Discontinued transaction					
Purchases of finished goods from:					
	(v)				
— Xinxiang Xinlianxin Chemical Equipment Co., Ltd.#		111	—	111	—
Service fee expenses to:					
	(vi)				
— Xinxiang Xinlianxin Hotel Co., Ltd.#		503	436	1,538	821
Operating lease expenses to:					
	(vii)				
— Henan Chemicals		120	120	360	246
Interest expense to:					
	(viii)				
— Henan Chemicals		—	1,055	2,735	4,287

These companies are subsidiaries of Henan Xinlianxin Chemicals Co., Ltd. (“Henan Chemicals”), which has common shareholders with the Company. The Company’s executive director and executive officers own an aggregate of 24% equity interest in Henan Chemicals.

Notes:

- (i) The sale of water was made according to a mutually agreed fee. The sale of electricity was made according to the 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 purchases of finished goods were charged based on the published prices and conditions offered to third parties by the related companies.
- (vi) The service fee expenses were charged based on mutually agreed terms with reference to the actual costs incurred.
- (vii) The operating lease expenses for the period from 1 January 2008 to 30 June 2008 were charged at a fixed monthly amount of RMB42,000. Starting from 1 July 2008, the Group paid a fixed monthly rental of RMB40,000.
- (viii) The interest expense was charged based on a fixed interest rate of 6.804% per annum on the balance due to related companies.

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 (viii) 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:

	Three months ended 30 September		Nine months ended 30 September	
	2009	2008	2009	2008
	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)
Directors' fee	157	157	519	525
Salaries and bonuses	240	1,085	2,860	5,546
Contribution to defined contribution plans	35	21	106	62
	<u>432</u>	<u>1,263</u>	<u>3,485</u>	<u>6,133</u>
Comprise amounts paid to:				
— Directors of the Company	2,062	163	2,897	3,995
— Other key management personnel	143	135	429	381
	<u>2,205</u>	<u>298</u>	<u>3,326</u>	<u>4,376</u>

19. RECONCILIATION BETWEEN SFRSs AND IFRSs

No material differences between the interim condensed financial information of the Group prepared under SFRSs and International Financial Reporting Standards (which include all International Financial Reporting Standards, International Accounting Standards and Interpretations).

20. APPROVAL OF THE INTERIM CONDENSED FINANCIAL INFORMATION

The interim condensed financial information were approved and authorised to issue by the board of directors on 27 November 2009.

(B) REPORT FROM THE REPORTING ACCOUNTANTS

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



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

27 November 2009

The Board of Directors
China XLX Fertiliser Ltd.

Dear Sirs,

INTRODUCTION

This report has been prepared for inclusion in the listing document of China XLX Fertiliser Ltd. (the “**Company**”) dated 27 November 2009 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.

We have reviewed the unaudited interim condensed financial information of the Company and its subsidiary (hereinafter collectively referred to as the “**Group**”) set out on pages II-1 to II-22, which comprise the company and consolidated statements of financial position as at 30 September 2009 and the consolidated statements of comprehensive income, company and consolidated statements of changes in equity and consolidated statements of cash flows for the three months and the nine months ended 30 September 2009 and 2008, and certain explanatory notes. The Rules Governing the Listing of Securities on the Stock Exchange require the preparation of a report on interim condensed financial information to be in compliance with the relevant provisions thereof and Singapore Financial Reporting Standard 34 “Interim Financial Reporting” (“**SFRS 34**”) issued by the Singapore Accounting Standards Council.

The directors of the Company are responsible for the preparation and presentation of these interim condensed financial information in accordance with SFRS 34.

Our responsibility is to express a conclusion on these interim condensed financial information based on our review.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim condensed financial information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of interim condensed financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. 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.

CONCLUSION

Based on our review which does not constitute an audit, nothing has come to our attention that causes us to believe that the interim condensed financial information is not prepared, in all material respects, in accordance with SFRS 34.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this document received from Jones Lang LaSalle Sallmanns Limited, an independent valuer, in connection with its valuation as at 30 September 2009 of the property interests of the Group.



Jones Lang LaSalle Sallmanns Limited
17/F Dorset House Taikoo Place
979 King's Road Quarry Bay Hong Kong
tel +852 2169 6000 fax +852 2169 6001
Licence No: C-030171

27 November 2009

The Board of Directors
China XLX Fertiliser Ltd.
333 North Bridge Road
#08-00 KH KEA Building
Singapore 188721

Dear Sirs,

In accordance with your instructions to value the properties in which China XLX Fertiliser Ltd. (the "**Company**") and its subsidiaries (hereinafter together referred to as the "**Group**") have interests in the People's Republic of China (the "**PRC**"), we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the capital values of the property interests as at 30 September 2009 (the "**date of valuation**").

Our valuation of the property interests represents the market value which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion".

Due to the nature of the buildings and structures of the properties and the particular locations in which they are situated, there are unlikely to be relevant market comparable sales readily available and the property interests in Group I have therefore been valued on the basis of their depreciated replacement cost.

Depreciated replacement cost is defined as "the current cost of replacement (reproduction) of a property less deductions for physical deterioration and all relevant forms of obsolescence and optimization." It is based on an estimate of the market value for the existing use of the land, plus the current cost of replacement (reproduction) of the improvements, less deductions for physical deterioration and all relevant forms of obsolescence and optimization. The depreciated replacement cost of the property interest is subject to adequate potential profitability of the concerned business.

We have attributed no commercial value to the property interest in Group II, which is rented by the Group, due either to the short-term nature of the lease or the prohibition against assignment or sub-letting or otherwise due to the lack of substantial profit rent.

Our valuation has been made on the assumption that the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the values of the property interests.

No allowance has been made in our report for any charges, mortgages or amounts owing on any of the property interests valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

In valuing the property interests, we have complied with all requirements contained in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong; the RICS Valuation Standards (6th Edition) published by the Royal Institution of Chartered Surveyors; and the HKIS Valuation Standards on Properties (1st Edition 2005) published by the Hong Kong Institute of Surveyors.

We have relied to a very considerable extent on the information given by the Group and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

We have been shown copies of various title documents including State-owned Land Use Rights Certificates, Building Ownership Certificates and official plans relating to the property interests and have made relevant enquiries. Where possible, we have examined the original documents to verify the existing title to the property interests in the PRC and any material encumbrance that might be attached to the property interests or any tenancy amendment. We have relied considerably on the advice given by the Company's PRC legal advisers — Haihua Yongtai Law Firm, concerning the validity of the property interests in the PRC.

We have not carried out detailed measurements to verify the correctness of the areas in respect of the properties but have assumed that the areas shown on the title documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the properties. However, we have not carried out investigation to determine the suitability of the ground conditions and services of the properties. Our valuation is prepared on the assumption that these aspects are satisfactory. Moreover, no structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are not, however, able to report whether the properties are free of rot, infestation or any other structural defects. No tests were carried out on any of the services.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also sought confirmation from the Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to arrive an informed view, and we have no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary figures stated in this report are in Renminbi (RMB).

Our valuation is summarized below and the valuation certificates are attached.

Yours faithfully,
for and on behalf of
Jones Lang LaSalle Sallmanns Limited
Paul L. Brown
B.Sc. FRICS FHKIS
Director

Note: Paul L. Brown is a Chartered Surveyor who has 26 years' experience in the valuation of properties in the PRC and 29 years of property valuation experience in Hong Kong, the United Kingdom and the Asia-Pacific region.

SUMMARY OF VALUES

Group I — Property interests held and occupied by the Group in the PRC

No.	Property	Capital value in existing state as at 30 September 2009 RMB	Interest attributable to the Group	Capital value attributable to the Group as at 30 September 2009 RMB
1.	3 parcels of land, 99 buildings and various structures located at the eastern side of Qingnian Central Road Xiaoji Town Xinxiang County Xinxiang City Henan Province The PRC	109,161,000	100%	109,161,000
2.	2 parcels of land, 70 buildings and various structures located at the northern side of Zhaoti Village Qinglong Road Langgongmiao Town Xinxiang County Xinxiang City Henan Province The PRC	273,424,000	100%	273,424,000
3.	A parcel of land and a single-storey building located at Zhangqing Village Xinxiang City Henan Province The PRC	No commercial value	100%	No commercial value
Sub-total:		<u>382,585,000</u>		<u>382,585,000</u>

Group II — Property interest rented and occupied by the Group in the PRC

<u>No.</u>	<u>Property</u>	<u>Capital value in existing state as at 30 September 2009 RMB</u>	<u>Capital value attributable to the Group as at 30 September 2009 RMB</u>
4.	6 parcels of land located at Zhangqing Village and Weizhuang Village Xinxiang Economic and Technology Development Zone Xinxiang City Henan Province The PRC	No commercial value	No commercial value
	Sub-total:	<u>Nil</u>	<u>Nil</u>
	Grand total:	<u>382,585,000</u>	<u>382,585,000</u>

VALUATION CERTIFICATE

Group I — Property interests held and occupied by the Group in the PRC

<u>No.</u>	<u>Property</u>	<u>Description and tenure</u>	<u>Particulars of occupancy</u>	<u>Capital value in existing state as at 30 September 2009</u> <u>RMB</u>
1.	3 parcels of land, 99 buildings and various structures located at the eastern side of Qingnian Central Road Xiaoji Town Xinxiang County Xinxiang City Henan Province The PRC	<p>The property comprises 3 parcels of land with a total site area of approximately 180,126.2 sq.m. and 99 buildings and various structures erected thereon which were completed in various stages between 1969 and 2009.</p> <p>The buildings have a total gross floor area of approximately 79,766.72 sq.m.</p> <p>The buildings mainly include industrial buildings, warehouses, office buildings and a guard house.</p> <p>The structures mainly include chimney, boundary fences and road.</p> <p>The land use rights of the property have been granted for terms with the expiry dates on 5 November 2053 and 31 December 2056 for industrial use.</p>	The property is currently occupied by the Group for production, office, storage and ancillary purposes.	<p>109,161,000</p> <p>100% interest attributable to the Group: RMB109,161,000</p>

Notes:

1. Henan Xinlianxin Fertiliser Co., Ltd. ("**Henan Xinlianxin Fertiliser**", a wholly-owned subsidiary of the Company) has entered into an Assets Purchase Contract with Henan Xinlianxin Chemical Co., Ltd. ("**Henan Xinlianxin Chemical**", a connected party of the Company) dated 14 August 2007 to purchase various assets including the land, buildings, structures and equipments from Henan Xinlianxin Chemical at a total consideration of RMB209,909,030. 3 parcels of land, 91 buildings and various structures of the property (the "**Chemical Property I**") together with the Chemical Property II mentioned in property no. 2 are included in this transaction and the total consideration has been paid off by the Group.
2. Pursuant to 3 State-owned Land Use Rights Certificates — Xin Xiang Xian Guo Yong (2009) Di Nos. 010, 011 and 012 dated 21 April 2009, the land use rights of 3 parcels of land with a total site area of approximately 180,126.2 sq.m. have been granted to Henan Xinlianxin Fertiliser for terms with the expiry dates on 5 November 2053 and 31 December 2056 for industrial use.
3. Pursuant to 60 Building Ownership Certificates — Fang Quan Zheng Zi Di Nos. 090235 to 090285, 090290 to 090295, 090297, 090478 and 090479 dated 30 April 2009 and 7 May 2009, 99 buildings with a total gross floor area of approximately 79,766.72 sq.m. are owned by Henan Xinlianxin Fertiliser.
4. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:
 - a. Henan Xinlianxin Fertiliser has the rights to use, transfer, lease, mortgage or otherwise dispose of the land use rights of the property in accordance with the PRC laws;

- b. The building ownership rights of the property with a total gross floor area of approximately 79,766.72 sq.m. are legally vested in Henan Xinlianxin Fertiliser and can be transferred, leased, mortgaged or handled by Henan Xinlianxin Fertiliser; and
- c. The property is not subject to mortgage or any other encumbrances.

VALUATION CERTIFICATE

<u>No.</u>	<u>Property</u>	<u>Description and tenure</u>	<u>Particulars of occupancy</u>	<u>Capital value in existing state as at 30 September 2009</u> <u>RMB</u>												
2.	2 parcels of land, 70 buildings and various structures located at the northern side of Zhaoti Village Qinglong Road Langgongmiao Town Xinxiang County Xinxiang City Henan Province The PRC	<p>The property comprises 2 parcels of land with a total site area of approximately 483,878 sq.m. and 70 buildings and various structures erected thereon which were completed in various stages between 2007 and 2009.</p> <p>The buildings have a total gross floor area of approximately 140,882.15 sq.m.</p> <p>The buildings mainly include industrial buildings, warehouses, office buildings and a guard house.</p> <p>The structures mainly include chimney, boundary fences and roads.</p> <p>The land use rights of the property have been granted for terms with the expiry dates on 31 December 2056 and 25 March 2058 for industrial use.</p> <p>Details of the 2 parcels of land (hereinafter referred to as Lot nos. 1 and 2) are set out as follows:</p> <table border="1" style="margin-left: 40px;"> <tbody> <tr> <td>Lot no.</td> <td>1</td> <td>2</td> </tr> <tr> <td>Site Area (sq.m.)</td> <td>338,559</td> <td>145,319</td> </tr> <tr> <td>Usage</td> <td>Industrial</td> <td>Industrial</td> </tr> <tr> <td>Expiry Date</td> <td>31 December 2056</td> <td>25 March 2058</td> </tr> </tbody> </table>	Lot no.	1	2	Site Area (sq.m.)	338,559	145,319	Usage	Industrial	Industrial	Expiry Date	31 December 2056	25 March 2058	The property is currently occupied by the Group for production, office, storage and ancillary purposes.	273,424,000 100% interest attributable to the Group: RMB273,424,000
Lot no.	1	2														
Site Area (sq.m.)	338,559	145,319														
Usage	Industrial	Industrial														
Expiry Date	31 December 2056	25 March 2058														

Notes:

- Henan Xinlianxin Fertiliser Co., Ltd. ("**Henan Xinlianxin Fertiliser**", a wholly-owned subsidiary of the Company) has entered into an Assets Purchase Contract with Henan Xinlianxin Chemical Co., Ltd. ("**Henan Xinlianxin Chemical**"), a connected party of the Company) dated 14 August 2007 to purchase various assets including the land, buildings, structures and equipments from Henan Xinlianxin Chemical at a total consideration of RMB209,909,030. Lot no. 1, 27 buildings with a total gross floor area of approximately 50,527.68 sq.m. and various structures of the property (the "**Chemical Property II**") together with the Chemical Property I mentioned in property no. 1 are included in this transaction and the total consideration has been paid off by the Group.
- Pursuant to a State-owned Land Use Rights Grant Contract — No. 2008-006 dated 25 March 2008, the land use rights of Lot no. 2 of the property with a site area of approximately 145,319 sq.m. were contracted to be granted to Henan Xinlianxin Fertiliser for a term of 50 years expiring on 25 March 2058 for industrial use. The land premium was RMB18,310,200.
- Pursuant to a State-owned Land Use Rights Certificate — Xin Xiang Xian Guo Yong (2009) Di No. 009 dated 21 April 2009, the land use rights of Lot no. 1 of the property with a site area of approximately 338,559 sq.m. have been granted to Henan Xinlianxin Fertiliser for a term expiring on 31 December 2056 for industrial use.

4. Pursuant to a State-owned Land Use Rights Certificate — Xin Xiang Xian Guo Yong (2008) Di No. 012 dated 11 September 2008, the land use rights of Lot no. 2 of the property with a site area of approximately 145,319 sq.m. have been granted to Henan Xinlianxin Fertiliser for a term of 50 years expiring on 25 March 2058 for industrial use.
5. Pursuant to 51 Building Ownership Certificates — Fang Quan Zheng Zi Di Nos. 090220 to 090234, 090298 to 090313 and 090316 to 090335 dated 30 April 2009 and 7 May 2009, 70 buildings with a total gross floor area of approximately 140,882.15 sq.m. are owned by Henan Xinlianxin Fertiliser.
6. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:
 - a. Henan Xinlianxin Fertiliser has the rights to use, transfer, lease, mortgage or otherwise dispose of the land use rights of the property in accordance with the PRC laws;
 - b. The building ownership rights of the property with a total gross floor area of approximately 140,882.15 sq.m. are legally vested in Henan Xinlianxin Fertiliser and can be transferred, leased, mortgaged or handled by Henan Xinlianxin Fertiliser; and
 - c. The property is not subject to mortgage or any other encumbrances.

VALUATION CERTIFICATE

<u>No.</u>	<u>Property</u>	<u>Description and tenure</u>	<u>Particulars of occupancy</u>	Capital value in existing state as at 30 September 2009 RMB
3.	A parcel of land and a single-storey building located at Zhangqing Village Xinxiang City Henan Province The PRC	<p>The property comprises a parcel of land with a site area of approximately 61,200 sq.m. and a single-storey building erected thereon which was completed in 2009.</p> <p>The building has a gross floor area of approximately 30,624 sq.m.</p> <p>The land parcel of the property is collectively-owned land which was rented by Henan Xinlianxin Fertiliser Co., Ltd. for a term of 20 years expiring on 5 March 2028 (Please refer to note 1).</p>	The property is currently occupied by the Group for storage purpose.	No commercial value

Notes:

1. Pursuant to a Land Lease Agreement, the land use rights of the property are leased to Henan Xinlianxin Fertiliser Co., Ltd. ("**Henan Xinlianxin Fertiliser**", a wholly-owned subsidiary of the Company), from the Village Committee of Zhangqing Village Xiaoji Town Xinxiang County (新鄉縣小冀鎮張青村委會, the "**Lessor**"), for a term of 20 years expiring on 5 March 2028 at a passing annual rent of RMB137,700.
2. Pursuant to a Collectively-owned Land Use Rights Certificate — Xin Xiang Xian Ji Yong (2009) Di No. L001 dated 18 April 2009, the land use rights of a parcel of land with a site area of approximately 61,200 sq.m. are held by Henan Xinlianxin Fertiliser for a term with the expiry date on 1 October 2028 for industrial use.
3. Pursuant to a Building Ownership Certificate — Fang Quan Zheng Zi Di No. 090296 dated 7 May 2009, a building with a gross floor area of approximately 30,624 sq.m. is owned by Henan Xinlianxin Fertiliser.
4. We have attributed no commercial value to the property as the land is collectively-owned land. However, for reference purpose, we are of the opinion that the depreciated replacement cost of the building as at the date of valuation would be RMB18,126,000 assuming all relevant title certificates have been obtained and the building could be freely transferred.
5. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:
 - a. The Land Lease Agreement is valid, binding and enforceable under the PRC laws;
 - b. The Land Lease Agreement has been registered with local authorities;
 - c. Henan Xinlianxin Fertiliser has the rights to occupy and use the building;
 - d. Henan Xinlianxin Fertiliser can transfer, mortgage or otherwise dispose of the building upon obtaining the approval from the land owner and the land administration authorities; and
 - e. The property is not subject to mortgage or any other encumbrances.

VALUATION CERTIFICATE

Group II – Property interest rented and occupied by the Group in the PRC

<u>No.</u>	<u>Property</u>	<u>Description and tenure</u>	<u>Particulars of occupancy</u>	<u>Capital value in existing state as at 30 September 2009</u> <u>RMB</u>
4.	6 parcels of land located at Zhangqing Village and Weizhuang Village Xinxiang Economic and Technology Development Zone Xinxiang City Henan Province The PRC	The property comprises 6 parcels of land with a total site area of approximately 78,852 sq.m. The property is leased to Henan Xinlianxin Fertiliser Co., Ltd. from 2 independent third parties for a term of 20 years with the expiry dates between 1 August 2026 and 15 August 2026 at a total annual rent of RMB177,553.5.	The property is currently occupied by the Group for storage purpose.	No commercial value

Notes:

1. Pursuant to 4 Land Lease Agreements, 6 parcels of land with a total site area of approximately 78,852 sq.m. are leased to Henan Xinlianxin Fertiliser Co., Ltd. ("**Henan Xinlianxin Fertiliser**", a wholly-owned subsidiary of the Company) from the Village Committee of Zhangqing Village Xiaoji Town Xinxiang County (新鄉縣小冀鎮張青村村委會) and the Village Committee of Weizhuang Village Xiaoji Town Xinxiang County (新鄉縣小冀鎮魏莊村村委會) (the "**Lessors**"), for a term of 20 years with the expiry dates between 1 August 2026 and 15 August 2026 at a total passing annual rent of RMB177,553.5.
2. Pursuant to 6 Collectively-owned Land Use Rights Certificates — Xin Xiang Xian Ji Yong (2007) Di Nos. L002 to L007 dated 18 April 2007, the land use rights of 6 parcels of land with a total site area of approximately 78,852 sq.m. are held by Henan Xinlianxin Fertiliser for a term with the expiry dates between 1 August 2026 and 15 August 2026 for industrial use.
3. We have been provided with a legal opinion on the legality of the lease agreements to the property issued by the Company's PRC legal advisers, which contains, *inter alia*, the following:
 - a. The 4 Land Lease Agreements are valid, binding and enforceable under the PRC laws;
 - b. The 4 Land Lease Agreements have been registered with local authorities;
 - c. The Lessors have proper titles and the right to lease the property during the term of the Land Lease Agreements; and
 - d. The existing use of the property complies with its prescribed use.

The discussion below provides information about certain provisions of our memorandum and articles of association and the laws of Singapore. This description is only a summary and is qualified by reference to Singapore law and our memorandum and articles of association.

The Company was incorporated in the Republic of Singapore as a limited liability company on 17 June 2006 under the Companies Act (Chapter 50) of Singapore (the “**Act**”). The memorandum of association of the Company (the “**Memorandum**”) and the articles of association of the Company (the “**Articles**”) comprise its constitution.

1. MEMORANDUM OF ASSOCIATION

The registration number with which the Company was incorporated is 200610384G.

The Memorandum sets out, inter alia, the Company’s name, the location of its registered office and limits the liability of the members.

2. ARTICLES OF ASSOCIATION

The provisions in the Articles relating to:

(a) a Director’s power to vote on a proposal, arrangement or contract in which the Director is interested

Article 100

A Director shall not vote in respect of any contract or arrangement or any other proposal whatsoever in which he has any interest, directly or indirectly. A Director shall not be counted in the quorum at a meeting in relation to any resolution on which he is debarred from voting.

(b) the Director’s power to vote on remuneration (including pension or other benefits) for himself or for any other Director, and whether the quorum at a meeting of the board of Directors to vote on Directors’ remuneration may include the Director whose remuneration is the subject of the vote

Article 77

The ordinary remuneration of the Directors, which shall from time to time be determined by an ordinary resolution of the Company, shall not be increased except pursuant to an ordinary resolution passed at a general meeting where notice of the proposed increase shall have been given in the notice convening the general meeting and shall (unless such resolution otherwise provides) be divisible among the Directors as they may agree, or failing agreement, equally, except that any Director who shall hold office for part only of the period in respect of which such remuneration is payable shall be entitled only to rank in such division for a proportion of remuneration related to the period during which he has held office. The ordinary remuneration of an executive Director may not include a commission on or a percentage of revenue and the ordinary remuneration of a non-executive Director shall be a fixed sum, and not by a commission on or a percentage of profits or turnover.

Article 78

Any Director who holds any executive office, or who serves on any committee of the Directors, or who otherwise performs services which in the opinion of the Directors are outside the scope of the ordinary duties of a Director, may be paid such extra remuneration by way of salary, commission or otherwise as the Directors may determine, other than by a commission on or percentage of commission or revenue, Provided that such extra remuneration (in case of an executive Director) shall not by way of commission on or a percentage of revenue and (in the case of a non-executive Director) shall be by a fixed sum, and not by a commission on or a percentage of profits or revenue.

Article 79

The Directors may repay to any Director all such reasonable expenses as he may incur in attending and returning from meetings of the Directors or of any committee of the Directors or general meetings or otherwise in or about the business of the Company.

Article 80

The Directors shall have power to pay and agree to pay pensions or other retirement, superannuation, death or disability benefits to (or to any person in respect of) any Director for the time being holding any executive office and for the purpose of providing any such pensions or other benefits to contribute to any scheme or fund or to pay premiums.

(c) borrowing powers exercisable by the Directors and how such borrowing powers can be varied

Article 108

Subject as hereinafter provided and to the provisions of the Statutes (as defined in the Articles), the Directors may exercise all the powers of the Company to borrow money, to mortgage or charge its undertaking, property and uncalled capital and to issue debentures and other securities, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

(d) retirement or non-retirement of Directors under an age limit requirement

Article 89

At each annual general meeting, one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation. For the avoidance of doubt, each Director (other than a Director holding office as Managing Director) shall retire at least once every three years.

Article 90

The Directors to retire by rotation shall include (so far as necessary to obtain the number required) any Director who is due to retire at any General Meeting by reason of age or who wishes to retire and not to offer himself for re-election. Any further Directors so to retire shall be those of the other Directors subject to retirement by rotation who have been longest in office since their last re-election or appointment and so that as between persons who became or were last re-elected Directors on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by ballot. A retiring Director shall be eligible for re-election.

Article 91

The Company at the meeting at which a Director retires under any provision of these presents may by Ordinary Resolution fill the office being vacated by electing thereto the retiring Director or some other person eligible for appointment. In default, the retiring Director shall be deemed to have been re-elected except in any of the following cases:

- (a) where at such meeting it is expressly resolved not to fill such office or a resolution for the re-election of such Director is put to the meeting and lost; or
- (b) where such Director has given notice in writing to the Company that he is unwilling to be re-elected; or
- (c) where the default is due to the moving of a resolution in contravention of Article 92; or
- (d) where such Director has attained any retiring age applicable to him as Director.

The retirement shall not have effect until the conclusion of the meeting except where a resolution is passed to elect some other person in the place of the retiring Director or a resolution for his re-election is put to the meeting and lost and accordingly a retiring Director who is re-elected or deemed to have been re-elected will continue in office without a break.

Article 92

A resolution for the appointment of two or more persons as Directors by a single resolution shall not be moved at any General Meeting unless a resolution that it shall be so moved has first been agreed to by the meeting without any vote being given against it, and any resolution moved in contravention of this provision shall be void.

(e) the number of shares, if any, required for Director's qualification*Article 76*

A Director shall not be required to hold any shares of the Company by way of qualification. A Director who is not a Member of the Company shall nevertheless be entitled to receive notice of and to attend and speak at General Meetings.

(f) rights, preferences and restrictions attaching to each class of shares*Article 3*

- (A) Subject to the Act and the Articles, no shares may be issued by the Directors without the prior approval of the Company in general meeting pursuant to Section 161 of the Act, but subject thereto and the terms of such approval, and to Article 5, and to any special rights attached to any shares for the time being issued, the Directors may allot and issue shares or grant options over or otherwise dispose of the same to such persons on such terms and conditions and for such consideration and at such time and whether or not subject to the payment of any part of the amount thereof in cash or otherwise as the Directors may think fit, and any shares may, subject to compliance with Sections 70 and 75 of the Act, be issued with such preferential, deferred, qualified or special rights, privileges, conditions or restrictions, whether as regards dividend, return of capital, participation in surplus assets and profits, voting, conversion or otherwise, as the Directors may think fit, and preference shares may be issued which are or at the option of the Company are liable to be redeemed, the terms and manner of redemption being determined by the Directors in accordance with the Act, Provided Always that no options shall be granted over unissued shares except in accordance with the Act and the Designated Stock Exchange's (as defined in the Articles) listing rules. Where the Company purchases for redemption a redeemable share, purchases not made through the market or by tender shall be limited to a maximum price as may from time to time be determined by the Company in general meeting, either generally or with regard to specific purchases. If purchases are by tender, tenders shall be available to all Members alike.
- (B) The Directors may, at any time after the allotment of any share but before any person has been entered in the Register of Members (as defined in the Articles) as the holder, recognise a renunciation thereof by the allottee in favour of some other person and may accord to any allottee of a share a right to effect such renunciation upon and subject to such terms and conditions as the Directors may think fit to impose.
- (C) Except so far as otherwise provided by the conditions of issue or by these presents, all new shares shall be issued subject to the provisions of the Statutes and of these presents with reference to allotment, payment of calls, lien, transfer, transmission, forfeiture or otherwise.

Article 8

- (A) Preference shares may be issued subject to such limitation thereof as may be prescribed by the Designated Stock Exchange. Preference shareholders shall have the same rights as ordinary shareholders as regards receiving of notices, reports and balance-sheets and attending general meetings of the Company, and preference shareholders shall also have the right to vote at any general meeting convened for the purpose of reducing capital or winding-up or sanctioning a sale of the undertaking of the Company or where the proposal to be submitted to the general meeting directly affects their rights and privileges or when the dividend on the preference shares is more than six months in arrear.
- (B) The Company has power to issue further preference capital ranking equally with, or in priority to, preference shares already issued.

Article 9

- (A) Whenever the share capital of the Company is divided into different classes of shares, the variation or abrogation of the special rights attached to any class may, subject to the provisions of the Act, be made either with the consent in writing of the holders of three-quarters of the total number of issued shares of the class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of the class (but not otherwise) and may be so made either whilst the Company is a going concern or during or in contemplation of a winding-up. To every such separate general meeting all the provisions of the Articles relating to general meetings of the Company and to the proceedings thereat shall mutatis mutandis apply, except that the necessary quorum shall be two or more persons holding at least one-third of the total number of the issued shares of the class present in person or by proxy or attorney and that any holder of shares of the class present in person or by proxy or attorney may demand a poll and that every such holder shall on a poll have one vote for every share of the class held by him where the class is a class of equity shares within the meaning of Section 64(1) of the Act or at least one vote for every share of the class where the class is a class of preference shares within the meaning of Section 180(2) of the Act, Provided Always that where the necessary majority for such a special resolution is not obtained at such general meeting, the consent in writing, if obtained from the holders of three-quarters of the total number of the issued shares of the class concerned within two months of such general meeting, shall be as valid and effectual as a special resolution carried at such general meeting.
- (B) The provisions in Article 9(A) shall mutatis mutandis apply to any repayment of preference capital (other than redeemable preference capital) and any variation or abrogation of the rights attached to preference shares or any class thereof.
- (C) The special rights attached to any class of shares having preferential rights shall not unless otherwise expressly provided by the terms of issue thereof be deemed to be varied by the creation or issue of further shares ranking as regards participation in the profits or assets of the Company in some or all respects *pari passu* therewith but in no respect in priority thereto.

Article 14

Every person whose name is entered as a member in the Register of Members shall be entitled, within ten market days (or such period as the Directors may determine having regard to any limitation thereof as may be prescribed by the Designated Stock Exchange from time to time) after the closing date of any application for shares or (as the case may be) the date of lodgement of a registrable transfer, to one certificate for all his shares of any one class or to several certificates in reasonable denominations each for a part of the shares so allotted or transferred.

Article 41

A reference to a member shall be a reference to a registered holder of shares in the Company, or where such registered holder is CDP or a clearing house (as the case may be), the Depositors* on behalf of whom CDP or the clearing house (as the case may be) holds the shares, Provided that:

- (a) a Depositor shall only be entitled to attend any General Meeting and to speak and vote thereat if his name appears on the Depository Register maintained by CDP or a clearing house (as the case may be) forty eight (48) hours before the General Meeting as a Depositor on whose behalf CDP or the clearing house (as the case may be) holds shares in the Company, the Company being entitled to deem each such Depositor, or each proxy of a Depositor who is to represent the entire balance standing to the Securities Account of the Depositor, to represent such number of shares as is actually credited to the Securities Account of the Depositor as at such time, according to the records of CDP or the clearing house (as the case may be) as supplied by CDP or the clearing house (as the case may be) to the Company, and where a Depositor has apportioned the balance standing to his Securities Account between two proxies, to apportion the said number of shares between the two proxies in the same proportion as previously specified by the Depositor in appointing the proxies; and accordingly no instrument appointing a proxy of a Depositor shall be rendered invalid merely by reason of any discrepancy between the proportion of Depositor's shareholding specified in the instrument of proxy, or where the balance standing to a Depositor's Securities Account has been apportioned between two proxies the aggregate of the proportions of the Depositor's shareholding they are specified to represent, and the true balance standing to the Securities Account of a Depositor as at the time of the General Meeting, if the instrument is dealt with in such manner as is provided above;
- (b) the payment by the Company to CDP or a clearing house (as the case may be) of any Dividend payable to a Depositor shall to the extent of the payment discharge the Company from any further liability in respect of the payment;

* Pursuant to the Articles, "Depositor" means a depository agent or a direct account holder to the balance of whose securities account any shares are credited, but excluding a sub-account holder; where a 'direct account holder' means a register maintained by The Central Depository (Pte) Limited in respect of book-entry securities, and a 'securities account' means the securities account maintained by a depositor with The Central Depository (Pte) Limited.

- (c) the delivery by the Company to CDP or a clearing house (as the case may be) of provisional allotments or share certificates in respect of the aggregate entitlements of Depositors to new shares offered by way of rights issue or other preferential offering or bonus issue shall to the extent of the delivery discharge the Company from any further liability to each such Depositor in respect of his individual entitlement; and
- (d) the provisions in these presents relating to the transfers, transmissions or certification of shares shall not apply to the transfer of book-entry securities (as defined in the Statutes).

Article 42

Except as required by the Statutes or law, no person shall be recognised by the Company as holding any share upon any trust, and the Company shall not be bound by or compelled in any way to recognise (even when having notice thereof) any equitable, contingent, future or partial interest in any share, or any interest in any fractional part of a share, or (except only as by these Articles or by the Statutes or law otherwise provided) any other right in respect of any share, except an absolute right to the entirety thereof in the registered holder and nothing in these Articles contained relating to CDP or a clearing house (as the case may be) or to Depositors or in any depository agreement made by the Company with any common depository for shares shall in any circumstances be deemed to limit, restrict or qualify the above.

Article 63

In the case of joint holders of a share, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders and for this purpose seniority shall be determined by the order in which the names stand in the Register of Members or, as the case may be, the order in which the names appear in the Depository Register in respect of the joint holding.

Article 64

Where in Singapore or elsewhere a receiver or other person (by whatever name called) has been appointed by any court claiming jurisdiction in that behalf to exercise powers with respect to the property or affairs of any member on the ground (however formulated) of mental disorder, the Directors may in their absolute discretion, upon or subject to production of such evidence of the appointment as the Directors may require, permit such receiver or other person on behalf of such member, to vote in person or by proxy at any general meeting, or to exercise any other right conferred by membership in relation to meetings of the Company.

Article 65

- (1) No member shall be entitled in respect of shares held by him to vote at a general meeting either personally or by proxy or to exercise any other right conferred by membership in relation to meetings of the Company if any call or other sum payable by him to the Company in respect of such shares remains unpaid.

- (2) Where the Company has knowledge that any member is, under the rules of the Designated Stock Exchange, required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

(g) any change in capital

Article 10

The Company may by ordinary resolution:

- (A) consolidate and divide all or any of its share capital;
- (B) sub-divide its shares, or any of them, provided always that in such subdivision the proportion between the amount paid and the amount (if any) unpaid on each reduced share shall be same as it was in the case of the share from which the reduced share is derived;
- (C) convert or exchange any class of shares into or for any other class of shares;
- (D) cancel the number of shares which at the date of the passing of the resolution in that behalf have not been taken or agreed to be taken by any person or which have been forfeited and diminish the amount of its share capital by the number of the shares so cancelled; and/or
- (E) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or such restrictions which in the absence of any such determination by the Company in general meeting, as the Directors may determine provided always that where the Company issues shares which do not carry voting rights, the words “non voting” shall appear in the designation of such shares and where the equity capital includes shares with different voting rights, the designation of each class of shares, other than those with the most favourable voting rights, must include the words “restricted voting” or “limited voting”.

Article 11

- (A) Subject to a special resolution being passed by the shareholders of the Company in general meeting and court approval being obtained, the Company may reduce its share capital or any other undistributable reserve in any manner permitted, and with, and subject to, any incident authorized, and consent or confirmation required, by law and by way of special resolution with approval from the court in reducing its share capital.
- (B) The Company may purchase or otherwise acquire its issued shares (which expression as used in this Article includes redeemable Shares) out of distributable profits of the Company or out of the proceeds of a fresh issue of shares made for the purposes of such purchase or acquisition subject to and in accordance with the

provisions of the Statutes and any applicable rules of the Designated Stock Exchange (hereafter, the “**Relevant Laws**”), on such terms and subject to such conditions as the Company may in general meeting prescribe in accordance with the Relevant Laws. Any shares purchased or acquired by the Company as aforesaid shall, unless held in treasury in accordance with the Act, be deemed to be cancelled immediately on purchase or acquisition by the Company. On the cancellation of any share as aforesaid, the rights and privileges attached to that share shall expire. In any other instance, the Company may hold or deal with any such share which is so purchased or acquired by it in such manner as may be permitted by, and in accordance with the Relevant Laws. Without prejudice to the generality of the foregoing, upon cancellation of any share purchased or otherwise acquired by the Company pursuant to the Articles and the Statutes, the number of issued shares of the Company shall be diminished by the number of shares so cancelled, and, where any such cancelled share was purchased or acquired out of the capital of the Company, the amount of share capital of the Company shall be reduced accordingly.

(h) any change in the respective rights of the various classes of shares including the action necessary to change the rights

Article 9

- (A) Whenever the share capital of the Company is divided into different classes of shares, the variation or abrogation of the special rights attached to any class may, subject to the provisions of the Act, be made either with the consent in writing of the holders of three-quarters of the total number of the issued shares of the class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of the class (but not otherwise) and may be so made either whilst the Company is a going concern or during or in contemplation of a winding-up. To every such separate general meeting all the provisions of the Articles relating to general meetings of the Company and to the proceedings thereat shall *mutatis mutandis* apply, except that the necessary quorum shall be two or more persons holding at least one-third of the total number of the issued shares of the class present in person or by proxy or attorney and that any holder of shares of the class present in person or by proxy or attorney may demand a poll and that every such holder shall on a poll have one vote for every share of the class held by him where the class is a class of equity shares within the meaning of Section 64(1) of the Act or at least one vote for every share of the class where the class is a class of preference shares within the meaning of Section 180(2) of the Act, Provided Always that where the necessary majority for such a special resolution is not obtained at such general meeting, the consent in writing, if obtained from the holders of three-quarters of the total number of the issued shares of the class concerned within two months of such general meeting, shall be as valid and effectual as a special resolution carried at such general meeting.
- (B) The provisions in Article 9(A) shall *mutatis mutandis* apply to any repayment of preference capital (other than redeemable preference capital) and any variation or abrogation of the rights attached to preference shares or any class thereof.

(C) The special rights attached to any class of shares having preferential rights shall not unless otherwise expressly provided by the terms of issue thereof be deemed to be varied by the creation or issue of further shares ranking as regards participation in the profits or assets of the Company in some or all respects *pari passu* therewith but in no respect in priority thereto.

(i) dividends and distribution

Article 123

The Company may by ordinary resolution declare dividends but no such dividend shall exceed the amount recommended by the Directors.

Article 124

If and so far as in the opinion of the Directors, the profits of the Company justify such payments, the Directors may declare and pay the fixed dividends on any class of shares carrying a fixed dividend expressed to be payable on fixed dates on the half-yearly or other dates prescribed for the payment thereof and may also from time to time declare and pay interim dividends on shares of any class of such amounts and on such dates and in respect of such periods as they think fit.

Article 125

Subject to any rights or restrictions attached to any shares or class of shares and except as otherwise permitted under the Act:

- (A) all dividends in respect of shares must be paid in proportion to the number of shares held by a member, but where shares are partly paid, all dividends must be apportioned and paid proportionately to the amounts paid or credited as paid on the partly paid shares; and
- (B) all dividends must be apportioned and paid proportionately to the amounts so paid or credited as paid during any portion or portions of the period in respect of which the dividend is paid.

For the purposes of this Article, an amount paid or credited as paid on a share in advance of a call is to be ignored.

Article 126

- (A) No dividend shall be paid otherwise than out of profits available for distribution under the provisions of the Statutes. The payment by the Directors of any unclaimed dividends or other moneys payable on or in respect of a share into a separate account shall not constitute the Company a trustee in respect thereof. All dividends remaining unclaimed after one year from having been first payable may be invested or otherwise made use of by the Directors for the benefit of the Company, and any dividend or any such moneys unclaimed after six (6) years from having been first payable shall be forfeited and shall revert to the Company provided always that the Directors may at any time thereafter at their absolute discretion annul any such forfeiture and pay the dividend so forfeited to the person

entitled thereto prior to the forfeiture. If CDP or a clearing house (as the case may be) returns any such dividend or moneys to the Company, the relevant Depositor shall not have any right or claim in respect of such dividend or moneys against the Company if a period of six years has elapsed from the date of the declaration of such dividend or the date on which such other moneys are first payable.

- (B) A payment by the Company to CDP or a clearing house (as the case may be) of any dividend or other moneys payable to a Depositor shall, to the extent of the payment made, discharge the Company from any liability to the Depositor in respect of that payment.

Article 127

No dividend or other monies payable on or in respect of a share shall bear interest as against the Company.

Article 128

- (A) The Directors may retain any dividend or other monies payable on or in respect of a share on which the Company has a lien and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists.
- (B) The Directors may retain the dividends payable upon shares in respect of which any person is under the provisions as to the transmission of shares herein before contained entitled to become a member, or which any person is under those provisions entitled to transfer, until such person shall become a member in respect of such shares or shall transfer the same.

Article 129

The waiver in whole or in part of any dividend on any share by any document (whether or not under seal) shall be effective only if such document is signed by the member (or the person entitled to the share in consequence of the death or bankruptcy of the holder) and delivered to the Company and if or to the extent that the same is accepted as such or acted upon by the Company.

Article 130

The Company may upon the recommendation of the Directors by ordinary resolution direct payment of a dividend in whole or in part by the distribution of specific assets (and in particular of paid-up shares or debentures of any other company) and the Directors shall give effect to such resolution, provided that the amount of its net assets shall not be less than the aggregate of its called up share capital and undistributable reserves; and if, and to the extent that, the distribution does not reduce the amount of those assets to less than that aggregate. Where any difficulty arises with regard to such distribution, the Directors may settle the same as they think expedient and in particular, may issue fractional certificates, may fix the value for distribution of such specific assets or any part thereof, may determine that cash payments shall be made to any

member upon the footing of the value so fixed in order to adjust the rights of all parties and may vest any such specific assets in trustees as may seem expedient to the Directors.

Article 131

Any dividend or other monies payable in cash on or in respect of a share may be paid by cheque or warrant sent through the post to the registered address appearing in the Register of Members or (as the case may be) the Depository Register of the Member or person entitled thereto (or, if two or more persons are registered in the Register of Members or (as the case may be) entered in the Depository Register as joint holders of the share or are entitled thereto in consequence of the death or bankruptcy of the holder, to any one of such persons) or to such person and such address as such member or person or persons may by writing direct.

Every such cheque or warrant shall be made payable to the order of the person to whom it is sent or to such person as the holder or joint holders or person or persons entitled to the share in consequence of the death or bankruptcy of the holder may direct and payment of the cheque or warrant by the banker upon whom it is drawn shall be a good discharge to the Company. Every such cheque or warrant shall be sent at the risk of the person entitled to the money represented thereby.

Article 132

If two or more persons are registered in the Register of Members or (as the case may be) the Depository Register as joint holders of any share, or are entitled jointly to a share in consequence of the death or bankruptcy of the holder, any one of them may give effectual receipts for any dividend or other monies payable or property distributable on or in respect of the share.

Article 133

Any resolution declaring a dividend on shares of any class, whether a resolution of the Company in general meeting or a resolution of the Directors, may specify that the same shall be payable to the persons registered as the holders of such shares in the Register of Members or (as the case may be) the Depository Register at the close of business on a particular date and thereupon the dividend shall be payable to them in accordance with their respective holdings so registered, but without prejudice to the rights *inter se* in respect of such dividend of transferors and transferees of any such shares.

- (j) any limitation on the right to own shares, including limitations on the right of non-resident or foreign shareholders to hold or exercise voting rights on their shares**

Article 5

- (A) Subject to any direction to the contrary that may be given by the Company in general meeting or except as permitted by the rules of the Designated Stock Exchange, all new shares shall before issue be offered to such persons who as at the date (as determined by the Directors) of the offer are entitled to receive notices

from the Company of general meetings in proportion, as far as the circumstances admit, to the number of the existing shares to which they are entitled. The offer shall be made by notice specifying the number of shares offered, and limiting a time within which the offer, if not accepted, will be deemed to be declined, and, after the expiration of that time, or on the receipt of an intimation from the person to whom the offer is made that he declines to accept the shares offered, the Directors may dispose of those shares in such manner as they think most beneficial to the Company. The Directors may likewise so dispose of any new shares which (by reason of the ratio which the new shares bear to shares held by persons entitled to an offer of new shares) cannot, in the opinion of the Directors, be conveniently offered under this Article 5(A).

- (B) Notwithstanding Article 5(A) above, the Company may by ordinary resolution in general meeting give to the Directors a general authority, either unconditionally or subject to such conditions as may be specified in the ordinary resolution, to:
- (a) (i) issue shares in the capital of the Company (“**shares**”) whether by way of rights, bonus or otherwise; and/or
 - (ii) make or grant offers, agreements or options (collectively, “**Instruments**”) that might or would require shares to be issued, including but not limited to the creation and issue of (as well as adjustments to) warrants, debentures or other instruments convertible into shares; and
 - (b) (notwithstanding the authority conferred by the ordinary resolution may have ceased to be in force) issue shares in pursuance of any Instrument made or granted by the Directors while the ordinary resolution was in force,

Provided that:

- (1) the aggregate number of shares to be issued pursuant to the ordinary resolution (including shares to be issued in pursuance of Instruments made or granted pursuant to the ordinary resolution) shall be subject to such limits and manner of calculation as may be prescribed by the Designated Stock Exchange;
- (2) in exercising the authority conferred by the ordinary resolution, the Company shall comply with the provisions of the listing rules of the Designated Stock Exchange for the time being in force (unless such compliance is waived by the Designated Stock Exchange) and the Articles; and
- (3) (unless revoked or varied by the Company in general meeting) the authority conferred by the ordinary resolution shall not continue in force beyond the conclusion of the annual general meeting of the Company next following the passing of the ordinary resolution, or the date by which such annual general meeting of the Company is required by law to be held, or the expiration of such other period as may be prescribed by the Act (whichever is the earliest).

- (C) The Company may, notwithstanding Articles 5(A) and 5(B) above, authorize the Directors not to offer new shares to members to whom by reason of foreign securities laws, such offers may not be made without registration of the shares or a prospectus or other document, but to sell the entitlements to the new shares on behalf of such members on such terms and conditions as the Company may direct.

Article 34

- (A) There shall be no restriction on the transfer of fully paid up shares (except where required by law or by the rules, bye-laws or listing rules of the Designated Stock Exchange) but the Directors may in their discretion decline to register any transfer of shares upon which the Company has a lien, and in the case of shares not fully paid up, may refuse to register a transfer to a transferee of whom they do not approve, Provided Always that in the event of the Directors refusing to register a transfer of shares, the Company shall within ten market days (or such period as the Directors may determine having regard to any limitation thereof as may be prescribed by the Designated Stock Exchange from time to time) after the date on which the application for a transfer of shares was made, serve a notice in writing to the applicant stating the facts which are considered to justify the refusal as required by the Statutes.
- (B) The Directors may decline to register any instrument of transfer unless:
- (a) such fee not exceeding S\$2.00 (or such other fee as the Directors may determine having regard to any limitation thereof as may be prescribed by the Designated Stock Exchange from time to time) as the Directors may from time to time require is paid to the Company in respect thereof;
 - (b) the amount of proper duty (if any) with which each instrument of transfer is chargeable under any law for the time being in force relating to stamps is paid;
 - (c) the instrument of transfer is deposited at the Office (as defined in the Articles) or at such other place (if any) as the Directors may appoint accompanied by a certificate of payment of stamp duty (if stamp duty is payable on such instrument of transfer in accordance with any law for the time being in force relating to stamp duty,), the certificates of the shares to which it relates, and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer and, if the instrument of transfer is executed by some other person on his behalf, the authority of the person so to do; and
 - (d) the instrument of transfer is in respect of only one class of shares.

Article 42

Except as required by the Statutes or law, no person shall be recognised by the Company as holding any share upon any trust, and the Company shall not be bound by or compelled in any way to recognise (even when having notice thereof) any equitable, contingent, future or partial interest in any share, or any interest in any fractional part of a share, or (except only as by these presents or by the Statutes or law otherwise

provided) any other right in respect of any share, except an absolute right to the entirety thereof in the registered holder and nothing in these presents contained relating to CDP or to Depositors or in any depository agreement made by the Company with any common depository for shares shall in any circumstances be deemed to limit, restrict or qualify the above.

(k) prohibition in providing financial assistance for purchase of the Company's shares

Article 8A

Except as allowed by the Law and subject further to compliance with the rules and regulations of the Designated Stock Exchange and any other relevant regulatory authority the Company shall not give financial assistance for the purpose of or in connection with a purchase made or to be made by any person of any shares in the Company.

(l) approval for the issue of new ordinary shares

Article 5(B)

(B) Notwithstanding Article 5(A) above, the Company may by ordinary resolution in general meeting give to the Directors a general authority, either unconditionally or subject to such conditions as may be specified in the ordinary resolution, to:

- (a) (i) issue shares in the capital of the Company ("**shares**") whether by way of rights, bonus or otherwise; and/or
- (ii) make or grant offers, agreements or options (collectively, "**Instruments**") that might or would require shares to be issued, including but not limited to the creation and issue of (as well as adjustments to) warrants, debentures or other instruments convertible into shares; and

Provided that:

- (3) (unless revoked or varied by the Company in general meeting) the authority conferred by the ordinary resolution shall not continue in force beyond the conclusion of the annual general meeting of the Company next following the passing of the ordinary resolution, or the date by which such annual general meeting of the Company is required by law to be held, or the expiration of such other period as may be prescribed by the Act (whichever is the earliest).

Note:

The aggregate number of shares to be issued pursuant to such approval may not exceed 50% (or such other limit as may be prescribed by the SGX-ST) of the total number of issued shares excluding treasury shares at the time of grant of such approval for the time being, of which the aggregate number of shares to be issued other than on a pro-rata basis to its shareholders may not exceed 20% (or such other limit as may be prescribed by the SGX-ST) of the total number of issued shares excluding treasury shares at the time of grant of such approval for the time being. The 50% limit may be increased to 100% for the Company to undertake

pro rata renounceable rights issues, which is one of the new measures introduced by the SGX-ST, in consultation with the Monetary Authority of Singapore, which took effect on 20 February 2009 to accelerate and facilitate listed issuers' fund raising efforts and will be in effect until 31 December 2010.

(m) registration and recognition as members of the Company

Article 32

All transfers of shares shall be effected by written instruments of transfer in the form for the time being approved by the Directors and the Designated Stock Exchange. The instrument of transfer of any share shall be signed by or on behalf of both the transferor and the transferee and be witnessed, provided always that an instrument of transfer in respect of which the transferee is the CDP shall be effective although not signed or witnessed by or on behalf of the CDP, or if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the Directors may approve from time to time. The transferor shall be deemed to remain the holder of the shares concerned until the name of the transferee is entered in the Register of Members in respect thereof.

Article 33

The Register of Members and the Register of Transfers (as defined in the Articles) may be closed at such times and for such periods as the Directors may from time to time determine, Provided Always that such Registers shall not be closed for more than thirty days in any year, and that the Company shall give prior notice of each such closure, as may be required, to the Designated Stock Exchange, stating the period and purpose or purposes for which such closure is made.

Article 42

Except as required by the Statutes or law, no person shall be recognised by the Company as holding any share upon any trust, and the Company shall not be bound by or compelled in any way to recognise (even when having notice thereof) any equitable, contingent, future or partial interest in any share, or any interest in any fractional part of a share, or (except only as by the Articles or by the Statutes or law otherwise provided) any other right in respect of any share, except an absolute right to the entirety thereof in the registered holder and nothing in these Articles contained relating to CDP or a clearing house (as the case may be) or to Depositors or in any depository agreement made by the Company with any common depository for shares shall in any circumstances be deemed to limit, restrict or qualify the above.

Article 133

Any resolution declaring a dividend on shares of any class, whether a resolution of the Company in general meeting or a resolution of the Directors, may specify that the same shall be payable to the persons registered as the holders of such shares in the Register of Members or (as the case may be) the Depository Register at the close of business on a particular date and thereupon the dividend shall be payable to them in accordance with their respective holdings so registered, but without prejudice to the rights *inter se* in respect of such dividend of transferors and transferees of any such shares.

(n) transfer of ordinary shares and replacement of share certificates*Article 34*

- (A) There shall be no restriction on the transfer of fully paid up shares (except where required by law or by the rules, bye-laws or listing rules of the Designated Stock Exchange) but the Directors may in their discretion decline to register any transfer of shares upon which the Company has a lien, and in the case of shares not fully paid up, may refuse to register a transfer to a transferee of whom they do not approve, Provided Always that in the event of the Directors refusing to register a transfer of shares, the Company shall within ten market days (or such period as the Directors may determine having regard to any limitation thereof as may be prescribed by the Designated Stock Exchange from time to time) after the date on which the application for a transfer of shares was made, serve a notice in writing to the applicant stating the facts which are considered to justify the refusal as required by the Statutes.
- (B) The Directors may decline to register any instrument of transfer unless:
- (a) such fee not exceeding S\$2.00 (or such other fee as the Directors may determine having regard to any limitation thereof as may be prescribed by the Designated Stock Exchange from time to time) as the Directors may from time to time require is paid to the Company in respect thereof;
 - (b) the amount of proper duty (if any) with which each instrument of transfer is chargeable under any law for the time being in force relating to stamps is paid;
 - (c) the instrument of transfer is deposited at the Office or at such other place (if any) as the Directors may appoint accompanied by a certificate of payment of stamp duty (if stamp duty is payable on such instrument of transfer in accordance with any law for the time being in force relating to stamp duty,), the certificates of the shares to which it relates, and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer and, if the instrument of transfer is executed by some other person on his behalf, the authority of the person so to do; and
 - (d) the instrument of transfer is in respect of only one class of shares.

Article 16

Subject to the provisions of the Statutes, if any share certificate shall be defaced, worn out, destroyed, lost or stolen, it may be renewed on such evidence being produced and a written indemnity (if required) being given by the shareholder, transferee, person entitled, purchaser, member firm or member company of the Designated Stock Exchange or on behalf of its or their client or clients as the Directors shall require, and (in case of defacement or wearing out) on delivery up of the old certificate, and in any case on payment of such sum not exceeding S\$2.00 (or such other fee as the Directors may determine having regard to any limitation thereof as may be prescribed by the Designated Stock Exchange from time to time) as the Directors may from time to time require. In the case of destruction, loss or theft, a shareholder or person entitled to,

and to whom such renewed certificate is given shall also bear the loss and pay to the Company all expenses incidental to the investigations by the Company of the evidence of such destruction or loss.

(o) general meeting of shareholders

Article 46

An annual general meeting shall be held once in every year, at such time (within a period of not more than fifteen months after the holding of the last preceding annual general meeting or not more than eighteen (18) months after the date of adoption of the Articles) and place as may be determined by the Directors. All other general meetings shall be called extraordinary general meetings. The interval between the close of a financial year of the Company and the date of the Company's annual general meeting shall not exceed four months or such other period as prescribed by the Act or other legislation applicable to the Company from time to time.

Article 47

The Directors may whenever they think fit, and shall on requisition in accordance with the Statutes, proceed with proper expedition to convene an extraordinary general meeting.

Article 49

- (A) Every notice calling a General Meeting shall specify the place and the day and hour of the meeting, and there shall appear with reasonable prominence in every such notice a statement that a Member entitled to attend and vote is entitled to appoint more than one proxy to attend and vote instead of him and that a proxy need not be a Member of the Company.
- (B) In the case of an Annual General Meeting, the notice shall also specify the meeting as such.
- (C) In the case of any General Meeting at which business other than routine business ("**special business**") is to be transacted, the notice shall specify the general nature of such business, and if any resolution is to be proposed as a Special Resolution, the notice shall contain a statement to that effect.
- (D) The notice shall disclose any material interests of any director in the matter dealt with by the resolution so far as the resolution affects those interests differently from the interests of other Members of the Company.

Articles 68

- (A) A Member shall be entitled to appoint more than one proxy to attend and vote at the same General Meeting. However, if the Member is a Depositor, the Company shall be entitled and bound:
- (a) to reject any instrument of proxy lodged by the Depositor if it is not shown in the Depository Register as certified by CDP or a clearing house (as the case may be) to the Company that there are any shares entered against such Depositor's name, as at 48 hours before the time of the relevant General Meeting; and
 - (b) to accept the number of shares entered against the name of that Depositor in the Depository Register as certified by CDP or a clearing house (as the case may be) to the Company as at 48 hours before the time of the relevant General Meeting as the maximum number of votes which in aggregate the proxy or proxies appointed by the Depositor is or are able to cast on a poll, regardless of whether such number is greater or smaller than the number specified in the instrument of proxy lodged by that Depositor.
- (B) Where a Member appoints more than one proxy, the Member shall specify the proportion of his shares to be represented by each such proxy, failing which the nomination shall be deemed to be alternative.
- (C) A proxy need not be a Member of the Company.

Article 53

No business other than the appointment of a Chairman (as defined in the Articles) shall be transacted at any general meeting unless a quorum is present at the time when the meeting proceeds to business. Save as herein otherwise provided, the quorum at any general meeting shall be two members present in person or by proxy, provided that (i) a proxy representing more than one member shall only count as one member for purpose of determining if the quorum aforesaid is present; and (ii) where a member is represented by more than one proxy, such proxies of such member shall only count as one member for purposes of determining if the quorum aforesaid is present.

Article 58

At any general meeting a resolution put to the vote of the meeting shall be decided on a poll.

Article 146

If the Company shall be wound up (whether the liquidation is voluntary, under supervision, or by the court) the liquidator may, with the authority of a special resolution, divide among the members *in specie* or in kind the whole or any part of the assets of the Company and whether or not the assets shall consist of property of one kind or shall consist of properties of different kinds, and may for such purpose set such value as he deems fair upon any one or more class or classes of property and may determine how such division shall be carried out as between the members of different

classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator with the like authority shall think fit, and the liquidation of the Company may be closed and the Company dissolved, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

Article 11

- (A) Subject to a special resolution being passed by the shareholders of the Company in general meeting and court approval being obtained, the Company may reduce its share capital or any other undistributable reserve in any manner permitted, and with, and subject to, any incident authorized, and consent or confirmation required, by law and by way of special resolution with approval from the court in reducing its share capital.
- (B) The Company may purchase or otherwise acquire its issued shares (which expression as used in this Article includes redeemable Shares) out of distributable profits of the Company or out of the proceeds of a fresh issue of shares made for the purposes of such purchase or acquisition subject to and in accordance with the provisions of the Statutes and any applicable rules of the Designated Stock Exchange (hereafter, the “**Relevant Laws**”), on such terms and subject to such conditions as the Company may in general meeting prescribe in accordance with the Relevant Laws. Any shares purchased or acquired by the Company as aforesaid shall, unless held in treasury in accordance with the Act, be deemed to be cancelled immediately on purchase or acquisition by the Company. On the cancellation of any share as aforesaid, the rights and privileges attached to that share shall expire. In any other instance, the Company may hold or deal with any such share which is so purchased or acquired by it in such manner as may be permitted by, and in accordance with the Relevant Laws. Without prejudice to the generality of the foregoing, upon cancellation of any share purchased or otherwise acquired by the Company pursuant to the Articles and the Statutes, the number of issued shares of the Company shall be diminished by the number of shares so cancelled, and, where any such cancelled share was purchased or acquired out of the capital of the Company, the amount of share capital of the Company shall be reduced accordingly.

Article 48

Any Annual General Meeting shall be called by twenty clear business days’ notice in writing at the least and any Extraordinary General Meeting at which it is proposed to pass a Special Resolution or (save as provided by the Statutes) a resolution of which special notice has been given to the Company, shall be also called by twenty-one clear business days’ notice in writing at the least and any All other Extraordinary General Meetings, shall be called by fourteen clear business days’ notice in writing at the least. The period of notice shall in each case be exclusive of the day on which it is served or deemed to be served and of the day on which the general meeting is to be held and shall be given in manner hereinafter mentioned to all members other than such as are not under the provisions of the Articles entitled to receive such notices from the Company, Provided that a general meeting notwithstanding that it has been called by a shorter notice than that specified above shall be deemed to have been duly called if it is so agreed:

- (a) in the case of an annual general meeting by all the members entitled to attend and vote thereat; and

- (b) in the case of an extraordinary general meeting by a majority in number of the members having a right to attend and vote thereat, being a majority together holding not less than 95 per cent. of the total voting rights of all the members having a right to vote at thereat.

(p) voting rights

Article 62

Subject to any special rights or restrictions as to voting attached by or in accordance with these Articles to any class of shares, and to Article 4, each member entitled to vote may vote in person or by proxy. A resolution put to the vote of a meeting shall be decided on a poll every member who is present in person or by proxy shall have one vote for every share of which he holds or represents. For the purposes of determining the number of votes which a Member, being a Depositor, or his proxy may cast at any General Meeting on a poll, the references to shares held or represented shall, in relation to shares of that Depositor, be the number of shares entered against his name in the Depository Register as at 48 hours before the time of the relevant general meeting as certified by CDP or a clearing house (as the case may be) to the Company. A member who is bankrupt shall not, while his bankruptcy continues, be entitled to exercise his rights as a member, or attend, vote or act at any General Meeting.

Article 49

- (A) Every notice calling a General Meeting shall specify the place and the day and hour of the meeting, and there shall appear with reasonable prominence in every such notice a statement that a Member entitled to attend and vote is entitled to appoint more than one proxy to attend and vote instead of him and that a proxy need not be a Member of the Company.
- (B) In the case of an Annual General Meeting, the notice shall also specify the meeting as such.
- (C) In the case of any General Meeting at which business other than routine business (“**special business**”) is to be transacted, the notice shall specify the general nature of such business, and if any resolution is to be proposed as a Special Resolution, the notice shall contain a statement to that effect.
- (D) The notice shall disclose any material interests of any director in the matter dealt with by the resolution so far as the resolution affects those interests differently from the interests of other Members of the Company.

Articles 68

- (A) A Member shall be entitled to appoint more than one proxy to attend and vote at the same General Meeting. However, if the Member is a Depositor, the Company shall be entitled and bound:
- (a) to reject any instrument of proxy lodged by the Depositor if it is not shown in the Depository Register as certified by CDP or a clearing house (as the case may be) to the Company that there are any shares entered against such Depositor's name, as at 48 hours before the time of the relevant General Meeting; and
 - (b) to accept the number of shares entered against the name of that Depositor in the Depository Register as certified by CDP or a clearing house (as the case may be) to the Company as at 48 hours before the time of the relevant General Meeting as the maximum number of votes which in aggregate the proxy or proxies appointed by the Depositor is or are able to cast on a poll, regardless of whether such number is greater or smaller than the number specified in the instrument of proxy lodged by that Depositor.
- (B) Where a Member appoints more than one proxy, the Member shall specify the proportion of his shares to be represented by each such proxy, failing which the nomination shall be deemed to be alternative.
- (C) A proxy need not be a Member of the Company.

Article 53

No business other than the appointment of a Chairman shall be transacted at any general meeting unless a quorum is present at the time when the meeting proceeds to business. Save as herein otherwise provided, the quorum at any general meeting shall be two members present in person or by proxy, provided that (i) a proxy representing more than one member shall only count as one member for purpose of determining if the quorum aforesaid is present; and (ii) where a member is represented by more than one proxy, such proxies of such member shall only count as one member for purposes of determining if the quorum aforesaid is present.

Article 58

At any general meeting a resolution put to the vote of the meeting shall be decided on a poll.

Article 59

Unless a poll is required, a declaration by the chairman of the general meeting that a resolution has been carried, or carried unanimously, or by a particular majority, or lost, and an entry to that effect in the minute book, shall be conclusive evidence of that fact without proof of the number or proportion of the votes recorded for or against such resolution. If a poll is required, it shall be taken in such manner (including the use of ballot or voting papers or tickets) as the chairman of the general meeting may direct, and the result of the poll shall be deemed to be the resolution of the meeting at which

the poll was demanded. The chairman of the general meeting may (and if so directed by the meeting shall) appoint scrutineers and may adjourn the meeting to some place and time fixed by him for the purpose of declaring the result of the poll.

Article 60

In the case of an equality of votes, the chairman of the general meeting at which the poll is demanded shall be entitled to a casting vote.

(q) capitalisation and rights issues

Article 134A

(A) The Directors may, with the sanction of an ordinary resolution of the Company (including any ordinary resolution passed pursuant to Article 5(B)):

(a) issue bonus shares for which no consideration is payable to the Company to the persons registered as holders of shares in the Register of Members or (as the case may be) the Depository Register at the close of business on:

(i) the date of the ordinary resolution (or such other date as may be specified therein or determined as therein provided); or

(ii) (in the case of an ordinary resolution passed pursuant to Article 5(B)) such other date as may be determined by the Directors, in proportion to their then holdings of shares; and/or

(b) capitalise any sum standing to the credit of any of the Company's reserve accounts or other undistributable reserve or any sum standing to the credit of profit and loss account by appropriating such sum to the persons registered as holders of shares in the Register of Members or (as the case may be) in the Depository Register at the close of business on:

(i) the date of the ordinary resolution (or such other date as may be specified therein or determined as therein provided); or

(ii) (in the case of an ordinary resolution passed pursuant to Article 5(B)) such other date as may be determined by the Directors, in proportion to their then holdings of shares and applying such sum on their behalf in paying up in full unissued shares (or, subject to any special rights previously conferred on any shares or class of shares for the time being issued, unissued shares of any other class not being redeemable shares) for allotment and distribution credited as fully paid up to and amongst them as bonus shares in the proportion aforesaid.

(B) The Directors may do all acts and things considered necessary or expedient to give effect to any such bonus issue or capitalisation under this Article 134, with full power to the Directors to make such provisions as they think fit for any fractional entitlements which would arise on the basis aforesaid (including provisions whereby fractional entitlements are disregarded or the benefit thereof accrues to the Company rather than to the members concerned). The Directors may authorise

any person to enter on behalf of all the members interested into an agreement with the Company providing for any such bonus issue or capitalisation and matters incidental thereto and any agreement made under such authority shall be effective and binding on all concerned.

- (C) In addition and without prejudice to the powers provided for by this Article 134, the Directors shall have power to issue shares for which no consideration is payable and to capitalise any undivided profits or other moneys of the Company not required for the payment or provision of any dividend on any shares entitled to cumulative or non-cumulative preferential dividends (including profits or other moneys carried and standing to any reserve or reserves) and to apply such profits or other moneys in paying up in full, in each case on terms that such shares shall, upon issue, be held by or for the benefit of participants of any share incentive or option scheme or plan implemented by the Company and approved by members in general meeting and on such terms as the Directors shall think fit.

(r) indemnity

Article 147

Subject to the provisions of and so far as may be permitted by the Statutes, every Director, auditor, Secretary (as defined in the Articles) or other officer of the Company shall be entitled to be indemnified by the Company against all costs, charges, losses, expenses and liabilities incurred by him in the execution and discharge of his duties or in relation thereto including any liability by him in defending any proceedings, civil or criminal, which relate to anything done or omitted or alleged to have been done or omitted by him as an officer or employee of the Company and in which judgment is given in his favour (or the proceedings otherwise disposed of without any finding or admission of any material breach of duty on his part) or in which he is acquitted or in connection with any application under any statute for relief from liability in respect of any such act or omission in which relief is granted to him by the court. Without prejudice to the generality of the foregoing, no Director, Manager, Secretary or other officer of the Company shall be liable for the acts, receipts, neglect or defaults of any other Director or officer or for joining in any receipt or other act for conformity or for any loss or expense happening to the Company through the insufficiency or deficiency of title to any property acquired by order of the Directors for or on behalf of the Company or for the insufficiency or deficiency of any security in or upon which any of the moneys of the Company shall be invested or for any loss or damage arising from the bankruptcy, insolvency or tortious act of any person with whom any moneys, securities or effects shall be deposited or left or for any other loss, damage or misfortune whatsoever which shall happen in the execution of the duties of his office or in relation thereto unless the same shall happen through his own negligence, wilful default, breach of duty or breach of trust.

The following summarises the salient provisions of the laws of Singapore applicable to the Shareholders as the date of this document. The summaries below are for general guidance only and do not constitute legal advice, nor must they be used as a substitute for, or specific legal advice, on the corporate law of Singapore. The summaries below are not meant to be a comprehensive or exhaustive description of all the obligations, rights and privileges of Shareholders imposed on or conferred by the corporate law of Singapore. In addition, prospective investors and/or Shareholders should also note that the laws applicable to Shareholders may change, whether as a result of proposed legislative reforms to the Singapore laws or otherwise. Prospective investors and/or Shareholders should consult their own legal advisers for specific legal advice concerning their legal obligations under the relevant laws.

Prospective investors and/or Shareholders can access the full text of the relevant Singapore legislations cited in the summaries below via the weblinks listed in Appendix VII to this document.

1. REPORTING OBLIGATIONS OF SHAREHOLDERS

Obligation to notify Company of substantial shareholding and change in substantial shareholding

Section 81 of the Companies Act (Chapter 50) of Singapore (the “Companies Act”)

A person has a substantial shareholding in a company if he has an interest or interests in one or more voting shares in the company, and the total votes attached to that share, or those shares, is not less than 5 per cent of the total votes attached to all the voting shares in the company.

Section 82 of the Companies Act

A substantial shareholder of a company is required to notify the company of his interests in the voting shares in the company within two business days after becoming a substantial shareholder.

Sections 83 and 84 of the Companies Act

A substantial shareholder is required to notify the company of changes in the percentage level of his shareholding or his ceasing to be a substantial shareholder, again within two business days after he is aware of such changes.

The reference to changes in “percentage level” means any changes in a substantial shareholder’s interest in the company which results in his interest, following such change, increasing or decreasing to the next discrete 1% threshold. For example, an increase in interests in the company from 5.1% to 5.9% need not be notified, but an increase from 5.9% to 6.1% will have to be notified.

Consequences of non-compliance*Section 89 of the Companies Act*

Section 89 of the Companies Act provides for the consequences of non-compliance with sections 82, 83 and 84. Under section 89, a person who fails to comply shall be guilty of an offence and shall be liable on conviction to a fine not exceeding S\$5,000 and in the case of a continuing offence to a further fine of S\$500 for every day during which the offence continues after conviction.

Section 90 of the Companies Act

Section 90 of the Companies Act provides for a defence to a prosecution for failing to comply with sections 82, 83 or 84. It is a defence if the defendant proves that his failure was due to his not being aware of a fact or occurrence the existence of which was necessary to constitute the offence and that he was not so aware on the date of the summons; or he became so aware less than 7 days before the date of the summons. However, a person will conclusively be presumed to have been aware of a fact or occurrence at a particular time (a) of which he would, if he had acted with reasonable diligence in the conduct of his affairs, have been aware at that time; or (b) of which an employee or agent of the person, being an employee or agent having duties or acting in relation to his master's or principal's interest or interests in a share or shares in the company concerned, was aware or would, if he had acted with reasonable diligence in the conduct of his master's or principal's affairs, have been aware at that time.

Powers of the court with respect to defaulting substantial shareholders*Section 91 of the Companies Act*

Section 91 of the Companies Act provides that where a substantial shareholder fails to comply with sections 82, 83 or 84, the Court may, on the application of the Minister, whether or not the failure still continues, make one of the following orders:

- (a) an order restraining the substantial shareholder from disposing of any interest in shares in the company in which he is or has been a substantial shareholder;
- (b) an order restraining a person who is, or is entitled to be registered as, the holder of shares referred to in paragraph (a) from disposing of any interest in those shares;
- (c) an order restraining the exercise of any voting or other rights attached to any share in the company in which the substantial shareholder has or has had an interest;
- (d) an order directing the company not to make payment, or to defer making payment, of any sum due from the company in respect of any share in which the substantial shareholder has or has had an interest;
- (e) an order directing the sale of all or any of the shares in the company in which the substantial shareholder has or has had an interest;

- (f) an order directing the company not to register the transfer or transmission of specified shares;
- (g) an order that any exercise of the voting or other rights attached to specified shares in the company in which the substantial shareholder has or has had an interest be disregarded; or
- (h) for the purposes of securing compliance with any other order made under this section, an order directing the company or any other person to do or refrain from doing a specified act.

Any order made under this section may include such ancillary or consequential provisions as the Court thinks just.

The Court may not make an order other than an order restraining the exercise of voting rights, if it is satisfied (a) that the failure of the substantial shareholder to comply was due to his inadvertence or mistake or to his not being aware of a relevant fact or occurrence; and (b) that in all the circumstances, the failure ought to be excused.

Any person who contravenes or fails to comply with an order made under this section that is applicable to him shall be guilty of an offence and shall be liable on conviction to a fine not exceeding S\$5,000 and, in the case of a continuing offence, to a further fine of S\$500 for every day during which the offence continues after conviction.

Obligation to notify the SGX-ST of substantial shareholding and change in substantial shareholding

Section 137(1) of the Securities and Futures Act (“SFA”)

A substantial shareholder is also required under section 137(1) of the SFA to give the above notifications to the SGX-ST at the same time. Any person who fails to comply with section 137(1) is guilty of an offence and shall be liable on conviction to a fine not exceeding S\$25,000 and, in the case of a continuing offence, to a further fine of S\$2,500 for every day or part thereof during which the offence continues after conviction.

Duty not to furnish false statements to securities exchange, futures exchange, designated clearing house and Securities Industry Council of Singapore

Section 330 of the SFA

Section 330 of the SFA provides that any person who, with intent to deceive, makes or furnishes, or knowingly and wilfully authorises or permits the making or furnishing of, any false or misleading statement or report to a securities exchange, futures exchange, designated clearing house or any officers thereof relating to dealing in securities shall be guilty of an offence and shall be liable on conviction to a fine not exceeding S\$50,000 or to imprisonment for a term not exceeding 2 years or to both. Section 330 further provides that any person who, with intent to deceive, makes or furnishes or knowingly and wilfully authorises or permits the making or furnishing of, any false or misleading statement or report to the Securities Industry Council or any of its officers, relating to any matter or thing required

by the Securities Industry Council in the exercise of its functions under the SFA shall be guilty of an offence and shall be liable on conviction to a fine not exceeding S\$50,000 or to imprisonment for a term not exceeding 2 years or to both.

Obligation to disclose beneficial interest in the voting shares of the company*Section 92 of the Companies Act*

Section 92 of the Companies Act provides that a company which has all of its shares listed on a stock exchange in Singapore may require any member to inform it whether the member holds the voting shares in the company as beneficial owner or trustee, and in the latter, who the beneficiaries are. If the member discloses that he is holding the shares on trust for another party, the company may additionally require the other party to inform it whether the other party holds the interests as beneficial owner or as trustee and if the latter, for whom. A listed company also has the right to require the member to inform it of any voting agreement that he may have in relation to the shares held by him.

Consequences of non-compliance*Section 92 of the Companies Act*

Section 92(6) of the Companies Act provides that the failure to comply with a notice requiring disclosure of information is an offence, unless it can be shown that the information was already in the possession of the company or that the requirement to give it was frivolous or vexatious. A person who deliberately or recklessly makes a statement that is false in a material particular in compliance to a request for information under section 92 is also guilty of an offence, and is likewise liable on conviction to a fine not exceeding S\$10,000 or to imprisonment for a term not exceeding 2 years.

2. PROHIBITED CONDUCT IN RELATION TO TRADING IN THE SECURITIES OF THE COMPANY**Prohibitions against false trading and market manipulation***Section 197 of the SFA*

Section 197 of the SFA prohibits (i) the creation of a false or misleading appearance of active trading in any securities on a securities exchange; (ii) the creation of a false or misleading appearance with respect to the market for, or price of, any securities on a securities exchange; (iii) affecting the price of securities by way of purchases or sales which do not involve a change in the beneficial ownership of those securities; and (iv) affecting the price of securities by means of any fictitious transactions or devices.

Section 197(3) of the Companies Act provides that a person is deemed to have created a false or misleading appearance of active trading in securities on a securities market if he does any of the following acts:

- (i) if he effects, takes part in, is concerned in or carries out, directly or indirectly, any transaction of purchase or sale of any securities, which does not involve any change in the beneficial ownership of the securities;

- (ii) if he makes or causes to be made an offer to sell any securities at a specified price where he has made or caused to be made or proposes to make or to cause to be made, or knows that a person associated with him has made or caused to be made or proposes to make or to cause to be made, an offer to purchase the same number, or substantially the same number, of securities at a price that is substantially the same as the first-mentioned price; or
- (iii) if he makes or causes to be made an offer to purchase any securities at a specified price where he has made or caused to be made or proposes to make or to cause to be made, or knows that a person associated with him has made or caused to be made or proposes to make or to cause to be made, an offer to sell the same number, or substantially the same number, of securities at a price that is substantially the same as the first-mentioned price,

unless he establishes that the purpose or purposes for which he did the act was not, or did not include, the purpose of creating a false or misleading appearance of active trading in securities on a securities market.

Section 197(5) provides that a purchase or sale of securities does not involve a change in the beneficial ownership if a person who had an interest in the securities before the purchase or sale, or a person associated with the first-mentioned person in relation to those securities, has an interest in the securities after the purchase or sale.

Section 197(6) provides a defence to proceedings against a person in relation to a purchase or sale of securities that did not involve a change in the beneficial ownership of those securities. It is a defence if the defendant establishes that the purpose or purposes for which he purchased or sold the securities was not, or did not include, the purpose of creating a false or misleading appearance with respect to the market for, or the price of, securities.

Prohibition against securities market manipulation

Section 198 of the SFA

Section 198(1) of the SFA provides that no person shall carry out directly or indirectly, 2 or more transactions in securities of a corporation, being transactions that have, or likely to have, the effect of raising, lowering, maintaining or stabilising the price of the securities with intent to induce other persons to purchase them. Section 198(2) provides that transactions in securities of a corporation includes (i) the making of an offer to purchase or sell such securities of the corporation; and (ii) the making of an invitation, however expressed, that directly or indirectly invites a person to offer to purchase or sell such securities of the corporation.

Prohibition against the manipulation of the market price of securities by the dissemination of misleading information

Sections 199 and 202 of the SFA

Section 199 of the SFA prohibits the making of false or misleading statements. Under this provision, a person shall not make a statement, or disseminate information, that is false or misleading in a material particular and is likely (a) to induce other persons to subscribe for

securities; (b) to induce the sale or purchase of securities by other persons; or (c) to have the effect of raising, lowering, maintaining or stabilising the market price of securities, if, when he makes the statement or disseminates the information, he either does not care whether the statement or information is true or false, or knows or ought reasonably to have known that the statement or information is false or misleading in a material particular.

Section 202 of the SFA prohibits the dissemination of information about illegal transactions. This provision prohibits the circulation or dissemination of any statement or information to the effect that the price of any securities of a corporation will rise, fall or be maintained by reason of transactions entered into in contravention of sections 197 to 201 of the SFA. This prohibition applies where the person who is circulating or disseminating the information or statements (i) is the person who entered into the illegal transaction; or (ii) is associated with the person who entered into the illegal transaction; or (iii) is the person, or associated with the person, who has received or expects to receive (whether directly or indirectly) any consideration or benefit of circulating or disseminating the information or statements.

Prohibition against fraudulently inducing persons to deal in securities

Section 200 of the SFA

Section 200 of the SFA prohibits a person from inducing or attempting to induce another person to deal in securities, (a) by making or publishing any statement, promise or forecast that he knows or ought reasonably to have known to be misleading, false or deceptive; (b) by any dishonest concealment of material facts; (c) by the reckless making or publishing of any statement, promise or forecast that is misleading, false or deceptive; or (d) by recording or storing in, or by means of, any mechanical, electronic or other device information that he knows to be false or misleading in a material particular, unless it is established that, at the time when the defendant so recorded or stored the information, he had no reasonable grounds for expecting that the information would be available to any other person.

Prohibition against employment of manipulative and deceptive devices

Section 201 of the SFA

Section 201 of the SFA prohibits (i) the employment of any device, scheme or artifice to defraud; (ii) engaging in any act, practice or course of business which operates as a fraud or deception, or is likely to operate as a fraud or deception, upon any person; and (iii) making any untrue statement of a material fact or (iv) omitting to state a material fact necessary to make statements made not misleading, in connection with the subscription, purchase or sale of any securities.

Prohibition against the dissemination of information about illegal transactions

Section 202 of the SFA

Section 202 of the SFA prohibits the circulation or dissemination of any statement or information to the effect that the price of any securities of a corporation will rise, fall or be maintained by reason of any transaction entered into or to be entered into in contravention of sections 197 to 201 of the SFA. This prohibition applies where the person who is circulating

or disseminating the information or statements (i) is the person who entered into the illegal transaction; or (ii) is associated with the person who entered into the illegal transaction; or (iii) is the person, or associated with the person, who has received or expects to receive (whether directly or indirectly) any consideration or benefit of circulating or disseminating the information or statements.

Prohibition against insider trading

Sections 218 and 219 of the SFA

Sections 218 and 219 of the SFA prohibit persons from dealing in securities of a corporation if the person knows or reasonably ought to know that he is in possession of information that is not generally available, which is expected to have a material effect on the price or value of securities of that corporation. Such persons include substantial shareholders of a corporation or a related corporation, and persons who occupy a position reasonably expected to give him access to inside information by virtue of professional or business relationship by being an officer or a substantial shareholder of the corporation or a related corporation, or any other person in possession of inside information. For an alleged contravention of section 218 or 219, section 220 makes it clear that it is not necessary for the prosecution or plaintiff to prove that the accused person or defendant intended to use the information referred to in section 218(1)(a) or (1A)(a) or 219(1)(a) in contravention of section 218 or 219, as the case may be.

Section 216 of the SFA

Section 216 of the SFA provides that a reasonable person would be taken to expect information to have a material effect on the price or value of securities if the information would, or would be likely to, influence persons who commonly invest in securities in deciding whether or not to subscribe for, buy or sell the first-mentioned securities.

Penalties

Section 232 of the SFA

Section 232 of the SFA provides that the Monetary Authority of Singapore may, with the consent of the Public Prosecutor, bring an action in a court against the offender to seek an order for a civil penalty in respect of any contravention. If the court is satisfied on the balance of probabilities that the contravention resulted in the gain of a profit or avoidance of a loss by the offender, the offender may have to pay a civil penalty of a sum (a) not exceeding 3 times the amount of the profit that the person gained; or the amount of the loss that he avoided, as a result of the contravention; or (b) equal to S\$50,000 if the person is not a corporation, or S\$100,000 if the person is a corporation, whichever is the greater. If the court is satisfied on a balance of probabilities that the contravention did not result in the gain of a profit or avoidance of a loss by the offender, the court may make an order against him for the payment of a civil penalty of a sum not less than S\$50,000 and not more than S\$2 million.

Section 204 of the SFA

Any person who contravenes sections 197, 198, 201 or 202 is guilty of an offence and shall be liable on conviction to a fine not exceeding S\$250,000 or to imprisonment for a term not exceeding 7 years or to both under section 204 of the SFA. Section 204 further provides that no proceedings shall be instituted against a person for the offence after a court has made an order against him for the payment of a civil penalty under section 232 in respect of the contravention.

Section 221 of the SFA

Any person who contravenes section 218 or 219, is guilty of an offence and shall be liable on conviction to a fine not exceeding S\$250,000 or to imprisonment for a term not exceeding 7 years or to both under section 221 of the SFA. Section 221 further provides that no proceedings shall be instituted against a person for an offence in respect of a contravention of section 218 or 219 after a court has made an order against him for the payment of a civil penalty under section 232 in respect of that contravention.

3. TAKEOVER OBLIGATIONS**Offences and obligations relating to take-overs***Section 140 of the SFA*

Section 140 of the SFA provides that a person shall not give notice or publicly announce that he intends to make a take-over offer if (a) he has no intention to make a take-over offer; or (b) he has no reasonable or probable grounds for believing that he will be able to perform his obligations if the take-over offer is accepted or approved, as the case may be. A person who contravenes section 140 is guilty of an offence and shall be liable on conviction to a fine not exceeding S\$250,000 or to imprisonment for a term not exceeding 7 years or to both.

Obligations under the Singapore Code on Take-overs and Mergers (the “Singapore Code”) and the consequences of non-compliance*Obligations under the Singapore Code*

The Singapore Code regulates the acquisition of ordinary shares of public companies and contain certain provisions that may delay, deter or prevent a future takeover or change in control of the Company. Any person acquiring an interest, either on his own or together with parties acting in concert with him, in 30.0% or more of our voting Shares, or, if such person holds, either on his own or together with parties acting in concert with him, between 30.0% and 50.0% (both inclusive) of our voting Shares, and if he (or parties acting in concert with him) acquires additional voting Shares representing more than 1.0% of our voting Shares in any six-month period, must, except with the consent of the Securities Industry Council in Singapore, extend a takeover offer for the remaining voting Shares in accordance with the provisions of the Singapore Code.

“Parties acting in concert” comprise individuals or companies who, pursuant to an agreement or understanding (whether formal or informal), co-operate, through the acquisition by any of them of Shares in a company, to obtain or consolidate effective control of that company. Certain persons are presumed (unless the presumption is rebutted) to be acting in concert with each other. They are as follow:

- (a) a company and its related companies, the associated companies of any of the company and its related companies, companies whose associated companies include any of these companies and any person who has provided financial assistance (other than a bank in the ordinary course of business) to any of the foregoing for the purchase of voting rights;
- (b) a company and its directors (including their close relatives, related trusts and companies controlled by any of the directors, their close relatives and related trusts);
- (c) a company and its pension funds and employee share schemes;
- (d) a person with any investment company, unit trust or other fund whose investment such person manages on a discretionary basis;
- (e) a financial or other professional advisers and its clients in respect of Shares held by the advisers and persons controlling, controlled by or under the same control as the advisers and all the funds managed by the advisers on a discretionary basis, where the shareholdings of the advisers and any of those funds in the client total 10.0% or more of the client’s equity share capital;
- (f) directors of a company (including their close relatives, related trusts and companies controlled by any of such directors, their close relatives and related trusts) which is subject to an offer or where the directors have reason to believe a bona fide offer for the company may be imminent;
- (g) partners; and
- (h) an individual and his close relatives, related trusts, any person who is accustomed to act in accordance with his instructions and companies controlled by the individual, his close relatives, his related trusts or any person who is accustomed to act in accordance with his instructions and any person who has provided financial assistance (other than a bank in the ordinary course of business) to any of the foregoing for the purchase of voting rights.

In the event that one of the abovementioned trigger-points is reached, the person acquiring an interest (the “**Offeror**”) must make a public announcement stating the terms of the offer and its identity. The Offeror must post an offer document not earlier than 14 days and not later than 21 days from the date of the offer announcement. An offer must be kept open for at least 28 days after the date on which the offer document was posted.

The Offeror may vary the offer by offering more for the shares or by extending the period in which the offer remains open. If a variation is proposed, the Offeror is required to give a written notice to the offeree company and its shareholders, stating the modifications

made to the matters set out in the offer document. The revised offer must be kept open for at least another 14 days. Where the consideration is varied, shareholders who agree to sell before the variation are also entitled to receive the increased consideration.

A mandatory offer must be in cash or be accompanied by a cash alternative at not less than the highest price paid by the offeror or parties acting in concert with the offeror within the six months preceding the acquisition of Shares that triggered the mandatory offer obligation.

Under the Singapore Code, where effective control of a company is acquired or consolidated by a person, or persons acting in concert, a general offer to all other shareholders is normally required. An offeror must treat all shareholders of the same class in an offeree company equally. A fundamental requirement is that shareholders in the company subject to the takeover offer must be given sufficient information, advice and time to consider and decide on the offer.

Consequences of non-compliance with the requirements under the Singapore Code

The Singapore Code is non-statutory in that it does not have the force of law. Therefore, as provided in section 139(8) of the SFA, a failure of any party concerned in a take-over offer or a matter connected therewith to observe any of the provisions of the Singapore Code shall not of itself render that party liable to criminal proceedings.

However, the failure of any party to observe any of the provisions of the Singapore Code may, in any civil or criminal proceedings, be relied upon by any party to the proceedings as tending to establish or to negate any liability which is in question in the proceedings.

Section 139 further provides that where the Securities Industry Council has reason to believe that any party concerned in a take-over offer or a matter connected therewith is in breach of the provisions of the Singapore Code or is otherwise believed to have committed acts of misconduct in relation to such take-over offer or matter, the Securities Industry Council has power to enquire into the suspected breach or misconduct. The Securities Industry Council may summon any person to give evidence on oath or affirmation, which it is thereby authorised to administer, or produce any document or material necessary for the purpose of the enquiry.

4. MINORITY RIGHTS

Section 216 of the Companies Act

The rights of minority shareholders of Singapore-incorporated companies are protected under Section 216 of the Companies Act, which gives the Singapore courts a general power to make any order, upon application by any shareholder of the Company, as they think fit to remedy any of the following situations:

- (a) the affairs of the Company are being conducted or the powers of the Board are being exercised in a manner oppressive to, or in disregard of the interests of, one or more of the shareholders; or

- (b) the Company takes an action, or threatens to take an action, or the shareholders pass a resolution, or propose to pass a resolution, which unfairly discriminates against, or is otherwise prejudicial to, one or more of the shareholders, including the applicant.

Singapore courts have wide discretion as to the reliefs they may grant and those reliefs are in no way limited to those listed in the Companies Act itself. Without prejudice to the foregoing, Singapore courts may:

- (a) direct or prohibit any act or cancel or vary any transaction or resolution;
- (b) regulate the conduct of the affairs of the Company in the future;
- (c) authorise civil proceedings to be brought in the name of, or on behalf of, the Company by a person or persons and on such terms as the court may direct;
- (d) provide for the purchase of a minority shareholder's shares by the other shareholders or by the Company and, in the case of a purchase of shares by the Company, a corresponding reduction of its share capital;
- (e) provide that the Memorandum or the Articles be amended; or
- (f) provide that the Company be wound up.

5. EXCHANGE CONTROLS

There are no Singapore governmental laws, decrees, regulations or other legislation that may affect the following:

- (a) the import or export of capital, including the availability of cash and cash equivalents for use by our Group; and
- (b) the remittance of dividends, interest or other payments to non-resident holders of our Company's securities.

6. MERGERS' REQUISITION TO CONVENE EXTRAORDINARY GENERAL MEETINGS

Section 176 of the Companies Act

Section 176 of the Companies Act provides that the directors shall, on the requisition of members holding not less than 10% of such of the paid-up capital of a company or in the case of a company not having a share capital, of members representing not less than 10% of the total voting rights of all the members, proceed to convene an extraordinary general meeting of the Company.

Section 183 of the Companies Act

Section 183 of the Companies Act provides that a company is under a duty, on the requisition in writing of such number of members, to give to members of such company entitled to receive notice of the next annual general meeting notice of any resolution which

may properly be moved and is intended to be moved at that meeting and to circulate to such members any statement of not more than 1,000 words with respect to the matter referred to in any proposed resolution or the business to be dealt with at that meeting. Number of members as required for such a requisition shall be any number of members representing not less than 5% of the total voting rights of all members having at the date of the requisition a right to vote at the meeting to which the requisition relates or not less than 100 members holding shares in the company on which there has been paid up an average sum, per member, of not less than S\$500.

Principal differences between the continuing obligations applicable to listed companies under the Listing Rules and the Listing Manual

In view of the dual primary listing status of the Company on both of the Stock Exchange and the SGX-ST after completion of the Listing, the Company will have to follow the Listing Rules and the Listing Manual. In the event of any conflict between them, the Company will have to comply with the more onerous rules, subject to approvals from the relevant stock exchange(s). The following table sets out the principal differences between the continuing obligations applicable to listed companies under the Listing Rules and the Listing Manual.

	<u>Listing Rules</u>	<u>Listing Manual</u>
1. FINANCIAL REPORTING OBLIGATIONS		
(A) Annual reports*	<p>Rule 13.46 of the Listing Rules</p> <p>A listed company shall send to (i) every member of the listed company; and (ii) every other holders of its listed securities (not being bearer securities), a copy of either (a) its annual report including its annual accounts and, where the listed company prepares group accounts, its group accounts, together with a copy of the auditors' report thereon or (b) its summary financial report, not less than 21 days before the date of the listed company's annual general meeting and in any event not more than four months after the end of the financial year to which they relate.</p>	<p>Rule 707 of the Listing Manual</p> <p>(1) The time between the end of a listed company's financial year and the date of its annual general meeting (if any) must not exceed four months.</p> <p>(2) A listed company must issue its annual report to shareholders and the SGX-ST at least 14 days before the date of its annual general meeting.</p>

	Listing Rules	Listing Manual
(B) Preliminary result announcements for full financial year*	<p>Rule 13.49(1) of the Listing Rules</p> <p>A listed company shall publish its preliminary results in respect of each financial year as soon as possible, but in any event not later than the time that is 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the next business day after approval by or on behalf of the board. The listed company must publish such results:</p> <p>(a) for annual accounting periods ending before 31 December 2010 — not later than four months after the end of the financial year; and</p> <p>(b) for annual accounting periods ending on or after 31 December 2010 — not later than three months after the end of the financial year.</p>	<p>Rule 705(1) of the Listing Manual</p> <p>A listed company must announce the financial statements for the full financial year immediately after the figures are available, but in any event not later than 60 days after the relevant financial period.</p>
(C) Interim reports**	<p>Rule 13.48(1) of the Listing Rules</p> <p>In respect of the first six months of each financial year of a listed company unless that financial year is of six months or less, the listed company shall send to (i) every member of the listed company; and (ii) every other holder of its listed securities (not being bearer securities), either (a) an interim report, or (b) a summary interim report not later than three months after the end of that period of six months.</p>	<p>No requirements on sending an interim report to the shareholders.</p>

	Listing Rules	Listing Manual
(D) Preliminary result announcements for first half of financial year*	<p>Rule 13.49(6) of the Listing Rules</p> <p>A listed company shall publish in respect of its results for the first six months of each financial year, unless that financial year is of six months or less, as soon as possible, but in any event not later than the time that is 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the next business day after approval by or on behalf of the board. The listed company must publish such results:</p> <p>(a) for half-year accounting periods ending before 30 June 2010 — not later than three months after the end of that period of six months; and</p> <p>(b) for half-year accounting periods ending on or after 30 June 2010 — not later than two months after the end of that period of six months.</p>	<p>Rule 705(2) of the Listing Manual</p> <p>A listed company must announce the financial statements for each of the first three quarters of its financial year immediately after the figures are available, but in any event not later than 45 days after the quarter end if:</p> <p>(a) its market capitalization exceeded S\$75 million as at 31 March 2003; or</p> <p>(b) it was listed after 31 March 2003 and its market capitalization exceeded S\$75 million at the time of listing (based on the IPO issue price); or</p> <p>(c) its market capitalisation is S\$75 million or higher on the last trading day of each calendar year commencing from 31 December 2006. A listed company whose obligation falls within this sub-section (c) will have a grace period of a year to prepare for quarterly reporting.</p>
(E) Quarterly financial results*	No such requirement for companies listed on the Main Board.	Same as the requirements under Rule 705(2) of the Listing Manual as set out above.

	Listing Rules	Listing Manual
2. DISCLOSURE OBLIGATIONS		
(A) Notifiable transactions*	<p>Chapter 14 of the Listing Rules</p> <p>The transactions of a listed company are classified as:</p> <p>(1) share transaction: an acquisition of assets (excluding cash) by a listed company where the consideration includes securities for which listing will be sought and where all percentage ratios are less than 5%;</p> <p>(2) discloseable transaction: a transaction or a series of transactions by a listed company where any percentage ratio is 5% or more, but less than 25%;</p> <p>(3) major transaction: a transaction or a series of transactions by a listed company where any percentage ratio is 25% or more, but less than 100% for an acquisition or 75% for a disposal;</p> <p>(4) very substantial disposal: a disposal or a series of disposals of assets by a listed company where any percentage ratio is 75% or more;</p> <p>(5) very substantial acquisition: an acquisition or a series of acquisitions of assets by a listed company where any percentage ratio is 100% or more;</p>	<p>Chapter 10 of the Listing Manual</p> <p>The transactions of a listed company are classified as:</p> <p>(1) non-discloseable transactions: where any of the relative figures is 5% or less;</p> <p>(2) discloseable transactions: where any of the relative figures exceeds 5% but does not exceed 20%;</p> <p>(3) major transaction: where any of the relative figures exceeds 20%; and</p> <p>(4) very substantial acquisition or reverse takeover: where any of the relative figures is 100% or more, or where there is a change in control of the listed company.</p> <p>Where a transaction is classified as a discloseable transaction, major transaction, very substantial acquisition or reverse takeover, the listed company must make an immediate announcement, which includes the details as prescribed in the Listing Manual.</p> <p>For a very substantial acquisition or reverse takeover, the listed company must also immediately announce the latest three years of proforma financial information of the assets to be acquired.</p> <p>Transactions that are major transactions are conditional upon the prior approval of shareholders. Very substantial acquisitions and reverse takeovers transactions are conditional upon the approval of shareholders and the approval of the SGX-ST. A circular to shareholders will need to be distributed to seek shareholders' approval, and the disclosures required to be made in such circular for these types of transactions are prescribed in the Listing Manual.</p>

Listing Rules	Listing Manual
<p>(6) reverse takeover: an acquisition or a series of acquisitions of assets by a listed company which, in the opinion of the Stock Exchange, constitutes, or is part of a transaction or arrangement or series of transactions or arrangements which constitute, an attempt to achieve a listing of the assets to be acquired and a means to circumvent the requirements for new applicants set out in Chapter 8 of the Listing Rules.</p>	
<p>As soon as possible after the terms of a share transaction, discloseable transaction, major transaction, very substantial disposal, very substantial acquisition or reverse takeover have been finalised, the listed company must in each case (1) inform the Stock Exchange; and (2) publish an announcement in accordance with Rule 2.07C of the Listing Rules. For a major transaction, very substantial disposal, very substantial acquisition or reverse takeover, the listed company must send to its shareholders and the Stock Exchange a circular containing in the information as required under Chapter 14 of the Listing Rules.</p>	
<p>With respect to a major transaction for acquisitions of businesses and/or companies, and very substantial acquisition and reverse takeover, the listed company shall provide the accountants' report for the 3 preceding financial years on the business, company or companies being acquired. With respect to very substantial disposal, the listed company shall provide an accountants' report on the listed company's group.</p>	
<p>For a major transaction, very substantial disposal and very substantial acquisition, the shareholders' approval is required, while the approvals from both the shareholders and the Stock Exchange are required for reverse takeover.</p>	

	Listing Rules	Listing Manual
(B) Connected transactions**	<p>Chapter 14A of the Listing Rules</p> <p>A listed company must publicly disclose a transaction entered into between the listed company or one of its subsidiaries and a connected person. Generally, a public announcement, a circular and/or independent shareholder approval are required unless one of the de-minimals or other exemptions set out below apply.</p> <p>The term ‘connected person’ is very widely defined under the Listing Rules and include directors, chief executive, substantial shareholders (i.e. shareholders interested in 10% or more of the equity interest in the listed company or any of its subsidiaries), associates (as defined under the Listing Rules) of directors, chief executive or substantial shareholders, non-wholly-owned subsidiaries of the listed company and its subsidiaries.</p>	<p>Chapter 9 of the Listing Manual</p> <p>Chapter 9 of the Listing Manual, which applies to the listed company, prescribes situations in which transactions between entities at risk (as defined in the Listing Manual) and interested persons (as defined in the Listing Manual) are required to be disclosed or are subject to the prior approval of shareholders.</p> <p>The term “entity at risk” means (a) the listed company; (b) a subsidiary of the listed company that is not listed on the SGX-ST or an approved exchange; or (c) an associated company of the listed company that is not listed on the SGX-ST or an approved exchange, provided that the listed group, or the listed group and its interested person(s), has control over the associated company.</p> <p>The term “interested person” means (a) a director, chief executive officer, or controlling shareholder of the listed company; or (b) an associate of any such director, chief executive officer, or controlling shareholder.</p> <p>The term “interested person transaction” means a transaction between an entity at risk and an interested person.</p>

Listing Rules	Listing Manual
<p><i>Connected transactions or continuing connected transactions exempt from the reporting, announcement and independent shareholders' approval requirements:</i></p> <p>A connected transaction or continuing connected transaction will be considered as de minimis transaction if (a) each of the percentage ratios (other than the profits ratio) is less than 0.1%; or (b) each of the percentage ratios (other than the profits ratio) is equal to or more than 0.1% but less than 2.5% and the total consideration is less than HK\$1,000,000, such connected transaction will be exempt from all the reporting, announcement and independent shareholders' approval requirements.</p>	<p><i>Transaction with interested person subject to announcement requirements:</i></p> <p>A listed company must make an immediate announcement of any interested person transaction of a value equal to, or more than, 3% of the group's latest audited net tangible assets; or if the aggregate value of all transactions entered into with the same interested person during the same financial year amounts to 3% or more of the group's latest audited net tangible assets, the listed company must make an immediate announcement of the latest transaction and all future transactions entered into with that same interested person during that financial year. The announcement requirement does not apply to any transaction below S\$100,000.</p>
<p><i>Connected transactions exempt from the reporting and announcement requirements:</i></p> <p>A connected transaction or continuing connected transaction on normal commercial terms where (a) each of the percentage ratios (other than the profits ratio) is less than 2.5%; or (b) each of the percentage ratios (other than the profits ratio) is equal to or more than 2.5% but less than 25% and the total consideration is less than HK\$10,000,000, then such transaction is only subject to the reporting and announcement requirements and is exempt from the independent shareholders' approval requirements.</p>	<p><i>Transaction with interested person subject to shareholders' approval requirements:</i></p> <p>A listed company must obtain shareholder approval for any interested person transaction of a value equal to, or more than (a) 5% of the group's latest audited net tangible assets; or (b) 5% of the group's latest audited net tangible assets, when aggregated with other transactions entered into with the same interested person during the same financial year. However, a transaction which has been approved by shareholders, or is the subject of aggregation with another transaction that has been approved by shareholders, need not be included in any subsequent aggregation. The shareholders' approval requirement does not apply to any transaction below S\$100,000.</p>
<p><i>Exemptions</i></p> <p>The following transactions are not required to comply with the reporting, announcement and independent shareholders approval requirements:</p> <ol style="list-style-type: none"> (1) intra-group transactions; (2) de minimis transactions; (3) issue of new securities under circumstances specified in Rule 14A.31 of the Listing Rules; 	

Listing Rules	Listing Manual
<p>(4) stock exchange dealings under circumstances specified in Rule 14A.31 of the Listing Rules;</p> <p>(5) purchase of own securities under circumstances specified in Rule 14A.31 of the Listing Rules;</p> <p>(6) directors' service contracts under circumstances specified in Rule 14A.31 of the Listing Rules;</p> <p>(7) consumer goods or consumer services under circumstances specified in Rule 14A.31 of the Listing Rules; and</p> <p>(8) sharing of administrative services under circumstances specified in Rule 14A.31 of the Listing Rules.</p>	<p><i>Exemptions</i></p> <p>The following transactions are not required to comply with the announcement and shareholders' approval requirements:</p> <p>(1) a payment of dividends, a subdivision of shares, an issue of securities by way of a bonus issue, a preferential offer, or an off-market acquisition of the listed company's shares, made to all shareholders on a pro-rata basis, including the exercise of rights, options or company warrants granted under the preferential offer.</p> <p>(2) the grant of options, and the issue of securities pursuant to the exercise of options, under an employees' share option scheme approved by the SGX-ST.</p> <p>(3) a transaction between an entity at risk and an investee company, where the interested person's interest in the investee company, other than that held through the listed company, is less than 5%.</p> <p>(4) a transaction in marketable securities carried out in the open market where the counterparty's identity is unknown to the listed company at the time of the transaction.</p> <p>(5) a transaction between an entity at risk and an interested person for the provision of goods or services if (a) the goods or services are sold or rendered based on a fixed or graduated scale, which is publicly quoted; and (b) the sale prices are applied consistently to all customers or class of customers.</p> <p>(6) the provision of financial assistance or services by a financial institution that is licensed or approved by the Monetary Authority of Singapore, on normal commercial terms and in the ordinary course of business.</p>

	Listing Rules	Listing Manual
		<p>(7) the receipt of financial assistance or services from a financial institution that is licensed or approved by the Monetary Authority of Singapore, on normal commercial terms and in the ordinary course of business.</p> <p>(8) director's fees and remuneration, and employment remuneration (excluding "golden parachute" payments).</p>
3. ISSUANCE OF SHARES AND SHARES REPURCHASE REQUIREMENTS		
(A) General Mandate**	<p>Rule 13.36(2)(b) of the Listing Rules</p> <p>The existing shareholders of the listed company may by an ordinary resolution in general meeting give a general mandate to the directors of the listed company which shall be subject to a restriction that the aggregate number of securities allotted or agreed to be allotted under the general mandate must not exceed the aggregate of 20% of the existing issued share capital of the listed company plus the number of such securities repurchased by the listed company itself since the granting of the general mandate (up to a maximum number equivalent to 10% of the existing issued share capital of the listed company), provided that the existing shareholders of the listed company have by a separate ordinary resolution in general meeting given a general mandate to the directors of the listed company to add such repurchased securities to the 20% general mandate.</p> <p>Rule 13.36(3) of the Listing Rules</p> <p>A general mandate given under rule 13.36(2) of the Listing Rules shall only continue in force until (a) the conclusion of the first annual general meeting of the listed company following the passing of the resolution at which time it shall lapse unless, by ordinary resolution passed at that meeting, the mandate is renewed, either unconditionally or subject to conditions; or (b) revoked or varied by an ordinary resolution of the shareholders in general meeting.</p>	<p>Rule 806(2) of the Listing Manual</p> <p>A general mandate must limit the aggregate number of shares and convertible securities that may be issued. The limit must be not more than 50% of the total number of issued shares excluding treasury shares, of which the aggregate number of shares and convertible securities issued other than on a pro rata basis to existing shareholders must be not more than 20% of the total number of issued shares excluding treasury shares. Unless prior shareholder approval is required under the Listing Manual, an issue of treasury shares will not require further shareholder approval, and will not be included in the aforementioned limits.</p> <p>Rule 806(6), SGX Listing Manual</p> <p>A general mandate may remain in force until the earlier of (a) the conclusion of the first annual general meeting of the listed company following the passing of the resolution. By an ordinary resolution passed at that meeting, the mandate may be renewed, either unconditionally or subject to conditions; or (b) it is revoked or varied by ordinary resolution of the shareholders in general meeting.</p>

	Listing Rules	Listing Manual
(B) Repurchase Mandate [▲]	<p>Rule 13.36(2)(b) of the Listing Rules</p> <p>The existing shareholders of the listed company may by an ordinary resolution in general meeting give a general mandate to the directors of the listed company which shall be subject to a restriction that the aggregate number of securities allotted or agreed to be allotted under the general mandate must not exceed the aggregate of 20% of the existing issued share capital of the listed company plus the number of such securities repurchased by the listed company itself since the granting of the general mandate (up to a maximum number equivalent to 10% of the existing issued share capital of the listed company), provided that the existing shareholders of the listed company have by a separate ordinary resolution in general meeting given a general mandate to the directors of the listed company to add such repurchased securities to the 20% general mandate.</p> <p>Rule 10.05 of the Listing Rules</p> <p>Subject to the provisions of the Code on Share Repurchases, a listed company may purchase its shares on the Stock Exchange or on another stock exchange recognised for this purpose by the Securities and Futures Commission and the Stock Exchange. All such purchases must be made in accordance with Rule 10.06 of the Listing Rules. The Code on Share Repurchases must be complied with by a listed company and its directors and any breach thereof by a listed company will be a deemed breach of the Listing Rules and the Stock Exchange may in its absolute discretion take such action to penalise any breach of this Rule 10.05 or the listing agreement as it shall think appropriate. It is for the listed company to satisfy itself that a proposed purchase of shares does not contravene the Code on Share Repurchases.</p>	<p>Rule 882 of the Listing Manual</p> <p>A share buy-back may only be made on the SGX-ST or on another stock exchange on which the listed company's securities are listed ("Market Purchases") or by way of an off-market acquisition in accordance with an equal access scheme as defined in section 76C of the Companies Act.</p> <p>Rule 881 of the Listing Manual</p> <p>A listed company may purchase its own shares if it has obtained the prior specific approval of shareholders in general meeting.</p> <p>Rule 884 of the Listing Manual</p> <p>In the case of a Market Purchase, the purchase price must not exceed 105% of the Average Closing Price. The term "Average Closing Price" means the average of the closing market prices of a share over the last 5 market days preceding the day of the Market Purchase on which transactions in the shares were recorded and deemed to be adjusted for any corporate action that occurs after the relevant 5-day period.</p> <p>Rule 723 of the Listing Manual</p> <p>A listed company must ensure that at least 10% of the total number of issued shares excluding treasury shares (excluding preference shares and convertible equity securities) in a class that is listed is at all times held by the public.</p>

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Rule 10.06(2) of the Listing Rules

A listed company shall not purchase its shares on the Stock Exchange if the purchase price is higher by 5% or more than the average closing market price for the 5 preceding trading days on which its shares were traded on the Stock Exchange; and a listed company shall not purchase its shares on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

Rule 8.08 of the Listing Rules

There must be an open market in the securities for which listing is sought. This will normally mean at least 25% of the listed company's total issued share capital must at all times be held by the public, although if the market capitalisation of the company is over HK\$10 billion, the Stock Exchange may accept a percentage of between 15% and 25%. In addition, there must be a minimum of 300 public shareholders and not more than 50% of the shares in public hands at the time of listing can be beneficially owned by the three largest public shareholders.

	Listing Rules	Listing Manual
(C) Share Options Scheme**	<p>Chapter 17 of the Listing Rules</p> <p>The share option scheme of a listed company or any of its subsidiaries must be approved by shareholders of the listed company in general meeting.</p> <p>The total number of securities which may be issued upon exercise of all options to be granted under the scheme and any other schemes must not in aggregate exceed 10% of the relevant class of securities of the listed company (or the subsidiary) in issue as at the date of approval of the scheme. Options lapsed in accordance with the terms of the scheme will not be counted for the purpose of calculating the 10% limit.</p> <p>The limit on the number of securities which may be issued upon exercise of all outstanding options granted and yet to be exercised under the scheme and any other schemes must not exceed 30% of the relevant class of securities of the listed company (or the subsidiary) in issue from time to time. No options may be granted under any schemes of the listed company (or the subsidiary) if this will result in the limit being exceeded.</p> <p>The period within which the securities must be taken up under the option, which must not be more than 10 years from the date of grant of the option, and the life of the scheme, which must not be more than 10 years;</p> <p>The exercise price must be at least the higher of: (i) the closing price of the securities as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; and (ii) the average closing price of the securities as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant. For the purpose of calculating the exercise price where a listed company has been listed for less than five business days, the new issue price shall be used as the closing price for any business day falling within the period before listing.</p>	<p>Rules 843 to 861 of the Listing Manual</p> <p>The approval of a listed company's shareholders must be obtained for any share option scheme or share scheme implemented by the listed company or its principal subsidiaries.</p> <p>A limit on the size of each scheme, the maximum entitlement for each class or category of participant (where applicable), and the maximum entitlement for any one participant (where applicable) must be stated.</p> <p>For the companies listed on the main board of the SGX-ST, the following limits must not be exceeded:</p> <ol style="list-style-type: none"> (1) the aggregate number of shares available under all schemes must not exceed 15% of the total number of issued shares excluding treasury shares from time to time; (2) the aggregate number of shares available to controlling shareholders and their associates must not exceed 25% of the shares available under a scheme; (3) the number of shares available to each controlling shareholder or his associate must not exceed 10% of the shares available under a scheme; (4) the aggregate number of shares available to directors and employees of the listed company's parent company and its subsidiaries must not exceed 20% of the shares available under a scheme; and (5) the maximum discount under the scheme must not exceed 20%. The discount must have been approved by shareholders in a separate resolution. <p>The exercise price of options to be granted must be set out in the scheme. Options granted at a discount may be exercisable after 2 years from the date of grant. Other options may be exercisable after 1 year from the date of grant.</p>

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In addition to the shareholders' approval, each grant of options to a director, chief executive or substantial shareholder of a listed company, or any of their respective associates, under a scheme of the listed company or any of its subsidiaries must comply with the requirements of Rule 17.04(1) of the Listing Rules. Each grant of options to any of these persons must be approved by independent non-executive directors of the listed company (excluding independent non-executive director who is the grantee of the options). Where any grant of options to a substantial shareholder or an independent non-executive director of the listed company, or any of their respective associates, would result in the securities issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant, (a) representing in aggregate over 0.1% of the relevant class of securities in issue; and (b) (where the securities are listed on the Stock Exchange), having an aggregate value, based on the closing price of the securities at the date of each grant, in excess of HK\$5 million, such further grant of options must be approved by shareholders of the listed company. The listed company must send a circular to the shareholders. All connected persons of the listed company must abstain from voting in favour at such general meeting.

	Listing Rules	Listing Manual
4. OTHER OBLIGATIONS		
(A) Disclosure of interest*	<p>The Listing Rules require that the interests held by directors and chief executives and substantial shareholders (i.e. shareholders interested in 10% or more of the voting power) be disclosed in annual reports, interim reports and circulars of the listed company.</p> <p>The Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the “SFO”) provides that a substantial shareholder (i.e. shareholder interested in 5% or more of the shares in the listed company) is required to disclose his interest, and short positions, in the shares of the listed company, within ten business days after first becoming a substantial shareholder, or to disclose his changes in percentage figures of his shareholdings in the listed company or ceasing to be a substantial shareholder within three business days after becoming aware of the relevant events. When there is an increase or decrease in the percentage level of the holding of a substantial shareholder in the listed company that results in his crossing over a whole percentage number which is above 5%. For example, the interest of a substantial shareholder increases from 6.8% to 7.1% which crossing over 7%, then he is required to submit the notifications; but if his interest increases from 6.1% to 6.9%, he is not required to make notification. To work out the “percentage level” of the interest, a substantial shareholder simply rounds down the percentage figure of his interest to the next whole number.</p>	<p>Sections 81 to 84 of the Companies Act and section 137 of the Securities and Futures Act</p> <p>A person has a substantial shareholding in a company if he has an “interest” in voting shares in the company, and the total votes attached to those shares is not less than 5 per cent of the total votes attached to all the voting shares in the company.</p> <p>A substantial shareholder is required to notify the company and the SGX-ST of changes in the “percentage level” of his shareholding or his ceasing to be a substantial shareholder, again within two business days after becoming a substantial shareholder or aware of such changes.</p> <p>The reference to changes in “percentage level” means any changes in a substantial shareholder’s interest in the company which results in his interest, following such change, increasing or decreasing to the next discrete 1% threshold. For example, an increase in interests in the company from 5.1% to 5.9% need not be notified, but an increase from 5.9% to 6.1% will have to be notified.</p>

	Listing Rules	Listing Manual
	<p>A director or a chief executive of a listed company is required to disclose his interest and short position in any shares in a listed company (or any of its associated companies) and their interest in any debentures of the listed company (or any of its associated companies) within ten business days after becoming a director or chief executives of the listed company or within three business days after becoming aware of the relevant events.</p> <p>If a person, who is both a substantial shareholder and a director of the listed company concerned under the SFO, such person may have separate duties to file notices (one in each capacity) as a result of a single event. For example, a person who is interested in 5.9% of the shares of a listed company and buys a further 0.2% will have to file a notice because he is a director (and therefore has to disclose all transactions) and will also have to file a notice as a substantial shareholder because his interest has crossed the 6% level.</p>	
(B) Continuing obligations [▲]	Chapter 13 of the Listing Rules sets out the continuing obligations of a listed company to disclose information.	Chapter 7 of the Listing Manual sets out the continuing obligation of a listed company to disclose material information.
(C) Board composition and other committees**	<p>Rules 3.10 and 8.12 of the Listing Rules</p> <p>Every board of directors of a listed company must include at least three independent non-executive directors. A new applicant applying for a primary listing on the Stock Exchange must have sufficient management presence in Hong Kong, which normally means to have at least two of its executive directors be ordinarily resident of Hong Kong.</p>	<p>Rule 720 of the Listing Manual</p> <p>Foreign listed companies are required to have at least two independent directors who are Singapore residents on the Board of Directors on a continuing basis, and not just on listing.</p> <p>Rule 11 of the Code of Corporate Governance (“COCG”)</p> <p>The board or directors should establish an audit committee with written terms of reference which clearly set out its authority and duties.</p>

Listing Rules	Listing Manual
<p>Rules 3.21, 3.22 and paragraph C.3 of Appendix 14 of the Listing Rules</p> <p>Every listed company must establish an audit committee comprising non-executive directors only. The audit committee must comprise a minimum of three members, at least one of whom is an independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise. The board of directors of the listed company must approve and provide written terms of reference for the audit committee.</p>	<p>Rule 11.1 of COCG</p> <p>The audit committee should comprise at least three directors, all non-executive, the majority of whom including the chairman should be independent.</p>
<p>Rule 3.25 & paragraph B.1 of Appendix 14 of the Listing Rules</p> <p>It is a recommended best practice that listed companies should establish a remuneration committee with specific written terms of reference. A majority of the members of the remuneration committee should be independent non-executive directors.</p>	<p>Rule 11.2 of COCG</p> <p>The board of directors should ensure that at least 2 members of the audit committee should have accounting or related financial management expertise or experience.</p>
<p>Rule 3.25 & paragraph A.4 of Appendix 14 of the Listing Rules</p> <p>It is a recommended best practice that a listed company should establish a nomination committee. A majority of the members should be independent non-executive directors.</p>	<p>Rule 7.1 of COCG</p> <p>The board of directors should set up a remuneration committee comprising entirely of non-executive directors, the majority of whom, including the chairman should be independent.</p>
	<p>Rule 4.1 of COCG</p> <p>Companies should establish a nominating committee to make recommendations to the board on all board appointments. The nomination committee should comprise at least 3 directors, a majority of whom, including the chairman should be independent.</p> <p>In addition, the chairman of the nomination committee should be a director who is not, or who is not directly associated with a substantial shareholder (with interest of 5% or more in the voting shares of the company)</p>

* represents the Listing Manual generally has the more onerous requirements.

** represents the Listing Rules generally has the more onerous requirements.

▲ represents the Listing Manual and the Listing Rules generally have the similar requirements.

A. FURTHER INFORMATION ABOUT THE COMPANY**1. Incorporation of the Company**

The Company was incorporated in Singapore under the Singapore Companies Act as a private limited company under the name of “Xin Lian Xin Holdings Pte. Ltd.” on 17 July 2006. The Company changed its name to “China XLX Fertiliser Pte. Ltd.” with effect from 22 February 2007. On 15 May 2007, the name of the Company was changed to “China XLX Fertiliser Ltd.” in connection with the Company’s conversion to a public company limited by shares. The Company has established a place of business in Hong Kong at 22nd Floor, World Wide House, 19 Des Voeux Road Central, Hong Kong and was registered on 2 September 2009 as an overseas company in Hong Kong under Part XI of the Companies Ordinance. Ms. Wong Wai Han, our authorised representative for the purposes of Part XI of the Companies Ordinance, has been appointed as our agent for the acceptance of service of process and notices on our behalf in Hong Kong. Our address for service of process and notices in Hong Kong is 22nd Floor, World Wide House, 19 Des Voeux Road Central, Hong Kong. As the Company was incorporated in Singapore, it operates subject to the Singapore Companies Act and to its constitution comprising the Memorandum and Articles. A summary of various provisions of the Company’s Memorandum and Articles and certain relevant aspects of the Singapore Companies Act are set out in Appendix IV and Appendix V to this document.

The Company’s registered office is at 333 North Bridge Road, #08-00, KH KEA Building, Singapore (188721), and its principal place of business in the PRC is located at Xinxiang Economic and Technology Development Zone (Xiaoji Town), Henan Province, PRC.

2. Changes in share capital of the Company

- (a) As at the date of incorporation of the Company, its issued and paid-up share capital was S\$100.00 comprising 100 Shares.
- (b) On 11 May 2007, by the written resolutions of the Company, the share capital of the Company changed as follows:
 - (i) the 100 Shares of the issued share capital of the Company were subdivided into 624,320,000 Shares, of which Pioneer Top owned 343,376,000 Shares and Go Power owned 280,944,000 Shares;
 - (ii) an aggregate of 175,680,000 Shares were allotted and issued to the investors and their nominees, including Alamo Assets Limited, Chu Beng Huat, Sunny Asia Holdings Limited, Asean China Investment Fund L.P., Winage Ltd., SkyVen Growth Capital Fund Pte. Ltd., Aventures 1 Pte Ltd., OCBC Capital Investment Private Limited, Portchester Asset Management Limited and Tan Keh Poo, pursuant to a convertible loan agreement dated 16 October 2006 (supplemented by a deed of ratification and accession dated 12 December 2006) (collectively “**Convertible Loan Agreement**”);

Table set forth below shows the shareholdings in the Company of each of the investors and their nominees upon exercise of the conversion rights in accordance with the Convertible Loan Agreement on 11 May 2007:

Investors	Numbers of Shares held in the Company	Approximate percentage of the then issued Shares in the Company
Alamo Assets Limited	9,680,000	1.21%
Asean China Investment Fund L.P. . . .	25,200,000	3.15%
Aventures 1 Pte Ltd	8,720,000	1.09%
Exquisite Essence Limited.	21,440,000	2.68%
Kenmoore Mezzanine Investments Ltd .	30,000,000	3.75%
OCBC Capital Investment Private Limited	4,800,000	0.60%
Portchester Asset Management Limited	4,800,000	0.60%
Seacrest Pacific Ltd	24,160,000	3.02%
SkyVen Growth Capital Fund Pte. Ltd. .	9,680,000	1.21%
Sunny Asia Holdings Limited	32,400,000	4.05%
Tan Keh Poo	4,800,000	0.60%
Total:	<u>175,680,000</u>	<u>21.96%</u>

(iii) an aggregate of 200,000,000 Shares were allotted and issued to the public upon the listing of Shares on the SGX-ST which rank pari passu in all respects with the then existing issued shares of the Company.

(c) On 20 June 2007, an aggregate of 1,000,000,000 Shares were listed on the SGX-ST for trading. At the time of the initial public offering in Singapore, Alamo Assets Limited, Asean China Investment Fund L.P., Aventures 1 Pte Ltd, Portchester Asset Management Limited, SkyVen Growth Capital Fund Pte. Ltd. and Tan Keh Poo had sold all their respective Shares to the public in an aggregate of 62,880,000 Shares representing approximately 6.29% of the then total issued Shares.

Save as disclosed above, there has been no alteration in the share capital of the Company within two years preceding the date of this document.

3. Resolutions of the Shareholders passed at the Company's general meetings on 27 April 2009 and 5 November 2009

At the annual general meeting of the Company held on 27 April 2009, resolutions of Shareholders were passed pursuant to which, amongst other things, approval was given to the Directors at any time to such persons and upon such terms and for such purposes as the Directors may in their absolute discretion deem fit, to:

(i) issue Shares in the capital of the Company whether by way of rights, bonus or otherwise;

- (ii) make or grant offers, agreements or options that might or would require Shares to be issued or other transferable rights to subscribe for or purchase Shares (collectively, “**Instruments**”) including but not limited to the creation and issue of warrants, debentures or other instruments convertible into Shares;
- (iii) issue additional Instruments arising from adjustments made to the number of Instruments previously issued in the event of rights, bonus or capitalisation issues; and
- (iv) (notwithstanding the authority conferred by the Shareholders may have ceased to be in force) issue Shares in pursuance of any Instrument made or granted by the Directors while the authority was in force,

provided always that

- (i) the aggregate number of Shares to be issued pursuant to the resolution (including Shares to be issued in pursuance of Instruments made or granted pursuant to the resolution) does not exceed 50%⁽¹⁾ of the total number of issued Shares excluding treasury shares, of which the aggregate number of Shares (including Shares to be issued in pursuance of Instruments made or granted pursuant to the resolution) to be issued other than on a pro rata basis to Shareholders of the Company does not exceed 20% of the total number of issued Shares excluding treasury shares.

For the purposes of this resolution, the total number of issued Shares excluding treasury shares shall be the Company’s total number of issued Shares excluding treasury shares at the time this resolution is passed, after adjusting for;

- (a) new shares arising from the conversion or exercise of convertible securities, or
- (b) new shares arising from exercising share options or vesting of share awards outstanding or subsisting at the time the resolution is passed provided the options or awards were granted in compliance with Part VIII of Chapter 8 of the Listing Manual, and
- (c) any subsequent bonus issue, consolidation or subdivision of the Company’s shares.

The above mandate shall, unless revoked or varied by the Company at a general meeting, continue to be in force until the conclusion of the next annual general meeting or the date by which the next general meeting of the Company is required by law to be held, whichever is the earlier.

Notwithstanding the above, it must be noted that the Listing Rules provide that the general mandate obtained from Shareholders in general meeting shall be subject to a restriction that the aggregate number of Shares allotted or agreed to be allotted under the general mandate must not exceed the aggregate of 200,000,000 Shares, representing 20% of the existing issued share capital of the Company. Consequently, going forward, the Company will comply with the Listing Rules in relation to the issue of general mandate as the Listing Rules are generally more onerous than the Listing Manual in this aspect.

Note:

- (1) The 50% limit may be increased to 100% for issue of shares and/or Instruments by way of a renounceable rights issue where Shareholders are entitled to participate in the same on a pro-rata basis.

At an extraordinary general meeting of the Company held on 5 November 2009, resolutions of Shareholders were passed pursuant to which, amongst other things:

- (a) for the purposes of Sections 76C and 76E of the Singapore Companies Act, the exercise by the Directors of the Company of all the powers of the Company to purchase or otherwise acquire the Shares not exceeding in aggregate the Maximum Percentage (as hereafter defined), at such price or prices as may be determined by the Directors from time to time up to the Maximum Price (as hereafter defined), whether by way of, (i) on-market purchase(s) on the SGX-ST, through the SGX-ST's Central Limit Order Book (CLOB) trading system or, as the case may be, any other securities exchange on which the Shares may for the time being be listed and quoted, through one or more duly licensed stockbrokers appointed by the Company for the purpose; and/or (ii) off-market purchase(s) (if effected otherwise than on the SGX-ST) in accordance with any equal access scheme(s) as may be determined or formulated by the Directors as they consider fit, which scheme(s) shall satisfy all the conditions prescribed by the Singapore Companies Act, and otherwise in accordance with all laws, regulations and rules of the SGX-ST as may for the time being be applicable, be and is hereby authorised and approved generally and unconditionally; and
- (b) unless varied or revoked by the Company in general meeting, the authority conferred on the Directors of the Company pursuant to the Share Buy-Back Mandate may be exercised by the Directors at any time and from time to time during the period commencing from the date of the passing of the resolution (i.e. 5 November 2009) and expiring on the earlier of, (i) the date of the next annual general meeting of the Company; or (ii) the date by which the next annual general meeting of the Company is required by law to be held; or (iii) the time when the Share Buy-Back Mandate is revoked or varied by the Shareholders of the Company in general meeting.

"Maximum Percentage" means the number of Shares representing ten per cent. (10%) of the total number of issued Shares of the Company as at the date of the passing of the above resolution, i.e. 5 November 2009.

"Maximum Price" in relation to a Share to be purchased or acquired, means the purchase price (excluding brokerage, commissions, stamp duties, applicable goods and services tax and other related expenses) which shall not exceed (i) in the case of a market purchase, one hundred and five per cent. (105%) of the average closing market price. For this purpose, the average closing market price is the average of the closing market prices of the Shares transacted on the SGX-ST over the last five (5) market days (on which transactions in the Shares are recorded) immediately preceding the date of the market purchase by the Company and deemed to be adjusted in accordance with the listing rules of the SGX-ST for any corporate action which occurs after the relevant five (5) day period; and (ii) in the case of an off-market purchase, one hundred and twenty per cent. (120%) of the highest price a Share is transacted on the SGX-ST on the market day (when transactions in the Shares are recorded) immediately preceding the date on which the Company announces an off-market purchase offer stating the purchase price and the relevant terms of the equal access scheme.

At the an extraordinary general meeting of the Company held on 5 November 2009, the Shareholders approved (a) the adoption of “中國心連心化肥有限公司” as the Company’s secondary name; (b) the listing of all Shares in issue on the Stock Exchange by way of an introduction and matters relating thereto were approved; and that the Company and any Director were authorised and empowered to take all necessary steps, to do all such acts and things and sign all such documents and deed (including approving any matters in relation to the Introduction) as they may consider necessary, desirable or expedient to give effect to or carrying into effect the resolution were approved and authorised; and (c) contingent upon the passing of (b) above, the adoption of the proposed amendments to the Articles.

4. Changes in the share capital of the subsidiary of the Company

Henan XLX Fertiliser

Henan XLX Fertiliser was incorporated in the PRC on 24 July 2006 wholly owned by XLX Chem with the registered capital of RMB107,570,000. On 24 July 2006, the Company and XLX Chem entered into a share transfer agreement, by which the entire equity interest of Henan XLX Fertiliser was transferred to the Company at a total consideration of US\$13,500,000. Pursuant to an approval dated 28 July 2006 issued by the Commence Department of Henan Province, the nature of Henan XLX Fertiliser was converted into a wholly foreign-owned enterprise owned by the Company and its registered capital was converted to US\$13,500,000.

On 28 September 2007, the registered capital of Henan XLX Fertiliser was increased from US\$13,500,000 to RMB400,000,000.

On 6 May 2008, the registered capital of Henan XLX Fertiliser was increased from RMB400,000,000 to RMB800,000,000.

Save as disclosed above, there has been no alteration in the share capital of the subsidiary of the Company within two years preceding the date of this document.

5. Further information about our Group’s PRC wholly foreign-owned enterprise

Our Group has interest in the registered capital of, Henan XLX Fertiliser, a wholly foreign-owned enterprise in the PRC. A summary of the corporate information and major terms of Henan XLX Fertiliser as at the Latest Practicable Date is set out as follows:

Henan XLX Fertiliser

- | | | |
|------------------------------------|---|---|
| (a) Corporate name | : | 河南心連心化肥有限公司 (Henan Xinlianxin Fertiliser Co., Ltd.*) |
| (b) Date of incorporation . . . | : | 24 July 2006 |
| (c) Registered office | : | Xinxiang Economic and Technology Development Zone (Xiaojie Town), Henan Province, PRC |
| (d) Nature of enterprise | : | Wholly foreign-owned enterprise |

- (e) Registered owner : China XLX Fertiliser Ltd.
- (f) Total investment capital : RMB800,000,000
- (g) Total registered capital : RMB800,000,000
- (h) Terms of operation : 24 July 2006 to 30 July 2056
- (i) Scope of business : production and sale, and import and export business (excluding distribution) of urea, compound fertiliser (including bulk blending fertiliser, organic and non-organic compound fertiliser) diammonium phosphate, slow-controlled release fertilisers, liquid anhydrous ammonia, ammonia solution, methanol; (business operation with permit holding which relate to administrative permit holding system)
- (j) Directors : Liu Xingxu, Yan Yunhua, Li Buwen, Li Yushun, Ru Zhengtao, Zhang Qingjin and Wang Nairen
- (k) Legal representative : Liu Xingxu

6. Repurchase of its own securities by the Company

This section includes information required by the Stock Exchange to be included in this document concerning the repurchase by us of our own securities:

(a) *Provision of the Listing Rules*

The Listing Rules permit a company listed on the Stock Exchange to repurchase its securities on the Stock Exchange subject to certain restrictions, the more important of which are summarised below:

(i) *Shareholders' approval*

All proposed repurchases of securities (which must be fully paid up in the case of shares) on the Stock Exchange with its primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholders, either by way of general mandate or by specific approval of a particular transaction.

Note: Pursuant to the Shareholders resolutions passed in the extraordinary general meeting of the Company on 5 November 2009, the repurchase mandate was given to the Directors authorising any repurchase of Shares by the Company as described above in the paragraph headed "Resolutions of Shareholders passed at the Company's general meetings on 27 April 2009 and 5 November 2009" in this section.

(ii) Source of funds

Repurchases must be funded out of funds legally available for the purpose in accordance with the Memorandum and Articles, and the applicable laws and regulations of Singapore. A listed company on SGX-ST may not repurchase its own securities on the SGX-ST for a consideration other than cash or for settlement otherwise than in accordance with the Listing Manual and trading rules of the SGX-ST which are in effect from time to time.

(iii) Shares to be repurchased

The Listing Rules provide that the shares which are proposed to be repurchased by a company must be fully paid up.

(b) Reasons for repurchases

Our Directors believe that it is in the best interest of the Company and its Shareholders for our Directors to have general authority from the Shareholders to enable the Company to repurchase Shares in the market at any time, subject to market conditions, during the period when the repurchase mandate is in force. Our Directors believe that the repurchases of Shares will enhance the return on equity of the Company, and will facilitate the return of excess cash and surplus funds to Shareholders in an expedient, effective and cost-efficient manner. Such repurchase may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share.

(c) Exercise of the repurchase mandate

Exercise in full of the repurchase mandate on the basis of 1,000,000,000 Shares in issue immediately after the listing of the Shares could accordingly result in up to 100,000,000 Shares being repurchased by the Company during the period prior to (1) the conclusion of the next annual general meeting of the Company; (2) the expiration of the period within the next annual general meeting of the Company is required by the Articles or the applicable laws of Singapore to be held; or (3) the revocation or variation of the repurchase mandate by ordinary resolution of Shareholders in general meeting, whichever is the earliest.

(d) Funding of repurchases

The Company may, in accordance with the provisions of the Singapore Companies Act, purchase or otherwise acquire the Shares if it is expressly permitted to do so by the Articles of Association. In purchasing Shares, the Company may only apply funds legally available for such purpose in accordance with the Articles and the applicable laws in Singapore. The Company may not purchase its shares for a consideration other than cash and where relevant, settlement shall be in accordance with the trading rules of the SGX-ST. Previously, any payment made by the Company in consideration of the purchase or acquisition of its own Shares may only be made out of distributable profits. The Singapore Companies Act now permits the Company to purchase or acquire its own Shares out of capital, as well as from its distributable profits. Furthermore, the Company may obtain or incur borrowings to finance its purchase or acquisition of Shares.

However, our Directors do not propose to exercise the repurchase mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements or the liquidity (for example, share trading volume) of the Group.

(e) Director's undertaking

Our Directors have undertaken to the Stock Exchange that, they will exercise the power of the Company to make purchase of the Company's securities in accordance with the Listing Rules, the Listing Manual, the applicable laws of Singapore and the Articles.

(f) Disclosure of interests

None of the Directors nor, to the best of their knowledge and belief having made all reasonable enquiries, any of their associates, as defined in the Listing Rules, currently intends to sell any Shares to the Company.

No connected person, as defined in the Listing Rules, has notified the Company that he or she has a present intention to sell Shares to the Company, or has undertaken not to do so, if the repurchase mandate is exercised.

(g) Takeovers Code consequences

If, as a result of the repurchase of the securities by the Company pursuant to the repurchase mandate, a Shareholder's proportionate interest in the voting rights of the Company is increased, such increase will be treated as an acquisition for the purpose of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert could obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the repurchase mandate.

B. FURTHER INFORMATION ABOUT THE BUSINESS OF THE GROUP

1. Summary of material contracts

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of the Group within the two years preceding the date of this document and are or may be material:




- (1) a transfer of technology (patent licensing) agreement in Chinese dated 7 March 2008 between Henan XLX Fertiliser and Hunan Anchun Hi-Technology Co., Ltd. (湖南安淳高技術有限公司), by which Hunan Anchun Hi-Technology Co., Ltd. agreed to grant a licence to use the patents of water tube isothermal methanol reactor (水管式等溫甲醇反應器) to our Group, at a consideration of RMB500,000, from 7 March 2008 to the expiry date of the patents;

- (2) a deed of non-competition in Chinese dated 12 November 2009 entered into between the Company, Pioneer Top and Mr. Liu, details of which have been set out under the paragraph headed “Non-competition undertaking” in the section headed “Relationship with the Controlling Shareholders and XLX Chem Group” of this document;
- (3) a deed of non-competition in Chinese dated 12 November 2009 entered into between the Company, Go Power and Ms. Yan, details of which have been set out under the paragraph headed “Non-competition undertaking” in the section headed “Relationship with the Controlling Shareholders and XLX Chem Group” of this document;
- (4) a deed of non-competition in Chinese dated 12 November 2009 entered into between the Company and XLX Chem for itself and as trustee for its subsidiaries and associates, details of which have been set out under the paragraph headed “Non-competition undertaking” in the section headed “Relationship with the Controlling Shareholders and XLX Chem Group” of this document; and
- (5) a deed of indemnity in Chinese dated 12 November 2009 entered into among Pioneer Top, Go Power, Mr. Liu, Ms. Yan and the Company for itself and as trustee for its subsidiaries pursuant to which each of Pioneer Top, Go Power, Mr. Liu, Ms. Yan has given certain indemnities in favour of the Group containing, among other things, the indemnities referred to in the sub-paragraph headed “Deed of Indemnity” under the paragraph headed “Other information” in this Appendix.

2. Intellectual property

Trademarks

As at the Latest Practicable Date, Henan XLX Fertiliser is the registered owner of the following trademarks:

<u>Trademark Content</u>	<u>Place of registration</u>	<u>Registration number</u>	<u>Class</u>	<u>Expiry date</u>	<u>Registered owner</u>
	PRC	1680080	1	13 December 2011	Henan XLX Fertiliser
 . . .	PRC	3796923	1	27 August 2015	Henan XLX Fertiliser
 . . .	PRC	3796924	6	6 September 2015	Henan XLX Fertiliser
金连心	PRC	4807431	1	20 January 2019	Henan XLX Fertiliser
心相通	PRC	4807432	1	20 January 2019	Henan XLX Fertiliser

<u>Trademark Content</u>	<u>Place of registration</u>	<u>Registration number</u>	<u>Class</u>	<u>Expiry date</u>	<u>Registered owner</u>
心贴心	PRC	4807434	1	20 January 2019	Henan XLX Fertiliser
根连根	PRC	4807435	1	20 January 2019	Henan XLX Fertiliser
献爱心	PRC	4807437	1	20 January 2019	Henan XLX Fertiliser
手拉手	PRC	4807440	1	20 January 2019	Henan XLX Fertiliser
心爱心	PRC	4807444	1	20 January 2019	Henan XLX Fertiliser
双心	PRC	4807445	1	20 January 2019	Henan XLX Fertiliser
连心	PRC	4807446	1	20 January 2019	Henan XLX Fertiliser
心心	PRC	4807449	1	20 January 2019	Henan XLX Fertiliser
新连新	PRC	4807452	1	20 January 2019	Henan XLX Fertiliser
心通心	PRC	4807453	1	20 January 2019	Henan XLX Fertiliser
	PRC	4988091	6	20 February 2019	Henan XLX Fertiliser
	PRC	4807429	5	6 April 2019	Henan XLX Fertiliser
心相连	PRC	4807433	1	6 April 2019	Henan XLX Fertiliser
心心相连	PRC	4807436	1	6 April 2019	Henan XLX Fertiliser
信心	PRC	4807448	1	6 April 2019	Henan XLX Fertiliser
心相联	PRC	4807450	1	6 April 2019	Henan XLX Fertiliser

<u>Trademark Content</u>	<u>Place of registration</u>	<u>Registration number</u>	<u>Class</u>	<u>Expiry date</u>	<u>Registered owner</u>
金连金	PRC	4807451	1	6 April 2019	Henan XLX Fertiliser

Upon the approval for the transfers of trademarks from XLX Chem to Henan XLX Fertiliser was issued by the Trademark Office of the State Administration of Industry and Commerce of the PRC on 28 January 2007, Henan XLX Fertiliser has the exclusive right to use the trademarks, including to initiate legal proceedings regarding the trademark infringement, and XLX Chem no longer has any rights in the trademarks and shall not directly or indirectly revoke the registrations of the trademarks.

As at the Latest Practicable Date, applications have been made by the Group for the registration of the following trademarks:

<u>Trademark</u>	<u>Place of application</u>	<u>Class</u>	<u>Application number</u>	<u>Application Date</u>	<u>Applicant</u>
心相印	PRC	1	4807430	1 August 2005	Henan XLX Fertiliser
心心相印	PRC	1	4807438	1 August 2005	Henan XLX Fertiliser
新新	PRC	1	4807439	1 August 2005	Henan XLX Fertiliser
	PRC	7	4807441	1 August 2005	Henan XLX Fertiliser
	PRC	1	4807442	1 August 2005	Henan XLX Fertiliser
	PRC	8	4807443	1 August 2005	Henan XLX Fertiliser
肩并肩	PRC	1	4807447	1 August 2005	Henan XLX Fertiliser
	PRC	7	4988089	8 November 2005	Henan XLX Fertiliser
	PRC	8	4988090	8 November 2005	Henan XLX Fertiliser
	PRC	1	4988092	8 November 2005	Henan XLX Fertiliser
聚能网	PRC	1	5925421	27 February 2007	Henan XLX Fertiliser

<u>Trademark</u>	<u>Place of application</u>	<u>Application Class</u>	<u>Application number</u>	<u>Application Date</u>	<u>Applicant</u>
 . . .	HK	1, 5, 6, 7 and 8	301408266	18 August 2009	The Company

On 11 December 2006, the Trademark Office of the State Administration of Industry and Commerce of the PRC issued a Certificate of Approval of Transfer, by which transfer of application nos. 4807429, 4807430, 4807433, 4807436, 4807438, 4807439, 4807441, 4807442, 4807443, 4807447, 4807448, 4807450, 4807451, 4988089, 4988090, 4988092 by XLX Chem to Henan XLX Fertiliser was approved.

In respect of our trademark application numbers 4807430, 4807438, 4807441, 4807442, 4807443, 4807447, 4988089, 4988090 and 4988092, the objections to our trademark applications were submitted by third parties, which are pending the examination of Trademark Office.

Patents

As at the Latest Practicable Date, Henan XLX Fertiliser was the registered owner of the following patent:

<u>Title of patent</u>	<u>Place of registration</u>	<u>Patent number</u>	<u>Authorised announcement date</u>	<u>Registered owner</u>
Refined separating equipments of chemical industry splitter internals — utility model patent (化工分離器內件的精分離裝置 — 實用新型專利)	PRC	ZL 2007 2 0090223. 7	27 February 2008	Henan XLX Fertiliser

As at the Latest Practicable Date, Henan XLX Fertiliser has been granted a licence to use the following patent:

<u>Title of patent</u>	<u>Place of registration</u>	<u>Patent number</u>	<u>Authorised announcement date</u>	<u>Registered owner</u>
Water tube isothermal methanol reactor (水管式等溫甲醇反應器) ⁽¹⁾	PRC	ZL 2004 2 0069178. 3	9 November 2005	Hunan Anchun Hi- Technology Co., Ltd.
Water tube isothermal methanol reactor (水管式等溫甲醇反應器) ⁽¹⁾	PRC	ZL 2004 1 0046980. 5	5 September 2007	Hunan Anchun Hi- Technology Co., Ltd.

Note:

- (1) Pursuant to a transfer of technology (patent licensing) agreement dated 7 March 2008 between Henan XLX Fertiliser and Hunan Anchun Hi-Technology Co., Ltd. (湖南安淳高新技術有限公司), Hunan Anchun Hi-Technology Co., Ltd. agreed to grant a licence to use the patents of water tube isothermal methanol reactor (水管式等溫甲醇反應器) to our Group from 7 March 2008 to the expiry date of the patents.

Domain name

As at the Latest Practicable Date, the Company has registered the following domain name:

<u>Domain Name</u>	<u>Registration date</u>	<u>Expiry date</u>
chinaxlx.com.sg	3 April 2007	3 April 2010

C. FURTHER INFORMATION ABOUT DIRECTORS, SUBSTANTIAL SHAREHOLDERS AND EXPERTS

1. Disclosure of Interest

A. Directors

The Directors confirm that immediately following completion of the Introduction, the interests and short positions of the Directors and the chief executive in the Shares, underlying Shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are taken or deemed to have under such provisions), or which will be required, pursuant to section 347 of the SFO or the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules to be notified to the Company and the Stock Exchange, or which will be required, pursuant to section 352 of the SFO to be entered in the register referred to therein, once the Shares are listed, are as follows:

<u>Name of Shareholder</u>	<u>Name of corporation</u>	<u>Capacity/nature of interests</u>	<u>Number of Shares directly or indirectly held</u>	<u>Approximate percentage of issued Shares</u>
Liu Xingxu ⁽¹⁾	The Company	Deemed interest and interest of controlled Company	343,376,000(L)	34.34%
Yan Yunhua ⁽²⁾	The Company	Deemed interest and interest of controlled Company	280,624,000(L)	28.06%
Yan Yunhua	The Company	Registered and beneficial owner	300,000(L)	0.03%
Li Buwen ⁽³⁾	The Company	Deemed interest and interest of a controlled corporation	54,940,000(L)	5.49%
Ong Kian Guan	The Company	Registered and beneficial owner	100,000(L)	0.01%

Notes:

- (1) Liu Xingxu beneficially owns approximately 42% of equity interest in Pioneer Top which in turn holds approximately 34.34% of the total issue Shares in the Company. Pursuant to the Trust Agreement 1, Liu Xingxu is irrevocably granted the absolute discretion to the voting rights and day-to-day management rights in Pioneer Top.
- (2) Yan Yunhua beneficially owns approximately 12.74% of equity interest in Go Power which in turn holds approximately 28.06% of the total issue Shares in the Company. Pursuant to the Trust Agreement 2 and the Go Power Trust Confirmation, Yan Yunhua is irrevocably granted the absolute discretion to the voting rights and day-to-day management rights in Go Power.
- (3) Liu Xingxu holds 16% of the equity interest in Pioneer Top on trust for Li Buwen in accordance with the Trust Agreement 1, and Pioneer Top holds approximately 34.34% of the total issue Shares in the Company.

B. Senior management

<u>Name of Shareholder</u>	<u>Name of corporation</u>	<u>Capacity/nature of interests</u>	<u>Number of issued Shares directly or indirectly held</u>	<u>Approximate percentage of the total issued Shares</u>
Li Yushun ⁽¹⁾	The Company	Deemed interest and interest of controlled Company	24,036,000(L)	2.40%
Ru Zhengtao ⁽¹⁾	The Company	Deemed interest and interest of controlled Company	24,036,000(L)	2.40%
Wang Nairen ⁽¹⁾	The Company	Deemed interest and interest of controlled Company	24,036,000(L)	2.40%
Zhang Qingjin ⁽¹⁾	The Company	Deemed interest and interest of controlled Company	24,036,000(L)	2.40%

Note:

- (1) Pioneer Top is an investment holding company established in the BVI, which holds approximately 34.34% of the total issued Shares in the Company. Mr. Liu holds on trust for each of Li Yushun, Ru Zhengtao, Wang Nairen and Zhang Qingjin of approximately 7% of the equity interest in Pioneer Top respectively, in accordance with the Trust Agreement 1.

C. *Substantial Shareholders*

The Directors confirm that immediately following the Listing, the following persons will have an interest or short position in any Shares or underlying Shares (together with particulars of any option in respect of such capital) which will be required to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of SFO, or are directly, or, directly or indirectly interested in 10% or more of the nominal value of any class of the share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

<u>Name of Shareholder</u>	<u>Name of corporation</u>	<u>Capacity/nature of interests</u>	<u>Number of Shares directly or indirectly held</u>	<u>Approximate percentage of issued Shares</u>
Pioneer Top Holdings Limited ⁽¹⁾	The Company	Registered owner	343,376,000(L)	34.34%
Liu Xingxu ⁽¹⁾	The Company	Deemed interest and interest of controlled Company	343,376,000(L)	34.34%
Go Power Investments Limited ⁽²⁾	The Company	Registered owner	280,624,000(L)	28.06%
Yan Yunhua ⁽²⁾	The Company	Deemed interest and interest of controlled Company	280,624,000(L)	28.06%
Yan Yunhua	The Company	Registered and beneficial owner	300,000(L)	0.03%

Notes:

- (1) Pioneer Top is an investment holding company established in the BVI. Mr. Liu beneficially owns approximately 42% of the equity interest in Pioneer Top, and holds the remaining 58% of the equity interest in Pioneer Top on trust for 7 beneficiaries, including approximately 16% for Li Buwen, our executive Director, and approximately 7% for Li Yushun, 7% for Ru Zhengtao, 7% for Wang Nairen and 7% for Zhang Qingjin, our senior management, and approximately 7% for Zhu Xingye and 7% for Shang Dewei, our employees. Mr. Liu has the absolute discretion to exercise the voting rights held by Pioneer Top in the Company in accordance with the Trust Agreement 1.
- (2) Go Power is an investment holding company established in the BVI. Ms. Yan beneficially owns approximately 12.74% of the equity interest in Go Power and holds approximately 87.26% of the equity interest in Go Power on trust for a total of 1,463 beneficiaries under the Trust Agreement 2. Ms. Yan has the absolute discretion to exercise the voting rights held by Go Power in the Company in accordance with the Trust Agreement 2 and the Go Power Trust Confirmation.

Save as disclosed above, the Directors confirm that they are not aware of any persons who will immediately following completion of the Introduction be interested or deemed to be interested under Part XV of the SFO in 10% or more of the Shares then in issue, or who have interests of short positions in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

2. Particulars of Directors' service agreements

(1) Executive Directors

Mr. Liu entered into a service agreement with the Company on 11 May 2007, pursuant to which he has been appointed as an executive Director, chairman and chief executive officer commencing from 1 January 2007 for an initial period of 3 years, with an annual basic salary of RMB900,000. He is also entitled to an annual incentive bonus on proportionate if the Group has met its profit target for the relevant financial year. All travelling and travel-related expenses, entertainment expenses and other out-of-pocket expenses reasonably incurred by Mr. Liu during such appointment shall be borne by the Company. The Company shall also bear the reasonable medical expenses incurred by him in accordance with the Company's staff policy.

Ms. Yan entered into a service agreement with the Company on 11 May 2007, pursuant to which she has been appointed as an executive Director and chief financial officer commencing from 1 January 2007 for an initial period of 3 years, with an annual basic salary of RMB720,000. She is also entitled to an annual incentive bonus on proportionate if the Group has met its profit target for the relevant financial year. All travelling and travel-related expenses, entertainment expenses and other out-of-pocket expenses reasonably incurred by Ms. Yan during such appointment shall be borne by the Company. The Company shall also bear the reasonable medical expenses incurred by her in accordance with the Company's staff policy.

Mr. Li Buwen entered into a service agreement with the Company on 11 May 2007, pursuant to which he has been appointed as an executive Director commencing from 1 January 2007 for an initial period of 3 years, with a annual basic salary of RMB720,000. He is also entitled to an annual incentive bonus if the Group has met its profit target for the relevant financial year. All travelling and travel-related expenses, entertainment expenses and other out-of-pocket expenses reasonably incurred by Mr. Li during such appointment shall be borne by the Company. The Company shall also bear the reasonable medical expenses incurred by him in accordance with the Company's staff policy.

For the purpose of the Listing, each of the executive Directors has entered into a service agreement with the Company on 12 November 2009, which supersedes and substitutes the previous services agreements. Particulars of these new directors service agreements, except as indicated, are summarised below:

- (a) each of the new service agreements is for an initial term of 3 years (unless otherwise terminated by either party giving not less than six (6) months' prior notice in writing to the other, or in accordance with other terms of the service agreement). Each service agreement will be effective from the date of the Listing. For the avoidance of doubt, the respective years of service of Mr. Liu, Ms. Yan and Mr. Li Buwen as executive Directors prior to the effective date of the service agreement will be counted in considering such period of appointments;
- (b) each of the executive Directors is entitled to the respective annual salary set out below;

- (c) each of the executive Directors is entitled to an annual incentive bonus (the “**Incentive Bonus**”) for a sum based on the audited PBT of the Group. If our executive Directors’ employment with the Company is less than a full financial year, the Incentive Bonus for that financial year shall be apportioned in respect of the actual number of days for their respective employment on the basis of a 365-day financial year. Mr. Liu will be entitled to 40% of the aggregate Incentive Bonus per financial year, while Ms. Yan and Mr. Li Buwen will be entitled to 30% of the aggregate Incentive Bonus per financial year respectively. “PBT” for the purposes of computing the Incentive Bonus means the consolidated audited profit before tax of the Group (before the Incentive Bonus and minority interests) for any financial year. The respective entitlement of the executive Directors to the Incentive Bonus are set out below:

Incentive Bonus per financial year

If PBT is less than RMB150 million, no Incentive Bonus will be paid to Mr. Liu, Ms. Yan and Mr. Li Buwen

2% of PBT in excess of RMB150 million (inclusive) up to RMB200 million (exclusive)

2.5% of PBT in excess of RMB200 million (inclusive) up to RMB250 million (exclusive)

3.0% of PBT in excess of RMB250 million (inclusive)

- (d) Each of the executive Directors will be entitled to insurance, medical and dental benefits in line with the Group’s staff policy. All entitlement expenses, and travelling, hotel and other out-of-pocket expenses incurred by the executive Directors in connection with the Group’s business will also be borne by the Group.
- (e) Each of the service agreement may be terminated by either party giving not less than six (6) months’ prior notice in writing to the other. The Company may also terminate the service agreements forthwith by prior notice in writing upon the occurrence of certain events such as bankruptcy or criminal conviction.
- (f) Each of Mr. Liu, Ms. Yan and Mr. Li Buwen is entitled to an annual basic salary of RMB900,000, RMB720,000 and RMB720,000 respectively.

(2) *Independent non-executive Directors*

Each of Mr. Ong Kian Guan, Mr. Li Shengxiao and Mr. Ong Wei Jin has been appointed as independent non-executive Directors since 11 May 2007 for a period of 3 years subject to re-election by the Shareholders.

For the purpose of the Listing, each of the independent non-executive Directors has entered into a letter of appointment with the Company on 12 November 2009, which supersedes and substitutes the original letter of appointment, if any. Particulars of the letter of appointment, except as indicated, are summarised below:

- (a) each of the independent non-executive Directors is appointed for an initial term of 3 years from the date of the Listing;
- (b) each of the letters of appointment may be terminated by either party thereto giving to the other not less than 3 months' prior notice in writing; and
- (c) the annual fee payable to Ong Kian Guan, Li Shengxiao and Ong Wei Jin are S\$50,000, S\$45,000 and S\$45,000 respectively.

3. Directors' remuneration

- (1) The Company determines its Directors' remuneration based on factors including, but not limited to duties, qualifications, experience and performance of the Directors. For the years ended 31 December 2006, 2007 and 2008, the aggregate of the Directors' remuneration paid and benefits in kind granted by the Company were approximately RMB0.9 million, RMB8.8 million, and RMB8.4 million respectively.
- (2) The Directors confirm that the Company's remuneration policies for Directors will remain the same immediately after the Listing.
- (3) None of the directors or any past directors or any members of the Group was paid any sum of money for each of the three years ended 31 December 2008:
 - (a) as an inducement to join or upon joining the Company; or
 - (b) for his loss of office as a director of any member of the Group in connection with the management of the affairs of any member of the Group; or
 - (c) There was no arrangement under which a Director has waived or agreed to waive any emoluments for each of the three years ended 31 December 2008; or
 - (d) Save as disclosed above, no remuneration or benefit in kind have been made or are payable, in respect of the three years ended 31 December 2008, by the Group to or on behalf of any Directors.

4. Personal guarantee

None of the Directors has provided personal guarantee in favour of any lenders in connection with banking facilities granted or to be granted to any member of the Group.

5. Related party transactions

The Group had entered into related party transactions within the 2 years immediately preceding the date of this document as mentioned in note 38 headed “Related party transactions” of the accountants’ report as set out in Appendix I to this document and the section headed “Connected transactions” in this document.

6. Disclaimers

Save as disclosed herein:

- (1) none of the Directors nor any of the persons whose names are listed in the paragraph headed “Consents of experts” under the section headed “Other information” in this Appendix has any direct or indirect interest in the promotion of any member of the Group, or in any assets which have within the two years immediately preceding the issue of this document been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group;
- (2) none of the Directors is materially interested in any contract or arrangement subsisting at the date of this document which is significant in relation to the business of the Group;
- (3) none of the experts referred to in the paragraph headed “Consents of experts” under the section headed “Other information” in this Appendix has any shareholding in any member of the Group or the right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group; and
- (4) the Directors confirm that none of the Directors, their respective associates or the Shareholders who are interested in 5% or more of the issued share capital of the Company have any interests in the five largest customers or the five largest suppliers of the Group.

D. OTHER INFORMATION

1. Deed of Indemnity

(i) *Estate duty indemnity*

The Directors have been advised that no material liability for estate duty is likely to fall on the Company or any of its subsidiaries under the laws of Singapore or the PRC, being jurisdictions in which one or more of the companies comprised the Group are incorporated.

(ii) *Taxation indemnity*

The Controlling Shareholders have entered into a deed of indemnity (the “**Deed of Indemnity**”) with the Company on 12 November 2009 (being a material contract referred in to in the section headed “Further information about the Group’s business — Summary of material contracts” in this Appendix) to provide indemnities in favour of the

Group in respect of any incomes, profits or gains earned, accrued or received on or before the date on which the Introduction becomes unconditional, save in the following circumstances:

- (a) to the extent that provision or reserve has been made for such taxation in the audited consolidated account as have been prepared for the Group as at 31 December 2008;
- (b) for which the Group is or may become primarily liable as a result of transactions in the ordinary course of business after 31 December 2008;
- (c) to the extent that such taxation claim arises or is incurred as a result of the imposition of taxation as a consequence of any retrospective change in the law or practice thereof by the Tax Bureau of the PRC or the Hong Kong Inland Revenue Department or any of the relevant authorities coming into force after the date of the Deed of Indemnity or to the extent that such taxation claim arises or is increased by an increase in rates of taxation after the date on which the Introduction becomes unconditional with retrospective effect; and
- (d) to the extent that any provision or reserve made for such taxation in the audited consolidated accounts which is finally established to be an over-provision or an excessive reserve, in which case the Indemnifiers' liability (if any) in respect of such taxation liabilities and claims shall be reduced by an amount not exceeding such provision or reserve, provided that the amount of any such provision or reserve applied pursuant to this paragraph to reduce the Indemnifiers' liability in respect of such taxation liabilities and claims shall not be available in respect of any such liability arising thereafter and for the avoidance of doubt, such over-provision or excess reserve shall only be applied to reduce the liability of the Indemnifiers under the Deed of Indemnity and none of the members of the Group shall in any circumstances be liable to pay the Indemnifier any such excess.

2. Litigation

No member of the Group is engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance is known to the Directors to be pending or threatened against any member of the Group.

3. Sponsor

The Sponsor has made an application on behalf of the Company to the Listing Committee for listing of, and permission to deal in, the Shares in issue as mentioned in this document.

4. Preliminary expenses

The preliminary expenses of the Company are estimated to be approximately RMB3,500 and are payable by the Group.

5. Qualifications of experts

The following are the qualifications of the experts who have given opinion or advice which are contained in this document:

<u>Name</u>	<u>Qualification</u>
Cazenove Asia Limited	Licensed to conduct type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) of the regulated activities as defined under the SFO
Ernst & Young	Certified Public Accountants
Haihua Yongtai Law Firm	PRC legal advisers
Shook Lin & Bok LLP	Singapore legal advisers
Jones Lang LaSalle Sallmanns Limited	Certified professional surveyors and valuers

6. Consents of experts

Each of Cazenove Asia Limited, Ernst & Young, Haihua Yongtai Law Firm, Shook Lin & Bok LLP, Jones Lang LaSalle Sallmanns Limited and China National Chemical Information Center has given and has not withdrawn its written consent to the issue of this document with the inclusion of its report and/or letter and/or valuation certificate and/or the references to its name included herein in the form and context in which they are respectively included.

7. Binding effect

This document shall have the effect if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance insofar as applicable.

8. Taxation of holders of Shares

(1) *Hong Kong*

The sale, purchase and transfer of Shares registered with Hong Kong Branch Share Register will be subject to Hong Kong stamp duty, the current rate charged on each of the purchaser and seller is 0.1% of the consideration of, if higher, of the fair value of the Shares being sold or transferred. Profits from dealings in the Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

(2) Singapore*Dividend Distributions*

A one-tier corporate system took effect from 1 January 2003 under which the tax collected on corporate profits is final and Singapore dividends are tax exempt in the hands of all shareholders. There will be no tax credits attached to such dividends.

The Company falls under the one-tier system. Thus dividends of the Company will be tax exempt to all Shareholders. The dividends will have no tax credit attached.

No withholding tax is imposed on dividend payments made, whether to resident or non-resident Shareholders.

Gains on Disposal of Ordinary Shares

Singapore does not impose tax on capital gains. However, gains arising from the disposal of the Shares that are construed to be of an income nature will be subject to tax. Hence, any profits from the disposal of the Shares are not taxable in Singapore unless the seller is regarded as having derived gains of an income nature, in which case the gains on disposal of the Shares would be taxable. Similarly, if the gains are regarded by the Inland Revenue Authority of Singapore as having arisen from the carrying on of a trade or business in Singapore, such gains may be taxed as trading income.

Stamp Duty

Where existing Shares evidenced in certificated form are acquired in Singapore, stamp duty is payable on the instrument of transfer of the Shares at the rate of S\$2.00 for every S\$1,000 or any part thereof of the consideration for or market value of, the Shares, whichever is higher. The purchaser is liable for stamp duty, unless otherwise agreed.

No stamp duty is payable if no instrument of transfer is executed (such as in the case of scripless shares, the transfer of which does not require instruments of transfer to be executed) or if the instrument of transfer is executed outside Singapore. However, stamp duty will be payable if the instrument of transfer which is executed outside Singapore is subsequently received in Singapore.

(3) Consultation with professional advisers

Potential holders of the Shares are recommended to consult their professional advisers if they are in any doubt about the taxation implications of the subscription, holding or disposal of, dealing in, or the exercise of any rights in relation to, the Shares. It is emphasised that none of the Company, the Sponsor, any of their respective directors, agents, employees, advisors or affiliates or any other person involved in the Introduction accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription, holding or disposal of, dealing in, or the exercise of any rights in relation to, the Shares.

9. Register of members and branch register of members

Subject to the provisions of Singapore Companies Act, the principal register of members of the Company will be maintained in Singapore and the branch register of members of the Company will be maintained in Hong Kong. Unless the Directors otherwise agree, all transfers and other documents of title of Shares which are traded on the Stock Exchange must be lodged for registration with and registered by, Hong Kong Branch Share Registrar and may not be lodged in Singapore.

10. Miscellaneous

- (1) Save as disclosed below, within the two years immediately preceding the date of this document:
 - (i) no share or loan capital of the Company or any of its subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;
 - (ii) no share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
 - (iii) no founders, management or deferred shares of the Company or any of its subsidiaries have been issued or agreed to be issued;
 - (iv) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any capital of the Company or any of its subsidiaries; and
 - (v) the Group has no outstanding convertible debt securities or debentures.
- (2) Save for the Company, no member of the Group is presently listed on any stock exchange or traded on any trading system.
- (3) There has not been any interruption in the business of the Group which may have or have had a significant effect on the financial position of the Group in the twelve (12) months immediately preceding the date of this document.
- (4) All necessary arrangements have been made to enable the Shares to be admitted into CCASS for clearing and settlement.
- (5) The Directors confirm that there has not been any material adverse change in the financial or trading position or prospects of the Group since 31 July 2009 (being the end of the period reported on in the audited consolidated financial statements of the Group).

11. Bilingual Document

The English language and Chinese language versions of this document are being published separately, in reliance upon the exemption provided by section 4 of the Companies Ordinance (Exemption of Companies and Prospectus from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Li & Partners at 22nd Floor, World Wide House, 19 Des Voeux Road Central, Hong Kong during normal business hours up to and including 11 December 2009, being the date which is 14 days from the date of this document:

- (a) the Memorandum and Articles of the Company;
- (b) the accountants' report prepared by Ernst & Young, the text of which is set out in Appendix I to this document;
- (c) the report from Ernst & Young in relation to the unaudited interim condensed financial information, the text of which is set out in Appendix II to this document;
- (d) the audited financial statements of each of the companies comprising the Group which are incorporated in the PRC for the two financial years ended 31 December 2008;
- (e) the letter, summary of valuation and valuation certificate relating to the property interests of the Group prepared by Jones Lang LaSalle Sallmanns Limited, the text of which is set out in Appendix III to this document;
- (f) the letter of advice prepared by Shook Lin & Bok LLP, our Singapore legal advisers, summarising certain aspects of the laws of Singapore referred to in Appendix V to this document;
- (g) the Singapore legal opinion prepared by Shook Lin & Bok LLP, our Singapore legal advisers;
- (h) the PRC legal opinion (in Chinese) prepared by Haihua Yongtai Law Firm, our PRC legal advisers;
- (i) the material contracts referred to in the paragraph headed "Summary of material contracts" under the section headed "Further information about the Group's business" in Appendix VI to this document;
- (j) the service agreements with each of the Directors referred to in the paragraph headed "Particulars of Directors' service agreements" under the section headed "Further information about Directors, substantial shareholders and experts" in Appendix VI to this document; and
- (k) the written consents referred to in the paragraph headed "Consents of experts" under the section headed "Other information" in Appendix VI to this document.

In addition, prospective investors and/or Shareholders can access copies of the following documents (all of which are very large documents) via the following weblinks:

Singapore Companies Act

<http://statutes.agc.gov.sg/>

Singapore Securities and Futures Act

<http://statutes.agc.gov.sg/>

the Singapore code

http://www.mas.gov.sg/legislation_guidelines/securities_futures/sub_legislation/SFA_Codes.html

the Listing Manual

http://www.sgx.com/wps/portal/corporate/cp-en/listing_on_sgx/listing_manual



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